

Objectives:

At the end of this chapter; students should be able to:

- Identify items of balance sheet of a manufacturing organisation;
- Distinguish between asset and liabilities;
- Distinguish between fixed asset and current asset;
- Prepare balance sheet of a manufacturing organisation.

6.1 Introduction

The balance sheet of a manufacturer like every other business shows the financial position of his business at a given date. It is classified into assets and liabilities. Assets are those items owned by the business e.g. cash, debtors, machinery, stock etc. and are classified into: fixed assets and current assets. Liability, on the other hand, are those items owned by the business e.g. capital, bank, loans overdraft, creditors etc. Liabilities are classified into: long-term liabilities and current liabilities.

6.2 Layout of Balance Sheet

Balance sheet as at 31st December 2009

	N	N		N	N
Capital	–	–	Fixed Assets	–	–
Add net profit	–	–	Land & Building	–	–
Less drawings	–	–	Equipment	–	–
Current liabilities			Current assets		
Creditors			Stock		
			Raw Material		
			Work-in-progress		
			Finished good		xx
			Debtors		
			Cash and bank		

Example 6.1

Bosade Limited, a Manufacturing Company has its financial position as at 31st Dec., 2009 as follows:

	N
Capital	224,000.00
Land & Building	50,000.00
Plant & Machinery: depreciation on cost 10%	4,000.00
Motor vehicle: depreciation on cost 20%	60,000.00
Creditors	5,000.00
Closing Stock	
Raw Material	8,000.00
Work-in-progress	4,000.00
Finished goods	5,000.00
Debtors	20,000.00
Cash at banks	50,000.00
Net profit	91,000.00

Prepare the balance sheet.

Solution:

BOSADE LIMITED

Balance Sheet as at 31st December, 2009

<u>Liabilities</u>	N	<u>Fixed Assets</u>	N	N
Capital	224,000.00	Land & Building		150,000.00
Add Net Profit transferred	91,000.00	Plant & Machinery	40,000	
From profit and loss account	315,000.00	Less Dep.	<u>4,000.00</u>	36,000.00
Current Liabilities				
Creditors	6,000.00	Motor Vehicle	60,000.00	
		Less Dep.	<u>12,000.00</u>	48,000.00
		Current Asset		
		Stock		
		Raw Material	8,000.00	
		WIP	4,000.00	
		F.Goods	5,000.00	17,000
		Debtors		20,000
		Cash at bank		<u>50,000</u>
	<u>321,000.00</u>			<u>321,000</u>

In the previous sections, students have learnt different parts of the manufacturing account up to balance sheet. Below students are given a comprehensive example of the account of a manufacturer. From the following information extracted from the book of corebuild; prepare a manufacturing, trading and profit and loss account for 31st December 2009 and balance sheet as at that date

	N	N
Purchases	186,100.00	
Opening Stocks		
(a) Raw materials	114,210.00	
(b) Work-in-progress	7,380.00	
(c) Finished goods	8,850.00	
Sales	415,450.00	
Land and Building	245,000.00	
Plant and Machinery at cost	125,000.00	
Vehicle at cost	62,500.00	
Depreciation: Plant and Machinery		13,500.00
Vehicle		21,100.00
Drawings	11,000.00	
Capital		385,000
General Expenses	14,230.00	
Debtors	18,960.00	
Creditors		20,160.00
General Factory Expenses	21,010.00	
Factory power	15,650.00	
Rent and rates	4,120.00	
Insurance	1,250.00	
Light and heat	9,630.00	
Discount allowed	6,680.00	
Discount received		8,940.00

	N
Wages and salaries (Admin)	17,990.00
Carriage inwards	18,900.00
Production wages: Direct	43,470.00
Indirect	26,980.00
Cash at bank	<u>24,940.00</u>

Additional Information:

1. The value of closing stocks asat 31st December, 2009 was as follows:

	N
(a) Raw materials	16,810.00
(b) Work-in-progress	8,250.00
(c) Finished goods	10,340.00

2. Insurance, rent and rates, light and heat are to be allocated in the ratio to factory and office.

3. Depreciation was as follows:

- Plant and Machinery on cost 10%.
- Vehicle on cost 20%.

SOLUTION:

**Manufacturing, Trading, Profit and Loss Account
For 31st Dec. 2009**

	N		N
Opening stock of raw material	114,210.00	Cost of Goods	
Add purchases of raw material	<u>86,100.00</u>	Manufacture to	
Cost of:	200,310.00	Trading Account	330,140
Less of closing stock of raw material	<u>16,810.00</u>		
Cost of raw material consumed	183,500.00		

Add carriage inwards	18,900.00	
Add production wages (direct)	<u>43,470.00</u>	
Prime cost of production	245,870.00	
Factory overheads:		
General factory expenses	21,010.00	
Factory power	15,650.00	
Light and heat 3/5	9,630.00	
Rent and rates	4,120.00	
Insurance 3/5	1,250.00	
Production wages (indirect)	26,980.00	
Depreciation on plant and machinery	<u>12,500.00</u>	
	331,010.00	
Add work-in-progress	<u>7,380.00</u>	
	338,390.00	
Less work-in-progress	<u>8,250.00</u>	
	<u>330,140.00</u>	<u>330,140.00</u>

Trading Account

	N		N
Opening stock of finished goods	8,850.00	Sales	415,450.00
Add cost of goods manufactured	<u>330,140.00</u>		
	338,990.00		
Less closing stock of finished goods	<u>10,340.00</u>		
Cost of goods sold	328,650.00		
Add Gross profit	86,800.00		
	<u>415,450.00</u>		<u>415,450.00</u>

Profit and Loss Account

Administrative cost/office		Gross Profit	86,800.00
Rent and rate 2/5	1,648.00	Discount Received	8,940.00
Light and heat 2/5	1,852.00		
Insurance 2/5	500.00		
General expenses	14,230.00		
Wages and salaries	17,980.00		
Depreciation for vehicle	12,500.00		
Selling cost			
Discount allowed	6,680.00		
	57,390.00		
Net Profit	38,350.00		
	95,740.00		95,740.00

Core Build Balance Sheet as at 31st December 2009

	N	N		N	N
Capital	385,000		Fixed Assets		
Add net profit	38,350		Land and building		245,000
	423,350		Plant & Machinery	125,000	
Less Drawing	11,000	412,250	Less Depreciation	45,800	79,200
Current liabilities			Vehicle	62,500	
Creditors		20,160	Less Depreciation	37,600	29,010
			Current Assets		
			Stock.		
			(a) Raw materials	16,810	
			(b) Work-in-progress	8,200	
			(c) Finished goods	10,340	35,400
			Debtors		18,960
			Cash at bank		24,940
		432,510			432,510

6.3 Summary

In this chapter, students have learnt that:

1. The balance sheet of a manufacturing organization shows the financial position of the business at a given date.

2. Balance sheet of a manufacturing organisation is classified into assets and liabilities; assets are the items owned by the organisation while liabilities represent all the items owned by the organisation.
3. Asset are further classified into fixed assets and current assets. Examples of current assets include stock, cash, debtors. E.t.c.
4. Liabilities are also grouped into: long term liabilities and current liabilities. Examples are capital, net profit current creditors and accruals. e.t.c

6.4 Revision Questions

1. The primary purpose of a balance sheet is to reflects _____.
 - A. how much is the worth of business
 - B. how the business is going to be profitable
 - C. ice value of the asset of the business
 - D. ice asset of the company
2. When a liability is paid by a manufacturing organisation. It has effect on the balance sheet. What is the effect?
 - A. Liabilities and assets remain the same
 - B. Liabilities and assets decrease
 - C. Liabilities increase and asset decrease
 - D. Liabilities and assets increase
3. Which of the following is not an asset in the balance sheet of a manufacturing organisation?
 - A. Prepared insurance
 - B. Rent received in advance
 - C. Prepared rent
 - D. Cash in hand
- 4(a) What is the balance sheet of a manufacturing organisation?
 (b) How does it differ from:
 - (i) A trading account
 - (ii) A profit and loss account
5. The following information was extracted from the books and other records of G. Babalola, a manufacturer, on 31st Dec 2009:

	N
Raw materials consumed	14,000
Factory wages	16,000
Factory expenses	25,000
Selling expenses	10,500
General and Administrative expenses	5,000
Stocks of finished goods 1st Jan 2009	6,500
Stocks 31st Dec 2009	
Raw material	1,500
Finished goods	7,000
Sales	76,000
Trade debtors	6,000
Trade creditors	1,500
Cash in hand and cash at bank	3,500
Furniture & fittings	1,500

Plant and machinery	20,000
Capital	35,000
Drawings	2,000

Prepare:

- A manufacturing account.
- A trading account.
- A profit and loss account for 31st Dec. 2009.
- A balance sheet as at that date.

6. The following data relating to the year 2009 have been taken from the books of O. Ibrahim Ltd., a manufacturing company:

	N
Land and Building	72,000
Plant and machinery	64,000
Motor vehicle	
Capital	156,000
Creditors	19,500
Closing stock:	
Raw material	10,000
Work-in-progress	7,000
Finished goods	12,000
Debtors	26,000
Cash at bank	4,500
Net profit	36,000
Drawings	26,000

You are required to prepare a balance sheet as at that date.

A business which converts raw materials to finished goods prepares a _____.

- trading account and balance sheet
- balance sheet only
- trading, profit and loss account and balance sheet
- profit and loss account and balance sheet

8. Which of the following debit balances in the balance sheet of a manufacturing organisation is not termed as an asset?

- Cash in hand and in the bank
- Plant and Tools
- Capital
- Sheet

9. In a manufacturing organisation, fixed assets are subject to _____.

- adjustment.
- provision.
- depreciation.
- identification

10. Liabilities in the balance sheet of a manufacturing company can be divided into:

- Current liabilities only

- (ii) Long term liabilities only
- (iii) Immediate liabilities only
- (iv) Current liabilities and long term liabilities

A. i, iii, and iv only

B. iv only

11. Oladunni, a manufacturer in Lagos has the following data of the company as at 31 Dec 2009:

	N
Capital	212,616
Purchases of raw material	150,780
Carriage inwards	2,610
Stocks: 1st January 2009	
Raw materials	20,700
Work-in-progress	13,620
Finished goods	25,050
Distribution expenses	4,902
Administrative expenses	36,774
Selling expenses	28,440
Bad debts	2,550
Factory wages:	
Direct	43,044
Indirect	25,578
Factory expenses	
Direct	1,716
Indirect	7,320
Plant and machinery at cost	24,7020
Freehold building at cost	144,600
Trade debtors	52,560
Sales	402,000
Provision for depreciation on	
Plant & Machinery	114,168
Trade creditors	39,480
Drawings	52,000
Cash at bank	9,000

Additional information:

a. Administrative expenses including N1,200 was paid in advance.

b. Plant and machinery depreciated by 10% on lost.

c. Unpaid expenses as at 31st Dec 2009 are:

Administrative expenses	₦1,626
Factory wages	
Direct	1,356
Indirect	702
Stock, 31st Dec. 2009	
Raw material	21,900
Work-in-progress	14,080
Finished goods	24,540

Required:

Prepare the manufacturing, trading, profit and loss account for 31st Dec 2009 and the balance sheet as at that date.