

5

PROFIT AND LOSS ACCOUNT AS A MANUFACTURING ORGANISATION

Objectives

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

- Explain net profit and net loss;
- Identify the profit and loss account items;
- Prepare profit and loss account of a manufacturing organisation.

5.1 Introduction:

The purpose of profit and loss account is to discover the net profit. After determining the gross profit in the trading account, it is then transferred to the profit and loss account where all trading expenses incurred in the course of business are charged. The expenses items are grouped into; administration and overheads, selling overheads and distributive overheads. When income/revenue exceed overhead expenses, the difference is called .Net Profit.. When overhead expenses exceed income/revenue, the difference is called .Net Loss.

5.2 Preparation of Profit and Loss Account

Having determined the gross profit in the trading account, it is then transferred to the profit and loss account where all trading expenses such as administrative, overheads, selling overheads, distribution overheads e.t.c., are charged to determine the net profit or loss.

Fig. 5.1. Specimen of a profit and loss account

Profit and loss account for the year end of a manufacturing organization

| | | | |
|----------------------------|-----|--------------|----|
| Administrative overhead | — | Gross Profit | x |
| Add selling overhead | — | | |
| Add distributive overheads | — | | |
| Add net profit | — | | |
| | XXX | | XX |

Example 5.1

A manufacturing organisation, Bosede Limited, has the following data:

N

| | |
|------------------------------|------------|
| Administrative cost | |
| Light, Power and heat/office | 4,000.00 |
| Rent and rates | 15,000.00 |
| Insurance (office) | 4,000.00 |
| General expense | 10,000.00 |
| Depreciation/motor vehicle | 4,500.00 |
| Sales commission | 10,000.00 |
| Carriage outwards | 6,000.00 |
| Salaries | 20,000.00 |
| Discount received | 3,000.00 |
| Discount allowed | 2,000.00 |
| Gross profit | 165,500.00 |

You are required to prepare a profit and loss account for 31st December 2009.

Solution

BOSADE LIMITED

Profit & Loss Account for 31st Dec. 2009

| N | N |
|---------------------------------------|----------------------------|
| Administration expenses | Gross Profit 165,500.00 |
| Light, heat & power 4,000.00 | Discount received 3,000.00 |
| Rent and rate 15,000. | |
| Insurance 4,000.00 | |
| General expenses 10,000.00 | |
| Depreciation (motor vehicle) 4,500.00 | |
| Sales commission 10,000.00 | |
| Carriage outward 6,000.00 | |
| Salaries 20,000.00 | |
| Discount allowed 2,000.00 | |
| Net profit 93,000.00 | |
| | 168,500.00 |

5.3 Summary

In this chapter, students have learnt that:

1. The purpose of drawing-up a profit and loss account is to discover the net profit.
2. The excess of income/revenue over expenses gives net profit.

3. The excess of expenses over income/revenue is net loss.
 4. The expenses items of profit and loss are grouped into: administrative, selling and distributive overheads.

5.4 Revision Questions

1. Prepare manufacturing, trading, and profit and loss accounts for the year ended 31st Dec. 2009. from the following balance extracted from Babatunde Ltd.

| | ₦ |
|--|------------|
| Stock of raw material 1st Jan, 2009 | 22,000.00 |
| Raw material purchases | 29,000.00 |
| Carriage on purchases | 2,700.00 |
| Stock of raw material 31st of Dec 2009 | 3,000.00 |
| Manufacturing wages | 21,000.00 |
| Manufacturing power | 9,000.00 |
| Work in progress 1st Jan 2009 | 500.00 |
| Work in progress 31st Dec 2009 | 1,000.00 |
| Stock of finished goods | 5,300.00 |
| Sales | 105,000.00 |
| Purchases of finished | 1,000.00 |
| Stock of finished good, 31st Dec 2009 | 6,000.00 |
| Manufacturing expenses | 900.00 |
| Administrative expenses | 5,000.00 |
| Selling and distributive expenses | 2,100.00 |

2. The following balances were extracted from the books of Olorunloju, a manufacturer of coolers for two years:

| | Year 1 | Year 2 |
|-----------------------------|------------|------------|
| | ₦ | ₦ |
| Stock at 1st January 2009 | 40,000.00 | 50,000.00 |
| Stock at 31st December 2009 | 50,000.00 | 30,000.00 |
| Purchases | 200,000.00 | 210,000.00 |
| Salaries | 40,000.00 | 48,000.00 |
| Rent and Rates | 12,000.00 | 15,000.00 |
| Heating and lighting | 4,000.00 | 6,250.00 |
| Advertising | 700.00 | 800.00 |
| Sundry expenses | 2,000.00 | 3,200.00 |

| | ₦ | ₦ |
|--------------------------------------|------------|------------|
| Depreciation of furniture & fittings | 500.00 | 500.00 |
| Cost of delivery of sales | 2,200.00 | 3,500.00 |
| Insurance | 1,200.00 | 1,200.00 |
| Sales | 285,000.00 | 344,000.00 |

(a) Prepare necessary account showing gross and net profit for each year.

(b) Which of the two years yielded a better result?

Revision Questions

1. Carriage-outwards are posted to _____.

- A. trading account
- B. profit and loss account
- C. balance sheet
- D. manufacturing account

2. Which of the following is the part of profit and loss account of the manufacturing organisation?

- A. Direct material cost
- B. Direct wages
- C. Factory overheads
- D. Administrative overheads

Use the following information to answer questions on profit and loss of a manufacturing organisation:

| | ₦ |
|------------------|-----------|
| Opening capital | 60,000.00 |
| Drawings | 5,000.00 |
| Cost of sales | 50,000.00 |
| General expenses | 7,000.00 |

3. Net profit would be _____.:.

- A. N25,000
- B. N43,000
- C. N18,000
- D. N23,000

4. Closing capital would _____.

- A. N81,000
- B. N78,000
- C. N65,000
- D. N91,000

5. Which of the following result in overstatement of gross profit?

- A. Overstatement of carriage inwards
- B. Overstatement of purchases
- C. Overstatement of closing stock
- D. Understatement of carriage outwards

6. Listed below are the accounting records of Lawoyin Ltd. for the year 2009:

| | |
|-----------------------------------|------------|
| Discount received | ₦ |
| Advertising | 33,000.00 |
| Sales travels | 10,000.00 |
| Depreciation: plant and machinery | 12,000.00 |
| Depreciation: office equipment | 5,000.00 |
| Administrative office rent | 5,000.00 |
| Officers salaries | 120,000.00 |
| Sales commission | 32,000.00 |
| Gross profit | 150,000.00 |

Prepare profit and loss account for the year 2009.

7. What is the difference between Trading account and Profit and loss account of a manufacturing organisation?

8. The following information was extracted from the books and other records of Temidara, a manufacturer, on 31st Dec. 2009:

| | |
|-------------------------------------|------------|
| | ₦ |
| Office and administrative expenses | 35,000.00 |
| Depreciation of plant and machinery | 32,000.00 |
| Depreciation of delivery van | 6,000.00 |
| Advertising | 500.00 |
| Delivery van running expenses | 700.00 |
| Sales men's salary and commission | 20,000.00 |
| Gross profit | 120,000.00 |

You are required to prepare a profit and loss account for the year 2009.

| | |
|---------------------------------|------------|
| | ₦ |
| Cost of goods sold manufactured | 244,000.00 |
| Ending finished goods | 55,000.00 |
| Beginning finished goods | 35,000.00 |
| Sales | 400,000.00 |
| Selling and Administrative | 85,000.00 |

Prepare a trading and profit and loss account for the year ended 31st Dec. 2009.