

4

TRADING ACCOUNT OF A MANUFACTURING ORGANISATION

Objectives

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

- Identify items of a trading account;
- Explain gross progress;
- Relate manufacturing account to trading account;
- Prepare the trading account of a manufacturing organisation.

4.1 Introduction

A trading account gives the position of a business at the end of a period to enable the manufacturer know whether or not he has made a gross profit or loss. Gross profit is the excess of total sales over the cost of goods sold. While gross loss is the excess of cost of production over cost of sales or goods sold.

4.2 Preparation of Trading Account of a Manufacturing Organisation

A trading account is a sub-division of the final accounts of a manufacturer. The trading account of a manufacturing concern resembles the trading account of a trading concern. Before calculating the cost of goods sold and gross profit, the factory cost of production calculated in manufacturing account at market value is transferred to the profit and loss account. The valuation of closing stock of finished goods should not include profit.

Fig. 4.1 Specimen of the trading account of a manufacturing organisation.

Trading Account

for the year Ended 31st December 2009

| | | | |
|---------------------------------|------------|-------|------------|
| Opening stock of finished goods | xx | Sales | xxx |
| Add Production cost | xx | | |
| Total finished goods available | xx | | |
| Less closing stock goods | | | |
| Cost of goods sold | xx | | |
| Gross profit | <u>xxx</u> | | <u>xxx</u> |

Bosade Ltd., a manufacturing company has these data for its trading account for December 31st, 2009.

| | |
|--------------------------------------|------------|
| Opening Stock: January 1st, 2009. | N |
| Finished goods | 8,000.00 |
| Closing stock: December 31st, 2009 | |
| Finished goods | 12,000.00 |
| Cost of production transferred | |
| from the Manufacturing account sales | 637,500.00 |
| Sales | 800,000.00 |

You are required to prepare trading account for 31st December, 2009.

Solution

BOSADE LIMITED

Trading Account for the year ended 31st Dec., 2009

| | N | N |
|--|-------------------|-------------------|
| Opening stock of finished goods | 8,000.00 | Sales 800,000.00 |
| Add cost of goods manufactured | <u>637,500.00</u> | |
| (transferred from manufacturing account) | 645,500.00 | |
| Less closing stock of finished goods | <u>12,000.00</u> | |
| Cost of goods sold | 633,500.00 | |
| Add gross profit | <u>166,500.00</u> | |
| | <u>800,000.00</u> | <u>800,000.00</u> |

4.3 Summary:

In this chapter, students have learnt that:

1. Trading account is a sub-division of the final account of a manufacturer.
2. Sales minus cost of goods sold is gross profit.
3. Cost of production is calculated at market price.
4. The valuation of closing stock is exclusive of profit.

4.4 Revision Questions

1. List the expenses which are incurred in a manufacturing business but are not part of the cost of production.
2. Listed below are the financial data of Bosade Ltd. For December 31st, 2009:

| | N |
|---------------------------------|------------|
| Cost of goods produced | 300,000.00 |
| Opening stock of finished goods | 46,000.00 |
| Closing stock of finished goods | 54,000.00 |
| Sales | 400,000.00 |

Prepare a trading account for the year ended December 31st, 2009

3. Bolaji Ltd. is a manufacturer. From the following data; prepare:

(a) Manufacturing account

(b) Trading account

Stock at 31 December, 2009

| | N |
|---------------------------|------------|
| Raw materials | 6,400.00 |
| Finished goods | 2,950.00 |
| Purchases of raw material | 38,900.00 |
| Carriage inwards | 1,100.00 |
| Sales of finished goods | 297,800.00 |
| Factory wages | 87,700.00 |
| Factory expenses | 72,200.00 |

4(a) Explain the differences between cost of production and cost of goods sold.

(b) How are they treated in the book of account of a manufacturing organisation?

5. From the following particulars, prepare a trading account of a manufacturing organisation for 31st December 2009. Stock as at January 2009:

| | N |
|---------------------------------|------------|
| Finished goods | 11,000.00 |
| Stock as at December 31st, 2009 | |
| Finished goods | 10,000.00 |
| Cost of manufactured good b/d | 115,000.00 |
| Warehousing charges | |
| Sales | 199,000.00 |

6. Why is the stock of finished goods entered as a debit in the trading account of a manufacturing company?

Stock at 1 January 2009.

Raw materials 7,600

Finished goods 28,900.

7. The cost of goods manufactured is always transferred to the _____.

- A. work-in-progress
- B. trading account
- C. profit and loss account
- D. manufacturing account

8. The purpose of preparing a trading account in a manufacturing organisation is to ascertain _____.

- A. cost of goods available for sale
- B. cost of good sold
- C. cost of production
- D. gross profit or loss

9. Total Sales minus return inward equals _____.

- A. net purchases
- B. net losses
- C. turnover
- D. net stock

10. A company has the following data for 31st December, 2009

| | N |
|------------------|------------|
| Opening stock | 320,000.00 |
| Purchase | 600,000.00 |
| Closing stock | 220,000.00 |
| Carriage inward | 100,000.00 |
| Carriage outward | 150,000.00 |

What is the cost of goods sold during the year?

- A. 1,200,00
- B. 620,000
- C. 800,000
- D. 920,000

11. The following data was extracted from the record of a manufacturing organisation for 31st Dec, 2009:

| | |
|-----------------|-----------|
| Opening stock | 900,000 |
| Purchases | 1,000,000 |
| Carriage inward | 20,000 |
| Sales | 2,500,000 |

What is the Gross Profit?

- A. N 1,200,000
- B. N 580,000
- C. N 700,000
- D. N 910,000

Use the following information to answer questions 12 and 13:

| | N |
|--------------------------------------|-----------|
| Manufacturing cost of finished goods | 75,000.00 |
| Selling and distribution expenses | 5,000.00 |
| Mark-up is 25%. | |

12. The gross profit is _____.

- A. N93,750
- B. N56,250
- C. N18,750
- D. N17,500

13. The net profit for the year is _____.

- A. N13,750
- B. N18,750
- C. N93,750
- D. N56,750

M. Miller is a manufacturer. From this information prepare his trading account for the Year ended 31st December, 2009.

Opening stock

| | N |
|-------------------|------------|
| Finished goods | 15,000.00 |
| Sales | 245,000.00 |
| Sales return | 5,000.00 |
| Office rent& rate | 2,280.00 |
| Factory expenses | 20,000.00 |
| Carriage outwards | 1,130.00 |
| General expenses | 11,250.00 |
| Office salaries | 13,000.00 |
| Discount received | 1,400.00 |
| Selling expenses | 22,500.00 |
| Discount allowed | 1,130.00 |

Further information

- (a) Goods manufactured are charged to sales department at the current market value of N162,500.00.
- (b) The value of stock as at December 2009 stood as N20,000.00.