

Subject: Financial Accounting-I	
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Lesson: 6	Vetter:

PREPARATION OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

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6.1 OBJECTIVES

6.2 د درس مقصدونه

After going through this chapter, you should be able-

ددي چيټر ويلو وروسته به لاندې موضوعاتو پوه شي:

- financial statements يا مالي صورت حسابونو پيژندنه
- سوداگريز حساب يا Trading Account په مانا او مفهوم او همداراز دهغي ترتيبول
- مفاد او ضرر حساب جوړول، Profit and Loss Account
- توليد حساب يا Manufacturing Account
- Balance Sheet يا اختتاميه بيلانس جوړول
- تعديل يا adjustments په مانا او مفهوم پوهيدل او ترتيبول

6.3 INTRODUCTION

The transactions of a business enterprise for the accounting period are first recorded in the books of original entry, then posted therefrom into the ledger and lastly tested as to their arithmetical accuracy with the help of trial balance. After the preparation of the trial balance, every businessman is interested in knowing about two more facts. They are: (i) Whether he has earned a profit or suffered a loss during the period covered by the trial balance, and (ii) Where does he stand now? In other words, what is his financial position?

يوه سوداگر يزه معامله په يوه تصدي کې لومړی په ژورنال ثبت او راجسټر کېږي دويم پړاو کې له ژورنال څخه ليجر ته استول کېږي دريم پړاو کې بيا رياضيکي بڼه حسابونو صحت په امتحاني بلانس کې ترسره کېږي، د امتحاني بلانس نه وروسته هر سوداگر يا علاقمند غواړي په دوو حقيقتونو پوه شي:

1. په نومړي مالي دوره کې آیا مفاد يا گټه او که ضرر يا تاوان شوی
2. تجارت په کوم مالي موقف کې شتون لري

For the above said purposes, the businessman prepares financial statements for his business i.e. he prepares the Trading and Profit and Loss Account and Balance Sheet at the end of the accounting period. These financial statements are popularly known as final accounts. The preparation of financial statements depends upon whether the business concern is a trading concern or manufacturing concern. If the business concern is a trading concern, it has to prepare the following accounts along with the Balance Sheet: (i) Trading Account; and (ii) Profit and Loss Account.

د پورتنیو موخو لپاره په محاسبه کې مالي صورت حسابون جوړېږي د بيلگې په توگه ، سوداگر يز ، مفاد يا ضرر او اختتاميه بلانس په اخر دې دورې جوړل ، دا صورت حسابونه نهايي حسابونه په گوته کوي، ددې صورت حسابونو جوړل بيا تردې پورې تړلي چې آیا سوداگر يز سازمان سوداگر يز سازمان دی ؟ او که توليدي؟ که چيرته سازمان سوداگر يز اوسي بيا بايد اختتاميه بلانس سره لاندي حسابونه هم ترتيب شي:

1. Trading Account يا سوداگر يز حساب
 2. Profit and Loss Account يا مفاد او ضرر حساب
- که چيرته سوداگر يز سازمان توليدي اوسي بيا اختتاميه بلانس سره لاندي حسابونه بايد جوړ شي:
1. توليدي حساب يا Manufacturing Account
 2. Trading Account يا سوداگر يز حساب
 3. Profit and Loss Account يا مفاد او ضرر حساب

But, if the business concern is a manufacturing concern, it has to prepare the following accounts along with the Balance Sheet:

- (i) Manufacturing Account; (ii) Trading Account; and (iii) Profit and Loss Account.

Trading Account is prepared to know the Gross Profit or Gross Loss. Profit and Loss Account discloses net profit or net loss of the business. Balance sheet shows the financial position of the business on a given date. For preparing final accounts, certain accounts representing incomes or expenses are closed either by transferring to Trading Account

سوداگریز حساب جوړولو هدف دا دی چې ناخالص مفاد یا ضرر محاسبه کړای شو، مفاد او ضرر بیلانس بیا دخالص مفاد یا ضرر محاسبه روښانه کوي او اختتامیه بلانس مالي موقف دیوه تجارتي یا تولیدي تصدې مونږ ته په یوه مالومه دوره کې رابښي، نهایی حسابونو ترتیب لپاره ځانګړي حسابونه لکه عواید او مصارف سواګریز بلانس او بیا وروسته مفاد او ضرر بیلانس ته استول کېږي، هر هغه حساب چې پورتنیو حسابونو ته د انتقال وړ نه وي هغه اختتامیه بلانس ته استول کېږي

or Profit and Loss Account. Any Account which cannot find a place in any of these two accounts goes to the Balance Sheet.

6.4 **TRADING ACCOUNT**

After the preparation of trial balance, the next step is to prepare Trading Account. Trading Account is one of the financial statements which shows the result of buying and selling of goods and/or services during an accounting period. The main objective of preparing the Trading Account is to ascertain gross profit or gross loss during the accounting period. Gross Profit is said to have made when the sale proceeds exceed the cost of goods sold. Conversely, when sale proceeds are less than the cost of goods sold, gross loss is incurred. For the purpose of calculating cost of goods sold, we have taken into consideration opening stock, purchases, direct expenses on purchasing or manufacturing the goods and closing stock. The balance of this account i.e. gross profit or gross loss is transferred to the Profit and Loss Account. The specimen of a Trading Account is given below:

6.5 سوداگریز حساب **TRADING ACCOUNT**

آزمایشی بلانس ترتیب څخه وروسته بیا سوداگریز حساب جوړیږي، سوداگریز حساب یو د مالي صورت حسابونو څخه دی چې په ټاکلي دوره کې د پېر او پلور د توکو او خدماتو پایله محاسبه کوي، سوداگریز حساب جوړولو څخه موخه دا ده چې په ټاکلي مالي دوره کې ناخالص مفاد یا ضرر محاسبه کړي، ناخالص مفاد هغه وخت په لاس راځي کله چې پلور یا فروشاتو عواید د پلورول شویو اجناسو قیمت څخه زیات وي، بالعکس، که پلورل شویو اجناسو قیمت د پلور قیمت یا عوایدو څخه زیات وي بیا نو ناخالص ضرر دی، د پلور شویو اجناسو قیمت محاسبه کولو لپاره باید لاندې حسابونه په نظر کې ونیسو:

- لومړۍ موجودی یا opening stock
- پېرل شوي توکي یا purchases
- مستقیم مصارف د پېرل شویو یا تولیدي اجناسو direct expenses on purchasing or manufacturing the goods
- آخري موجودی یا closing stock

د سوداگریز حساب بلانس یا ناخالص مفاد یا ضرر دویم پړاو کې د خالص مفاد او ضرر محاسبه کولو لپاره مفاد او ضرر بلانس ته استول کیږي، سوداگریز حساب شکل په لاندې ډول دی:

TRADING ACCOUNT

FOR THE YEAR ENDED 31ST MARCH, 2006

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock (لومړۍ مودې)		By Sales (پلور يا فروضات)	
To Purchases (پيرل يا خريداري)		Less Sales Returns (منفی: پلور برگشتي)	
Less Purchases Returns (منفی: پيرلو مستردی)		By Closing Stock (گدام آخري موجود)	
To Direct Expenses (جمع: مستقيم مصارف)		By Gross Loss (ناخالص توان- دا مفاد او ضرر transferred to)	
Carriage Inward (حمل او نقل مصارف داخل ته)		P & LA/c	
Wages (مزدونه)			
Fuel, Power and Lighting Expenses (روغنيات، برق اور وېشنايي مصارف)			
Manufacturing Expenses (توليدي مصارف)			
Coal, Water and Gas (اوبه، گاز او ذغال)			
Motive Power (حرکي انرژي)			
Octroi (ښاروالي محصول)			
Import Duty (ماليات)			
Custom Duty (گمرکي محصول)			
Consumable Stores (گدام کرایه)			
Freight and Insurance (بیمه او کرایه)			
Royalty on manufactured Goods (حق اختراع يا امتياز)			
Packing charges (بسته بندي مصارف)			
To Gross Profit transferred to P & LA/c (ناخالص مفاد - مفاد او ضرر بيلانس ته استول کيږي)			

Important points regarding trading account

1. **Stock**

The term 'stock' includes goods lying unsold on a particular date.

The stock may be of two types:

- (a) Opening stock
- (b) Closing stock

Opening stock refers to the closing stock of unsold goods at the end of previous accounting period which has been brought forward in the current accounting period. This is shown on the debit side of the Trading Account.

Closing stock refers to the stock of unsold goods at the end of the current accounting period. Closing stock is valued either at cost price or at market price whichever is less. Such valuation of stock is based on the principle of conservatism which lays down that the expected profit should not be taken into account but all possible losses should be duly provided for.

Closing stock is an item which is not generally available in the trial balance. If it is given in Trial Balance, it is not to be shown on the credit side of Trading Account but appears only in the Balance Sheet as an asset. But if it is given outside the trial balance, it is to be shown on the credit side of the Trading Account as well as on the asset side of the Balance Sheet.

په سوداگريز حساب کې مهم ټکي:
1. گدام موجودي يا **Stock**:

Stock دا اصطلاح هغه اجناسو لپاره کارول کيږي چې گدام يا انبار کې نا پلورل شوي پاتې شي، دوه ډوله دي

○ **Opening stock** لومړۍ موجودي: دا هغه اجناس دي چې تيره مالي دوره کې پلور شوي نه دي او اوسنۍ دورې ته را انتقال شوي، دا په دبت طرف دي سوداگريز بلانس کې بنودل کيږي

○ **Closing stock** نهايۍ موجودي: دا هغه اجناس گدام کې دي چې اوسني روانه مالي دوره کې پلورل شوي نه دي او په اخر دهمدي دوره کې انبار کې شتون لري، ددې، خريداري قيمت يا بازاری قيمت يا تر هغه کم باندې محاسبه کيږي، محافظه کارۍ اصل پر بنسټ دا قيمت گذاري د اجناسو صورت نيسي، يعني، متوقعه مفاد نيايد په حساب کې داخل کړي شي مگر ټول احتمالي ضررونه بايد په نظر کې ونيول شي، Closing stock دا ارزښت په امتحاني بلانس کې نه بنودل کيږي، او اختتاميه

ٻلاٺس ڪي ڊڊاريو سمٽ ڪي يعني ڊيٽ سمٽ ڪي ٻٺوڊل ڪيري

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2. **Purchases**

Purchases refer to those goods which have been bought for resale. It includes both cash and credit purchases of goods. The following items are shown by way of deduction from the amount of purchases:

- (a) Purchases Returns or Return Outwards.
- (b) Goods withdrawn by proprietor for his personal use.
- (c) Goods received on consignment basis or on approval basis or on hire purchase.
- (d) Goods distributed by way of free samples.
- (e) Goods given as charity.

3. **پيرل يا خريداري Purchases**

خريداري هغه اجناسو ته ويل کيږي چي موخه يي بيا خرڅول وي (يعني مفاد په موخه اخيستل او خرڅول)، دوه بنو باندي ترسره کيږي، نقدي او پور بڼه، لاندي حسابونه له خريداري حساب څخه منفي کيږي:

- خريداري مستردې Purchases Returns or Return Outwards
- هغه اجناس چي تصدي مالک يي خپل شخصي مصرف لپاره کاروي Goods withdrawn by proprietor for his personal use
- هغه اجناس چي بل چا لپاره گدام کي ساتل کيږي Goods received on consignment basis
- هغه اجناس چي نموني لپاره بازار کي وپشل کيږي Goods distributed by way of free samples
- هغه اجناس چي خيرات په ډول وپشل کيږي Goods given as charity

4. **Direct Expenses**

Direct expenses are those expenses which are directly attributable to the purchase of goods or to bring the goods in saleable condition. Some examples of direct expenses are as under:

5. **Direct Expenses** يا مستقيم مصارف : هغه مصارفو ته ويل کيږي چي اجناسو خريداري يا پير ته په مستقيم ډول نسبت کيږي يا هغه مصارف دي چي اجناس پلور شکل، پوري صورت مومي، بيلگي لاندي ډول دي:

- **Carriage Inward**: هغه مصارف دي چي اجناسو انتقال تر گدام پوري لگول کيږي، دا مصارف د سوداگريز بلانس په ډبت سمت کي ښودل کيږي
- **Freight and insurance** يا کرايه او بیمه: هغه کرايه او بیمه پکي شاملې دي چي اجناسو تر لاسه کول لپاره لگول کيږي، دا هم ډبت سمت د سوداگريز بلانس کي ښودل کيږي، که چيرته دا مصارف په پيروندي اوسي يا بيا دا مصارف په مفاد اوضرر بلانس کي، ډبت سمت ته کي ښودل کيږي

• **Wages** مزدونه : دا هغه مصارف دي چې مستقيم ډول په توليدي ، تجارتي يا هم انتقال د اجناسو کې لگول کيږي، پرته لدې نور مزدونه بيا غير مستقيم بلل کيږي ځکه چې په مستقيم ډول شامل نه دي، دا مصارف په ډبټ سمت د سوداگريز بلانس کې ښودل کيږي، پرته لدې نور مزدونه بيا ډبټ سمت د مفاد او ضرر بلانس کې ښودل کيږي، که چيرته دا ذکر شوي نه وي چې مستقيم يا غير مستقيم مزدونه دي ، نو دا بيا بايد په مستقيم مزد ونيول شي او ډبټ سمت د سوداگريز بلانس کې وښودل شي

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(a) **Carriage Inward:** Carriage paid for bringing the goods to the godown is treated as carriage inward and it is debited to Trading Account.

(b) **Freight and insurance:** Freight and insurance paid for acquiring goods or making them saleable is debited to Trading Account. If it is paid for the sale of goods, then it is to be charged (debited) to Profit and Loss Account.

(c) **Wages:** Wages incurred in a business is direct, when it is incurred on manufacturing or merchandise or on making it saleable. Other wages are indirect wages. Only direct wages are debited to the Trading Account. Other wages are debited to the Profit and Loss Account. If it is not mentioned whether wages are direct or indirect, it should be assumed as direct and should appear in the Trading Account.

(d) **Fuel, Power and Lighting Expenses:** Fuel and power expenses are incurred for running the machines. Being directly related to production, these are considered as direct expenses and debited to Trading Account. Lighting expenses of factory is also charged to Trading Account, but lighting expenses of administrative office or sales office are charged to Profit and Loss Account.

(e) **Octroi:** When goods are purchased within municipality limits, generally octroi duty has to be paid on it. It is debited to Trading Account.

- **Fuel, Power and Lighting Expenses** يا روغڻيات، برق او محروقاتو مصارف : روغڻياتو او برق مصارف هغه وخت صورت مومي ڇي ماشين الات چالان اوسي، دا مستقيم تر توليد پوري اړوند مصارف دي، مستقيم مصارف بلل كيږي او په سوداگريز بلانس كي دبت برخه كي بنودل كيږي، روښنايي مصارف هغه مصارف دي ڇي دفترونو روښنايي لپاره يا خرڅلاو دفتر كي صورت مومي دا ډول مصارف بيا په مفاد او ضرر بلانس دبت سمت كي بنودل كيږي
- **Octroi** يا ښاروالي شهري محصول: كله ڇي اجناس د يوه ښار محدودې ته دننه شي د قانون له مخي بايد ښاري خدماتي محصول اړوند ښاروالي ته وركړي، دا هم سوداگريز بلانس ، دبت سمت كي بنودل كيږي

(f) **Packing Charges:** There are certain types of goods which cannot be sold without a container or proper packing. These form a part of the finished product. One example is ink, which cannot be sold without a bottle. These type of packing charges are debited to Trading Account. But if the goods are packed for their safe dispatch to customers, i.e. packing meant for transportation or fancy packing meant for advertisement will appear in the Profit and Loss Account.

- **Packing Charges:** يا بسته بندي مصارف : ځيني توکي يا اجناس پرته له بسته بندي د خرڅلاو وړل نه وي نو اړتيا وي ڇي بسته بندي شي دا بسته بندي يو لړ مصارف لري ڇي بسته بندي په نامه ياديږي، دا مصارف د نهايي توکو برابرښت مصارف كي شامل دي ، لکه رنگ پرته له بوتله د خرڅلاو وړ ندي ، دا مصارف هم په سوداگريز بلانس دبت سمت كي بنودل كيږي، که چيرته توکي برابر او مشتري ته د وركړو وړ وي ، دا مصارف بيا په مفاد او ضرر بيلانس كي دبت سمت كي بنودل كيږي

(g) **Manufacturing Expenses:** All expenses incurred in

manufacturing the goods in the factory such in factory rent, factory insurance etc. are debited to Trading Account.

• **Manufacturing Expenses** توليدي مصارف : ټول هغه مصارف ته شامل دي چې

اجناسو توليد كې لگول كيږي لکه فابريکې کرایه او بیمه ، دا مصارف هم په سوداگریز بلانس

دبټ سمت کې بنودل كيږي

(h) **Royalties:** These are the payments made to a patentee, author or landlord for the right to use his patent, copyright or land. If royalty is paid on the basis of production, it is debited to Trading Account and if it is paid on the basis of sales, it is debited to Profit and Loss Account.

• **Royaltie** يا اختراع ، امتياز حق: دا هغه ډول لگښتونه دي چې مخترع، ليکوال ، يا اجاره

کوونکي ته ، ددې لپاره ورکول كيږي چې اختراع ، کاپي حق، يا زمکه يې استفاده شوي وي، که

حق اختراع په توليدي اساس ورکړل شوي وي بيا دا مصارف په سوداگریز بلانس کې بنودل

کيږي او که چيرته په خرڅلاو اساس ورکول كيږي دا بيا مفاد او ضرر بلانس ، دپټ سمت کې

بنودل كيږي

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6. **Sales**

Sales include both cash and credit sales of those goods which were purchased for resale purposes. Some customers might return the goods sold to them (called sales return) which are deducted from the sales in

the inner column and net amount is shown in the outer column. While ascertaining the amount of sales, the following points need attention:

- (a) If a fixed asset such as furniture, machinery etc. is sold, it should not be included in sales.
- (b) Goods sold on consignment or on hire purchase or on sale or return basis should be recorded separately.
- (c) If goods have been sold but not yet despatched, these should not be shown under sales but are to be included in closing stock.
- (d) Sales of goods on behalf of others and forward sales should also be excluded from sales.

7. **Sales** يا خرڅلاو: خرڅلاو ټول هغه نقدي او پور بڼي پلور ته شامليري چې ټوكي يا اجناس د بيا خرڅلاو لپاره پيرل شوي وي، كله مشتريان پلور شوي اجناس مسترد كړي يا *called sales return* په نامه ياديري، دا مسترد شوي اجناس په داخلي ستون د خرڅلاو كې د مجموعي خرڅلاو څخه منفي كيري او خالصه مجموعه يې بيروني ستون د خرڅلاو كې ښودل كيري، ددې لپاره چې مشخص خرڅلاو محاسبه كړاى شو نو لاندې مهم ټكو يادول اړين دي:

- كه چيرته ثابته دارايي لکه فرنيچر ، ماشين الات او داسې نور ..پلورل كيري دا په پلور كې نه شامليري ځكه دا ډول دارايي د بيا خرڅلاو لپاره تهيه شوي نه ده
- كه چيرته بل چا ساتل شوي اجاره شوي اجناس له گدام څخه خرڅ شوي وي دا ډول فروشات هم په خرڅلاو برخه كې نه شامليري
- كه چيرته اجناس پلورل شوي وي مگر تراوسه بسته بندي شوي نه وي دا ډول اجناس په په خرڅلاو كې نه شامليري مگر په نهايي موجودي شامل دي
- كه چيرته اجناس بل چا په واسطه پلورل شوي وي دا هم بايد له خرڅلاو اجناس كې شامل نه شي

6.2.1 Closing entries for trading account

The journal entries necessary to transfer opening stock, purchases, sales and returns to the Trading Account are called closing entries, as they serve to close these accounts. These are as follows:

8. سوداگريز بلانس ټرل يا بسته كولو معاملات : ژورنال كې ثبت شوي معاملاتو څخه لومړي موجودي يا گدام انتقالول ، پيرل شوي اجناس ، خرڅ شوي اجناس، او مستري اوبازگشتي حسابونه سوداگريز حساب ته انتقالول د بسته كول په مانا دي، دا چې څنگه معاملات وټرل شي لاندې معاملات ترسره كوو:
1. سوداگريز بلانس ته د لومړي موجودي (گدام) ،خالص خريداري يا پيرل او مستقيم مصارفو انتقال :

- سوداگريز حساب يا Trading A/c (دبټ)

o لومړي موجودي ((Opening) A/c))

○ پير يا خريدارى (To Purchases A/c)

○ مستقيم مصارف (To Direct Expenses A/c)

دا پورتي حسابونو لکه لومړۍ موجودي، خالص خريداري، او مستقيم مصارف د سوداگريز حساب د بېت سمت ته انتقاليري

2. سوداگريز بلانس ته د خالص خرڅلاو اونهايي موجودي (گدام) انتقال

○ خرڅلاو حساب Sales A/c

○ لومړۍ موجودي يا گدام A/c (Closing) Stock

سوداگريز بلانس کريدت طرف ته د خرڅلاو حساب، نهايي موجودي انتقالول

3. له محاسبې څه وروسته سوداگريز بلانس کې دوه صورت راځي:

(a) که کريدت سمت ارزښت تر دېت سمت زيات وي نو ناخالص مفاد دی چې دا د مفاد او ضرر

بلانس ته په ددويمه مرحله کې کريدت سمت ته انتقاليري

(b) که برعکس اوسي بيا دېت سمت ته انتقاليري او يو ناخالص ضرر يا تاوان دی

1. For transfer of opening stock, net purchases and direct expenses to Trading A/c.

Trading A/c Dr.د

To Stock (Opening) A/c

To Purchases A/c

To Direct Expenses A/c

(Being opening stock, purchases and direct expenses transferred to Trading Account)

2. For transfer of net sales and closing stock to Trading A/c

Sales A/c Dr.

Stock (Closing) A/c Dr.

To Trading A/c

(Being sales, closing stock transferred to Trading Account)

3. (a) For Gross Profit Trading
A/c Dr.

To Profit & Loss A/c

(Being gross profit transferred to Profit and Loss Account)

(b) For Gross Loss

Profit & Loss A/c Dr.

To Trading A/c

(Being gross loss transferred to Profit and Loss Account)

Illustration I: From the following balances extracted from the books of Mr. Bansi Lal, prepare the Trading Account for the year ending 31st March, 2006.

Purchases	42,500	Wages	5,000
Mfg. expenses	1,950	Op. Stock	10,000
Sales	67,500	Sales returns	50
Carriage inwards	100	Purchases returns	200
Freight and duty	5,000		
Stores consumed	200		
Power	300		

The value of stock unsold is Rs. 12,000.

Solution

TRADING ACCOUNT

FOR THE YEAR ENDED 31ST MARCH, 2006

To	Opening stock		10,000	By Sales	67,500	
To	Purchases	42,500		Less returns	50	67,450
	Less returns	200	42,300	By Closing Stock		12,000
To	To Manufacturing		1,950			
To	exp. Carriage		100			
	inwards Freight		5,000			
	and duty					
To	Stores consumed		200			
To	Power		300			
To	Wages		5,000			
To	Gross Profit transferred		14,600			
	to Profit & Loss A/c					
			79,450			79,450

6.3 MANUFACTURING ACCOUNT

The concern which are engaged in the conversion of raw materials into finished goods, are interested to knowing the cost of production of the goods produced. The cost of the goods produced cannot be obtained from the Trading Account. So, it is desirable to prepare a Manufacturing Account prior to be preparation of the Trading account with the object of ascertaining the cost of goods produced during the accounting period.

The proforma of Manufacturing Account is given as under:

MANUFACTURING ACCOUNT
FOR THE YEAR ENDING.....

Dr.

Cr.

	Rs.		Rs.
To Work-in process (Opening)		By Work-in-process (Closing)	
To Raw Materials consumed:		By Sale of Scrap	
Opening Stock		By Cost of Production of	
<i>Add</i> Purchases of Raw		finished goods during the	
Materials		period transferred to the	
<i>Less</i> Closing Stock of Raw		Trading Account	
Materials			
To Direct or Productive			
Wages			
To Factory Overheads:			
Power & Fuel			
Repairs of Plant			
Depreciation on Plant			
Factory Rent			

The Trading Account in case of manufacturers will appear as follows:

TRADING ACCOUNT
FOR THE YEAR ENDING.....

Dr.

Cr.

	Rs.		Rs.
To Opening Stock of Finished Goods		By Sales <i>less</i> Returns	
To Cost of Production of finished goods transferred from Manufacturing Account		By Closing Stock of Finished goods	
To Purchases of Finished Goods <i>less</i> Returns		By Gross Loss transferred to Profit and Loss A/c	
To Carriage Charges on goods purchased			
To Gross Profit transferred to Profit and Loss A/c			

The gross profit or loss shown by the Trading Account will be taken to the Profit and Loss Account which will be prepared in the usual way as explained in the following pages.

Important Points Regarding Manufacturing Account

1. Raw Materials Consumed

The cost of raw materials consumed to be included in the debit side of the Manufacturing Account shall be calculated as follows:

		Rs.
Opening Stock of raw materials	
Add Purchases of raw materials

Less Purchase return of raw materials
Less Closing stock of raw materials
Cost of raw material consumed	

2. **Direct Expenses**

The expenses and wages that are directly incurred in the process of manufacturing of goods are included under this head..

3. **Factory Overheads**

The term “overheads” includes indirect material, indirect labour and indirect expenses. Therefore, the term “factory overheads” stands for all factory indirect material, indirect labour and indirect expenses. Examples of factory overheads are: rent for the factory, depreciation of the factory machines and insurance of the factory, etc.

4. **Cost of Production**

Cost of production is computed by deducting from the total of the debit side of the Manufacturing Account, the total of the various items appearing on the credit side of the Manufacturing Account.

Difference between trading account and manufacturing account

	Manufacturing Account	Trading Account
1.	Manufacturing account is prepared to find out the cost of goods produced.	Trading Account is prepared to find out the Gross Profit/Gross Loss.
2.	The balance of the manufacturing Account is transferred to the Trading Account.	The balance of the Trading account is transferred to the Profit and Loss Account.
3.	Sale of scrap is shown in the Manufacturing Account.	Sale of scrap is not shown in the Trading Account.
4.	Stocks of raw materials and work-in-	Stocks of finished goods are shown

	progress are shown in the Manufacturing Account.	in the TradingAccount.
5.	Manufacturing Account is a part of the Tradingaccount.	Trading Account is a part of the Profit and LossAccount.