Aufgabe 12.5: Manufacturing Accounting and Profit & Loss

(Produktionserfolgsrechnung)

PAROW Ltd. is a production firm for lamps. The production process contains the assembling, painting and quality checking activities. In order to keep Accounting simple PAROW uses a periodic system. Accordingly, PAROW uses 3 Manufacturing summary accounts. One account for each department. Consider the production process to be a process costing which means the lamps were worked on in the sequence assembling – painting – quality check.

At the beginning of 20X6 PAROW had an opening value for raw materials 120,000.00 EUR. During the Accounting period PAROW purchased materials for 430,000.00 EUR (net amount). Quality check department had an opening value of lamps 42,300.00 EUR. Direct labour in the assembling department was 240,000.00 EUR/a, for painting was 53,000.00 EUR/a, and for quality check was nil. The assembling department is run by a supervisor who earns a salary 65,000.00 EUR/a. Depreciation on the factory facilities was 180,000.00 EUR/a which is linked to the three departments at a ratio 1:0.5:1.5 as assembling: painting: quality check. For advertising and administration PAROW paid 100,000.00 EUR (net amount). PAROW is financed by a bond which requires an interest pay of 30,000.00 EUR/a. At the end of year 20X6 there is only a closing stock in the assembling department to be 15,000.00 EUR and in the quality check department 300.00 EUR. PAROW sold half of the lamps for 2,500,000.00 EUR (net amount).

Required: Make bookkeeping entries in all relevant accounts. Set up 3 Manufacturing summary accounts. Determine P&L for PAROW along the nature of expense method. Prepare a statement of comprehensive income. Ignore VAT.

Solution (Lösung):

The bookkeeping entries (1) to (6) are not linked to the Manufacturing summary accounts:

(1)		
	DR Inventory	430,000.00 EUR
	CR Bank	430,000.00 EUR
(2)		
	DR Direct labour	293,000.00 EUR
	CR Bank	293,000.00 EUR
(3)		
	DR Supervisor's salary	65,000.00 EUR
	CR Bank	65,000.00 EUR
(4)		
	DR Depr 20X6	180,000.00 EUR
	CR Acc. Depr	180,000.00 EUR
(5)		
	DR Advertising/Admin	100,000.00 EUR
	CR Bank	100,000.00 EUR

For the postings in the Manufacturing summary accounts see the accounts below:

D	D	RM Inv	С	D	Direct Labour	С	D	Bank	С
S50.000,00	OV	120.000,00 Assb	550.000,00	(2)	293.000,00 Assb	240.000,00	(6)	2.500.000,00 (1)	430.000,00
D Depr 20X6 C D Acc. Depr. C D Supervisor C C J 180.000,00 C 2.500.000,00 C	(1)	430.000,00			Paint	53.000,00		(2)	293.000,00
D Dept 20X6 C D Acc Dept. C D Supervisor C C 1.582,000,00 Dept 30.000,00 Dept		550.000,00	550.000,00		293.000,00	293.000,00		(3)	65.000,00
D Depr 2006 C D Acc Depr. C D Supervisor C	_							(5)	100.000,00
D Dept 20X6 C D Acc Dept. C D Supervisor C								(7)	30.000,00
D Depr 20X6 C D Acc. Depr. C D Supervisor C								c/d	1.582.000,00
D Depr 20X6 C D Acc. Depr. C D Supervisor C (4) 180.000,00 Paint Qual 30.000,00 Paint 30.000,00 Qual b/d 180.000,00 (3) 65.000,00 Assb 65.000,00 Assb 65.000,00 Inv 500.000,00 Qual 90.000,00 Paint 90.000,00 C D MSA Quality C C Supv 65.000,00 Supv 65.000,00 Paint 90.000,00 Paint 90.0000,00 Paint 90.000,00 Paint 90.0000,00 Paint 90.000,00 Paint 90.000,00 Paint 90.000,00 Pain								2.500.000,00	2.500.000,00
Assb 60.000,00 Assb 60.000,00 C/d 180.000,00 (4) 180.000,00 (3) 65.000,00 Assb 65.00							b/d	1.582.000,00	
Assb 65.000,00 Assb 60.000,00 C/d 180.000,00 (4) 180.000,00 (3) 65.000,00 Assb 65.000,00 Assb 65.000,00 Assb Color,000 Assb Color									
Paint 30.000,00 Qual 90.000,00 Dept 30.000,00 Dept 30.000,00 Dept 90.000,00 Dept 90.									
D MSA Assembling C D MSA Painting C D MSA Painting C D MSA Quality C	(4)	180.000,00 Assb	60.000,00	c/d	180.000,00 (4)	180.000,00	(3)	65.000,00 Assb	65.000,00
D MSA Assembling C D MSA Painting C D MSA Quality C		Paint			b/d	180.000,00			
D MSA Assembling C D MSA Painting C D MSA Quality C Inv 550.000,00 c/d 15.000,00 Assb 900.000,00 OV 42.300,00 c/d 300,00 Supv 65.000,00 Paint 900.000,00 Depr 30.000,00 Qual 983.000,00 Depr 90.000,00 FG 1.115.000,00 b/d 15.000,00 Pât. 100.000,00 Pât. 100.000,00 COS 557.500,00 Pât. 2.500.000,00 COS 557.500,00 Pât. 2.500.000,00 COS 557.500,00 Pât. 2.500.000,00 COS 557.500,00 COS 557.500,00 COS 557.500,00 COS 557.500,00 Sales C FG 557.500,00 Pât. 557.500,00 COS 557.500,00 COS 557.500,00 Sales 2.500.000,00 FG 557.500,00 Pât. 557.500,00 Pât. 30.000,00 COS 557.500,00 A/A 100.000,00 Sa	_								
D	_	180.000,00	180.000,00						
D									
D	D	MSA Assambling		D	MCA Dainting		D	MSA Quality	
DL 240.000,00 Paint 900.000,00 Depr 30.000,00 Depr 30.000,00 Paint 900.000,00 Depr 30.000,00 Paint 900.000,00 Pai									
Supv 65.000,00 Paint 900.000,00 Paint 900.000,00 915.000,00 Paint 900.000,00 915.000,00 Paint 900.000,00 915.000,00 Paint 900.000,00 915.000,00 Paint 900.000,00 Paint 900.000,00 915.000,00 Paint 900.000,00 Paint					· ·				,
Depr 60.000,00 Paint 900.000,00 915.0000,00 915.0000,00 915.0000,00 915.0000,00 915.0000,00 915.0000,00 915.00						983.000.00			1.115.000.00
D Advert/Admin C D FG inv C D Sales C	-		900.000,00	БСР.			Бер.		
D Advert/Admin C D FG Interest C D FG Sales C C C S57.500,00			915.000.00				h/d	300.00	
D Advert/Admin C D FG inv C D Sales C (5) 100.000,00 P&L 100.000,00 Qual 1.115.000,00 C/d 557.500,00 P&L 2.500.000,00 (6) 2.500.000,00 D COS C D Interest C D P&L C FG 557.500,00 P&L 557.500,00 P&L 30.000,00 P&L 30.000,00 Sales 2.500.000,00 Int 30.000,00 EBT 1.812.500,00 2.500.000,00 2.500.000,00 Tax 543.750,00 P/d 1.812.500,00	h/d						b/ u	511,11	
Column Pal 100.000,00 Pal 100.000,00 Qual 1.115.000,00 COS 557.500,00 C/d	b) u	15.000,00						ı	
Column Pal 100.000,00 Pal 100.000,00 Qual 1.115.000,00 COS 557.500,00 C/d									
D COS C D Interest C D P&L C C 557.500,00 C C S 57.500,00 C C C C C C C C C C C C C C C C C C	D	Advert/Admin	С	D	FG Inv	С	D	Sales	С
D COS C D Interest C D P&L C D P&L C C C D P&L C D A/A 100.000,00 C Sales 2.500.000,00 C E E 1.812.500,00 C E E D P E T T A/A 1.812.500,00 C 2.500.000,00 C C D D D D D D D D <	(5)	100.000,00 P&L	100.000,00	Qual	1.115.000,00 COS	557.500,00	P&L	2.500.000,00 (6)	2.500.000,00
D COS C D Interest C D P&L C FG 557.500,00 P&L 557.500,00 (7) 30.000,00 P&L 30.000,00 COS 557.500,00 Sales 2.500.000,00 Int 30.000,00 EBT 1.812.500,00 2.500.000,00 FAX 543.750,00 EAT 1.268.750,00 b/d 1.812.500,00	-		<u> </u>		c/d	557.500,00			
D COS C D Interest C D P&L C C P&L S57.500,00 Sales 2.500.000,00 COS 557.500,00 Sales 2.500.000,00 COS ST.500,00 Sales 2.500.000,00 COS Sales					1.115.000,00	1.115.000,00			
FG 557.500,00 P&L 557.500,00 (7) 30.000,00 P&L 30.000,00 COS 557.500,00 Sales 2.500.000,00 Int 30.000,00 EBT 1.812.500,00 2.500.000,00 EAT 1.268.750,00 EAT 1.268.750,00				b/d	557.500,00				
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Int 30.000,00 EBT 1.812.500,00 2.500.000,00 Tax 543.750,00 EAT 1.268.750,00	FG _	557.500,00 P&L	557.500,00	(7)	30.000,00 P&L	30.000,00	COS	557.500,00 Sales	2.500.000,00
EBT 1.812.500,00 2.500.000,00 2.500.000,00 2.500.000,00 b/d 1.812.500,00 EAT 1.268.750,00							A/A	100.000,00	
2.500.000,00 2.500.000,00 b/d 1.812.500,00 EAT 1.268.750,00							Int	30.000,00	
Tax 543.750,00 b/d 1.812.500,00 EAT 1.268.750,00							EBT	1.812.500,00	
EAT 1.268.750,00								2.500.000,00	2.500.000,00
·							Tax	543.750,00 b/d	1.812.500,00
1.812.500,00 1.812.500,00							EAT	1.268.750,00	
								1.812.500,00	1.812.500,00

Exhibit 1: Accounts

The statement of comprehensive income can be derived from the P&L account.

Parow Ltd's Statement of Comprehensive Income for 20X6

	20X6
	[EUR]
Revenue Other income	2.500.000,00
	2.500.000,00
Cost of goods sold (COS)	(557.500,00)
Depreciation non-production related	0,00
Advertising/Admin	(100.000,00)
Finance costs	(30.000,00)
Profit before taxation (EBT)	1.812.500,00
Income tax expenses	(543.750,00)
Deferred tax lincome/expense	
Profit for the period (EAT)	1.268.750,00

Exhibit 16: Statement of comprehensive income along cos format (not required)

The statement of comprehensive income along the nature of expense method requires some workings, see below: (a) Changes in inventory: 15,000 + 300 + 557,500 = 572,800.00 EUR (The amount for closing stock of finished goods is $0.5 \cdot (550,000 + 293,000 + 65,000 + 180,000 - 15,000 + 42,300 - 300) = 557,500.00$ EUR). (b) Raw material used: 120,000 + 430,000 + 42,300 = 592,300.00 EUR, (c) Labour: 293,000 + 65,000 = 358,000.00 EUR.

Parow Ltd's
STATEMENT of COMPREHENSIVE INCOME S
for 20X6

	20X6
	[EUR]
Revenue Other Income	2.500.000,00
Changes in Inventory of Finished Goods and Work in Progress	572.800,00
Work Performed by the Entity and Capitalized	3.072.800,00
Raw Material and Consumables Used	(592.300,00)
Employee Benefits Expense	(358.000,00)
Depreciation and Amortisation Expense	(180.000,00)
Impairment of Property, Plant and Equipment	
Other Expenses	(100.000,00)
Finance Costs	(30.000,00)
Share of Profit of Associates	
Profit Before Taxation (EBT)	1.812.500,00
Income Tax Expenses	(543.750,00)
Deferred Tax Income/Expense	
Profit for the Period (EAT)	1.268.750,00

Exhibit 2: Statement of comprehensive income (nature of expense format)