

Task IM-9.35: Inventory Valuation by Manufacturing Accounting
(Bestandsbewertung durch Manufacturing Accounting)

HÜTTRUP AG produces leather bags. At the beginning of fiscal year 20X2 HÜTTRUP has 10,000.00 EUR materials on stock. This amount represents 800 m² leather. The company bought 1,000 m² leather on 3.01.20X2 and paid 12,000.00 EUR (gross amount) to the supplier. The next purchase is 3 days later and HÜTTUP bought 500 m² and paid 6,600.00 EUR. For the zippers HÜTTRUP paid 2,400.00 EUR (gross amount). In the production process 2,000 m² were used up. At the end of the accounting period there are zippers on stock 530.00 EUR. Consider FiFo as cost formula for inventory movements.

The production of bags requires 340,000.00 EUR labour for the employees and 100,000.00 EUR labour for the manager of the production department.

Depreciation on the sewing machines amounts to 20,000.00 EUR. The cost for rent of the factory building and administration of the entire business cost 35,000.00 EUR and 45,000.00 EUR respectively. Half of the amount for administration is for the production department. There is a 95 % application of manufacturing overheads (underapplied overheads.)

The cost for advertising and provisions for the sales persons are 70,266.50 EUR. All expenses were paid on cash.

During the accounting period 20X2 HÜTTRUP produced 1,400 leather bags and sold 80 % of them on cash. The gross selling price per bag is 3 times the cost of manufacturing. There is no closing balance in terms of the WIP account – all bags produced were fully completed and put on finished goods inventory account.

Required: Set up a manufacturing accounting by T-accounts and determine the closing stock of inventory which contains raw materials and finished goods. How much is the HÜTTRUP's pretax profit and profit after taxes?

Solution

Observe the bookkeeping entries below:

RM-Inventory				VAT				Cash/Bank			
D			C	D			C	D			C
OV	10.000,00	(4)	10.000,00	(1)	12.000,00	(16)	209.255,50	(16)	1.255.533,00	(1)	12.000,00
(1)	10.000,00	(5)	10.000,00	(2)	1.100,00			(2)		(2)	6.600,00
(2)	5.500,00	(6)	2.200,00	(3)	400,00			(3)		(3)	2.400,00
(3)	2.000,00	(7)	1.470,00	c/d	195.755,50			(8)		(8)	440.000,00
		c/d	3.830,00		209.255,50			(11)		(11)	35.000,00
	27.500,00		27.500,00			b/d	195.755,50	(12)		(12)	45.000,00
								c/d		c/d	714.533,00
b/d	3.830,00								1.255.533,00		1.255.533,00
								b/d	714.533,00		

WIP				Labour				MOH			
D			C	D			C	D			C
(4)	10.000,00	COS	513.295,00	(8)	440.000,00	(9)	340.000,00	(10)	100.000,00	WIP	149.625,00
(5)	10.000,00					(10)	100.000,00	(13)	35.000,00	COS	7.875,00
(6)	2.200,00				440.000,00		440.000,00	(14)	22.500,00		
(7)	1.470,00								157.500,00		157.500,00
(9)	340.000,00										
MOH	149.625,00										
	513.295,00		513.295,00								

Rent				Admin				Ads & Selling			
D			C	D			C	D			C
(11)	35.000,00	(13)	35.000,00	(12)	45.000,00	(14)	22.500,00	(15)	70.000,00	c/d	70.000,00
						P&L	22.500,00	b/d	70.000,00	P&L	70.000,00
					45.000,00		45.000,00				

FG-Inv				COS				P&L			
D			C	D			C	D			C
WIP	513.295,00	COS	410.636,00	FG	410.636,00	P&L	418.511,00	COS	418.511,00	Rev	1.046.277,50
		c/d	102.659,00	MOH	7.875,00			Marg	627.766,50		
	513.295,00		513.295,00		418.511,00		418.511,00		1.046.277,50		1.046.277,50
b/d	102.659,00							Admin	22.500,00	Marg	627.766,50

Rev				ITL				R/E			
D			C	D			C	D			C
P&L	1.046.277,50	(16)	1.046.277,50	c/d	160.500,00	P&L	160.500,00	c/d	374.500,00	P&L	374.500,00
						b/d	160.500,00			b/d	374.500,00

Exhibit 1: Accounts

The closing stock of raw materials and finished goods amounts to $3,830 + 102,659 = 106,489.00$ EUR.

The pretax profit is 535,000.00 EUR

The earnings after taxes are 374,500.00 EUR.