

**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

(6)

**DR Bank** ..... 2,500,000.00 EUR

**CR Sales** ..... 2,500,000.00 EUR

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

RM Inv			
D		C	
OV	120.000,00	Assb	550.000,00
(1)	430.000,00		
	<u>550.000,00</u>		<u>550.000,00</u>

Direct Labour			
D		C	
(2)	293.000,00	Assb	240.000,00
		Paint	53.000,00
	<u>293.000,00</u>		<u>293.000,00</u>

Bank			
D		C	
(6)	2.500.000,00	(1)	430.000,00
		(2)	293.000,00
		(3)	65.000,00
		(5)	100.000,00
		(7)	30.000,00
		c/d	1.582.000,00
	<u>2.500.000,00</u>		<u>2.500.000,00</u>
b/d	1.582.000,00		

Depr 20X6			
D		C	
(4)	180.000,00	Assb	60.000,00
		Paint	30.000,00
		Qual	90.000,00
	<u>180.000,00</u>		<u>180.000,00</u>

Acc. Depr.			
D		C	
c/d	180.000,00	(4)	180.000,00
		b/d	180.000,00

Supervisor			
D		C	
(3)	65.000,00	Assb	65.000,00

MSA Assembling			
D		C	
Inv	550.000,00	c/d	15.000,00
DL	240.000,00		
Supv	65.000,00		
Depr	60.000,00	Paint	900.000,00
	<u>915.000,00</u>		<u>915.000,00</u>
b/d	15.000,00		

MSA Painting			
D		C	
Assb	900.000,00		
DL	53.000,00		
Depr	30.000,00	Qual	983.000,00
	<u>983.000,00</u>		<u>983.000,00</u>

MSA Quality			
D		C	
OV	42.300,00	c/d	300,00
Paint	983.000,00		
Depr	90.000,00	FG	1.115.000,00
	<u>1.115.300,00</u>		<u>1.115.300,00</u>
b/d	300,00		

Advert/Admin			
D		C	
(5)	100.000,00	P&L	100.000,00

FG Inv			
D		C	
Qual	1.115.000,00	COS	557.500,00
		c/d	557.500,00
	<u>1.115.000,00</u>		<u>1.115.000,00</u>
b/d	557.500,00		

Sales			
D		C	
P&L	2.500.000,00	(6)	2.500.000,00

COS			
D		C	
FG	557.500,00	P&L	557.500,00

Interest			
D		C	
(7)	30.000,00	P&L	30.000,00

P&L			
D		C	
COS	557.500,00	Sales	2.500.000,00
A/A	100.000,00		
Int	30.000,00		
EBT	<u>1.812.500,00</u>		
	<u>2.500.000,00</u>		<u>2.500.000,00</u>
Tax	543.750,00	b/d	1.812.500,00
EAT	<u>1.268.750,00</u>		
	<u>1.812.500,00</u>		<u>1.812.500,00</u>

### 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**

	<b>20X6</b> [EUR]
Revenue	2.500.000,00
Other income	—
	<b>2.500.000,00</b>
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)	<b>1.812.500,00</b>
Income tax expenses	(543.750,00)
Deferred tax income/expense	—
Profit for the period (EAT)	<b>1.268.750,00</b>

**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:  $15,000 + 300 + 557,500 = \mathbf{572,800.00 \text{ EUR}}$  (The amount for closing stock of finished goods is  $0.5 \cdot (550,000 + 293,000 + 65,000 + 180,000 - 15,000 + 42,300 - 300) = \mathbf{557,500.00 \text{ EUR}}$ ). (b) Raw material used:  $120,000 + 430,000 + 42,300 = \mathbf{592,300.00 \text{ EUR}}$ , (c) Labour:  $293,000 + 65,000 = \mathbf{358,000.00 \text{ EUR}}$ .

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

	<b>20X6</b> [EUR]
Revenue	2.500.000,00
Other Income	—
Changes in Inventory of Finished Goods and Work in Progress	572.800,00
Work Performed by the Entity and Capitalized	—
	<b>3.072.800,00</b>
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)	<b>1.812.500,00</b>
Income Tax Expenses	(543.750,00)
Deferred Tax Income/Expense	—
Profit for the Period (EAT)	<b>1.268.750,00</b>

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