## Final Accounts of a Sole Proprietorship Business

Manufacturing Account -> Calculate Factory Cost

- 1. Prime Cost/Direct Cost
  - a. Direct Materials
  - b. Direct Labour
  - c. Direct Expenses
- 2. Indirect Cost/ Overhead Cost
  - a. Indirect Materials
  - b. Indirect Labour
  - c. Indirect Expenses

Direct Materials + Direct Labour + Direct Expense = Prime Cost

Indirect Factory Materials + Indirect Factory Labour + Indirect Factory Expenses = Factory Overhead

Prime Cost + Works Cost + Opening Stock of WIP – Closing Stock of WIP = Factory Cost/Works Cost

## Some Adjustments for Final Accounts Problem Sums

- <u>Closing Stock</u> Manufacturing A/c or Trading A/c – Cr. Side Balance Sheet – Assets (Dr.)
- <u>Outstanding Expenses</u> e.g. Outstanding salaries/wages/rent/ Added with the related expenses in Trading / P/L A/c – Dr. Balance Sheet – Liabilities (Cr.)
- Prepaid Expenses e.g. Prepaid salaries/ rent/ Deducted from the related expenses in Trading / P/L A/c – Cr. Balance Sheet – Assets (Dr.)
- Accrued Income e.g. Accrued commission, royalty Added with the related income in Trading / P/L A/c -> Cr. Balance Sheet – Assets (Dr.)

- <u>Income received in advance</u> e.g. Pre-received interest on advance made to an outsider.
   Deducted from the related income in Trading / P/L A/c –>Effect Dr.
   Balance Sheet – Liabilities (Cr.)
- 6. <u>Goods distributed as free samples</u> Advertisement expenses A/c ......Dr. 100 To Purchases A/c 100

Trading A/c – Deducted from purchases A/c (Cr.) P/L A/c – Advertisement Expense – Dr. side

- 7. <u>Donation of Goods</u>
  Donation A/c ......Dr.
  To Purchases A/c
  Trading A/c Deducted from purchases A/c (Cr.)
  P/L A/c Donation Expense Dr. side
- <u>Goods given as salary</u>
   Salary A/c ......Dr.
   To Purchases A/c
   P/L A/c Salary expenses Dr. Side
   Trading A/c Deducted from the Purchases A/c
- <u>Goods withdrawn by the proprietor for personal use</u> Drawings A/c.....Dr. To Purchases A/c Trading A/c – Deducted from the Purchases A/c Balance Sheet – Liabilities side -> Deducted from Capital

Loss of Fire (appears as adjustment)
 E.g., Loss by fire – Rs. 10000 (Insurance Claim – Rs. 7000)
 Trading A/c - Deducted from the Purchases A/c – Rs.10000 (Cr.)
 Net Loss= Rs. (10000-7000) = Rs. 3000 -> P/L A/c Dr. side
 Balance Sheet – Asset Side -> Insurance Claim -Rs.7000 (Dr.)

## Loss of Fire (appears only in Trial Balance) -

| Particulars  | Amount (Dr.) | Amount<br>(Cr.) |
|--------------|--------------|-----------------|
| Loss by fire | 10000        |                 |

Net Loss= Rs. (10000-7000) = Rs. 3000 -> P/L A/c Dr. side Balance Sheet – Asset Side -> Insurance Claim -Rs.7000 (Dr.)

11. Wages of Rs. 10000 included in the expenses of construction of Building.

Balance Sheet – Asset side – Deducted from Building cost (Cr.) Trading A/c – Dr. side – Wages expenses

Wages A/c ..... Dr. 10000 To Building A/c 10000