end using closing inventory of finished goods.

- Provision for unrealised profit must be deducted from inventory of finished goods at transfer value (TV) in the statement of financial position.

Format

Manufacturing Account for the year ended 31st December 20....		
Raw Materials		
Opening Inventory		*
Add Purchases		*
Add Carriage inwards		*
Less closing inventory		(*)
Raw Materials consumed		***
Direct Labour/ Factory wages / Production wages		*
Direct expenses / Royalties		*
Prime Cost		***
Factory overheads		
Factory rent and rates	*	
Factory Power, light and heat	*	
Indirect labour / indirect wages	*	
Depreciation of Factory NCA	*	*
Cost of production before WIP		***
Work in Progress(WIIP)		
Opening inventory		*
Less closing inventory		(*)
Cost of production after WIP		***
Manufacturing Profit / Factory Profit		***
Cost of Production at transfer value		***

Income statement for the year ended 31st December 2017		
Revenue		***
Less return inwards(sales return)		(*)
		***
Less cost of sales - Finished goods		
Opening inventory	*	
Cost of production at transfer value	*	
Purchase of finished goods	*	
Less closing inventory	(*)	
Cost of sales		(**)
Gross Profit		***
Add Manufacturing profit		***
		***
Less Expenses		
Office rent and rates	*	
Office wages	*	
Discount allowed	*	
Bad debts	*	
Depreciation of Office NCA	*	
Increase in PUP	*	(*)
Profit for the year		***

*PUP - Provision for unrealised profit

Illustrations - Manufacturing Accounts

QUESTION ONE

The following balances have been extracted from the books of Limuru Manufacturers, a small scale manufacturing enterprise, as at 31 December 2002:

		Sh. '000'
Stocks as at 1 January 2002:	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labour		28,000
Factory overheads:	Variable	16,000
	Fixed	9,000
Administrative expenses:	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (for sales deliveries):	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2002		48,000
Provision for unrealized profit at 1 January 2002		1,380
Motor Vehicle running costs		4,500

Additional information:

1. Stocks at 31 December 2002 were as follows:

	Sh. '000'
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.
3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.
   Plant and machinery - 10% per annum
   Motor vehicles - 25% per annum
4. Amounts accrued at 31 December 2002 for direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2002 amounted to Sh. 2,000,000.

Required:

(a) Manufacturing, trading and profit and loss account for the year ended 31

December 2002. (12 marks)

(b) Balance sheet as at 31 December 2002. (8 marks)

(Total: 20 marks)

QUESTION TWO

Raw materials	9,000
Work in progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.
3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.
   Plant and machinery - 10% per annum
   Motor vehicles - 25% per annum
4. Amounts accrued at 31 December 2002 for direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2002 amounted to Sh. 2,000,000.

Required:

(a) Manufacturing, trading and profit and loss account for the year ended 31

December 2002. (12 marks)

(b) Balance sheet as at 31 December 2002.
(8 marks)

(Total: 20 marks)

QUESTION TWO

Chacha and Mushi are in partnership sharing profits and losses equally. They manufacturer shoes whose brand name is "DAWO". Their trial balance as at 31 December 2004 was as follows:

	Sh.'000	Sh.'000
Capital accounts:		
Chacha		4,000
Mushi		4,000
Current accounts:		
Chacha		500
Mushi	100	
Drawings:		
Chacha	200	
Mushi	300	
Stock (1 January 2004)		
Raw materials	1,500	
Work in progress	2,200	
Finished goods	1,200	
Factory land and buildings at cost (land Sh.17 million)	18,000	
Plant and machinery at cost	3,500	
Delivery van (for sales distribution)	1,400	
Provision for depreciation on:		
Factory buildings		40
Plant and machinery		1,400
Delivery van		700
Sales		86,240
Purchases of raw materials	40,000	
Production wages	10,000	
Factory manager's salary	480	
Office salaries	5,000	
Distribution costs	3,250	
Factory rates and insurance	700	
Fuel and electricity	800	
Office rates and insurance	500	
Bad debts	20	
Provision for doubtful debts		20
Royalties payable	1,000	
Trade debtors and creditors	800	700
Bank balance	6,390	
Carriage on raw materials	500	
Provision for unrealized profit		240
	97,840	97,840

Royalties payable	1,000	
Trade debtors and creditors	800	700
Bank balance	6,390	
Carriage on raw materials	500	
Provision for unrealized profit		240
	97,840	97,840

Additional information:

1. Stock at 31 December 2004 was valued as follows:

	Sh.'000
Raw materials	2,000
Work in progress	4,200
Finished goods	1,000

2. Insurance prepaid (31 December 2004)

	Sh.'000
Factory	200
Office	35

Rates owing (31 December 2004)

	Sh.'000
Factory	500
Office	25

3. Depreciation is provided at the following rates:
   Factory buildings – 2% per annum on cost
   Delivery van – 25% per annum on cost
   Plant and machinery – 20% per annum on cost
4. Provision for doubtful debts is to be maintained at 5% of the debtor's balance at the end of the year.
5. Manufactured goods are transferred to the warehouse at cost plus 25% of factory profit
6. The partnership agreement has the following provisions:
   (i) A commission of 10% to Mushi based on factory profit while Chacha is entitled to a commission of 10% based on net profit from trading.

   (ii) Partners are allowed interest on their fixed capitals at a rate of 10% per annum.

   (iii) Chacha had guaranteed Mushi a total income from the partnership of not less than Sh.15,000,000 per annum.

Required:

(a) Manufacturing, trading and profit and loss and appropriation accounts for the year ended 31 December 2004. (12 marks)

(b) Balance sheet as at 31 December 2004. (8 marks)

(Total: 20 marks)

QUESTION THREE