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**VIRTUAL COACHING CLASSES  
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL  
PAPER 1: PRINCIPLES AND PRATICE OF  
ACCOUNTING**

**Faculty: CA VS Hiranmai**



# CHAPTER 7- Preparation of final accounts of sole proprietors- Unit 2

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- This chapter has 2 units wherein the Unit 1 deals with final accounts of non-manufacturing entities where we need to prepare the Trading, Profit and loss account and the Balance sheet.
- This unit entirely deals with manufacturing entities, where in before preparing the trading account, we need to prepare another account called as the **manufacturing account**.
- Manufacturing account shows the **Cost of goods sold** as the final result. This includes the raw material stock, work in progress stock and the finished goods stock also.
- **Manufacturing costs** = Raw materials consumed+ direct wages+ direct expenses+ direct costs+ Indirect expenses.
- **Raw materials consumed= Opening stock of raw materials+ purchases during the period- closing stock of raw material.**



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- Under this chapter- we are required to prepare the manufacturing account- where in all the expenses are debited and the closing stocks are credited.
- We can have stock with regard to raw materials and WIP mainly, which are to be debited. Wages, other direct expenses like power , rent of factory to be debited. The Other indirect expenses like hire charges of the machinery or factory and royalty to be paid in case of use of technology of others- they will be charged on unit basis.
- The closing stock of WIP to be credited and if there is any by-product- the sale value also should be credited to the manufacturing account.
- The units and the amount to be written in the manufacturing account. There is only one illustration 2 which has been asked in the exam too.



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**THANK YOU**