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ADVANCED BOOKKEEPING

The Manual Process

Level 3 Diploma

Example 1

Josiah Burnley, a manufacturer of high class pottery in the United Kingdom, ships a consignment of 5000 pieces of pottery to Sweden. The terms agreed with the agent are that he will get his expenses repaid plus 5% of the gross selling figure. The units cost Burnley £4.50 each and he has instructed the agent that the minimum selling price is £5 each.

Burnley paid shipping costs on the consignment of £85 and insurance costs of £70. The agent sells half of the units at £6.20 each 30% at £5.90 each and the remainder at £5.20 each.

At the end of each of the three sales he deducts his commission and from the first sale he also deducts the import duty of £87 which he paid.

The consignment account in the books of Josiah Burnley will read:

JOSIAH BURNLEY

CONSIGNMENT ACCOUNT NO ZZZ

	£		£
Cost of Goods	22,500.00	Revenue	15,500.00
Shipping costs	85.00	Revenue	8,850.00
Insurance	70.00	Revenue	5,200.00
Import duty	87.00		
Commission	1,477.50		
Net profit	5,330.50		
	29,550.00		29,550.00

The actual money received from the agent would have been:
£14,638 (£15500 - 5% commission £775 – Import Duty £87)
£8,407.50 (£8850 - 5% commission £442.50)
£4,940 (£5200 - 5% Commission £260)

Practice question 6b

A firm with a uniform mark up of 1/3 has a branch in Northtown. The following details are available:

	£
Sales (at selling price)	86,000
Goods sent to branch (at selling price)	84,200
Goods returned to H.O. (at selling price)	400
Stock @ 1st January 2007 (at selling price)	9,600
Stock @ 31st December 2007 (at selling price)	7,200

Prepare the Branch Stock Account and the Branch Adjustment Account for the year ended 31st December 2007.

Gross Profit Margin

The difference between a mark up and a margin is that the mark up is the profit percentage added to the cost price whereas the margin is the percentage of profit based on the selling price. The selling price is 100% if we applied a 25% margin to an item the cost price would be 75% of the selling price.

An example of this is:

Selling price £500.00 with a margin of 25%.

To calculate the cost price and profit:

£500.00 x 25 ÷ 100 = £125.00 this is the profit made on an item selling for £500.00.

You will multiply the selling price by the percentage and divide by 100 and this will give you the profit value only.
If we had the cost price already and we wanted to find the selling price we would calculate this as follows:

£375.00 ÷ 75 x 100 = £500.00

This is due to the cost price being 75% of the final selling price and the remaining 25% will be the profit margin.

The Extended Trial Balance

An extended trial balance is an extension of a normal trial balance where the yearend adjustments are entered and this produces a draft Trading, Profit and Loss Account and Balance Sheet.

The Extended Trial Balance (ETB) is made up of several columns and takes into account the double entry procedures that are required for the yearend process.

The columns are Account Name, Trial Balance (with Dr and Cr), Adjustments (Dr/Cr), Profit & Loss (Dr/Cr) and Balance Sheet (Dr/Cr). At the end of the ETB, the columns are balanced and a net profit figure can be obtained.

Account Name column is where all of the ledger/trial balance account names are recorded.

Adjustments is for any yearend adjustments or corrections made to the trial balance figures, including depreciation, correction of errors, bad debts, provisions, accruals, prepayments and closing stock.

Profit & Loss is used to show the double entry between the ledger accounts and the final accounts; these are the accounts that will close at the end of the year.

Balance Sheet is for the items that are still outstanding within the business and will make up the worth of the business.

An example of an Extended Trial Balance:

Account Name	Trial Balance		Adjustments		Profit and Loss		Balance Sheet	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr

Practice question 7a

Using the following trial balance figures and required year end adjustments complete an extended trial balance to find the net profit and business worth as at 31st March 2010.

Trial Balance for Collins & Co as at 31st March 2010

Account	Dr	Cr
Capital		32,850
Bank	11,480	
Motor Vehicles Cost	25,000	
Motor Vehicle Dep'n		4,750
Equipment Cost	8,000	
Equipment Dep'n		1,600
Stock 01.04.2009	5,600	
Debtors	5,500	
Creditors		3,900
Sales		57,430
Purchases	28,320	
Rent	12,560	
Rates	2,700	
Insurance	1.650	
Provision for Doubtful Debt		280
Total	100,810	100,810

At the end of the year the following amendments need to be made to the accounts:

Provision for Depreciation:

1) Motor Vehicles 10% on reducing balance
2) Equipment 10% on Cost
3) A provision for doubtful debt of 4%, rounded up to the nearest £1
4) Drawings of £3,500 were taken from the Bank
5) There was a prepayment of £1,500 for Rent
6) An accrual for Rates of £850
7) Closing Stock was valued at £4,298

Required:

Complete a Trading, Profit and Loss Account and Balance Sheet using an extended trial balance provided on the following page.

Additional blank extended trial balance templates are available on the VLC in word format.

Then the Accounts in a summarised form would appear thus:

Example 3

Summarised Manufacturing and Trading Account for the year ended 31 December 2007

	£	£
Market value of goods completed		180,000
Less Production cost of goods completed		160,600
Gross Profit on manufacture		19,400

The market value is used to ascertain what profit we would make just by manufacturing the goods in house, from the figures we can see that the business would make £19,400 profit by manufacturing the goods ourselves.

The next part of the calculation is based on the trading of the business based on the goods being purchased from an outside source.

Sales		250,000
Stock of finished goods		12,700
Market value of finished goods		180,000
		192,700
Less Stock of finished goods 31.12.07		14,800
		177,900
Gross Profit on Trading		**72,100**
Less Expenses:		
Admin	4,500	
General Expenses	800	
		5,300
Net Profit		**66,800**
Profit		
On Manufacturing		19,400
On Trading		66,800
		86,200

We can see that by buying the items we would be paying out more for the finished goods than if we manufactured the goods ourselves.

Practice Question 8c

Details	Dr	Cr
Delivery Van Expenses	14,500	
Light and Heat	12,800	
Manufacturing Wages	98,640	
General Expenses	9,600	
Salesmen's Salaries and Commissions	23,780	
Purchase of Raw Materials	87,900	
Factory Indirect Wages	28,280	
Rent	28,000	
Manufacturing Plant and Machinery (110,000 Cost)	62,000	
Delivery Vans (32,000 Cost)	14,000	
Office Equipment (27,000 Cost)	13,000	
Office Salaries	19,200	
Debtors	28,600	
Creditors		31,700
Salesmen's Salaries and Commissions		415,000
Stock at 01/01/07		
Raw Materials	29,700	
Work in Progress	12,800	
Finished Goods	27,400	
Bank and Cash	9,200	
Drawings	28,600	
Capital		101,300
	548,000	548,000

Required:

The Manufacturing, Trading and Profit and Loss Account for the year ended 31st December 2007 and a Balance Sheet as at that date after giving effect to the following adjustments.

1. Stock at 31/12/07 were, Raw Materials £39,950, Work in Progress £11,750 and Finished Goods £28,500.

2. All Fixed Assets are to be depreciated at 10% per annum based on their cost.

3. General Expenses, Light and Heat, and Rent are to be apportioned ½ to production, ¼ to administration and ¼ to selling and distribution.

4. At 31st December 2007 there were manufacturing wages due but unpaid amounting to £450 whilst Rent had been prepaid by £200

Example 4

As an example if we have a demand of 15-20 sales per day and the lead time is 2 to 4 days then we have to have enough stock in the business for the maximum volume of sales for the longest lead time. As the usage and lead time can vary the following formula can be used:

Maximum Usage x Maximum Lead Time

Using our example this would be:

20 x 4 = 80 when the goods level reaches 80 a new order must be placed.

There are relatively no businesses that trade every day of the year and this means that deliveries will also not be made every day, sometimes this needs to be considered when calculating order quantities.

There may also be costs associated with holding the unsold goods within the business and this cost must be taken into consideration when looking at stock values. We will use this additional information to calculate the true cost of the items in stock and being held.

The business trades for 240 days of the year (52 x 5 = 260 – 10 days closed for holidays) and there is a 30p per item yearly holding cost, in addition to a delivery charge of £8.50 for every delivery made. The items have a purchase value of £20.00 each.

As we are holding 4 days of stock at any one time and we are looking to sell up to 20 items per day and hold only 1 days worth of stock in the business, we would have to pay a delivery charge every day of £8.50 on top of the cost price.

Delivery alone would total £8.50 x 240 days = £2,040 a year but we would only be holding 80 units of stock at any one time which makes our holding fee 80 x £0.30 of £24.00 per year.

If we increased our orders to a week at a time we would automatically remove four days of delivery charges but we would increase our holding fee threefold.

From 240 deliveries a year we would now only have 48, 240 ÷ 5 = 48 as we are only going to be receiving $1/5^{th}$ of the deliveries.

48 x £8.50 = £408.00 delivery charges.

The holding fee would increase from 80 units x 5 = 400 units making our holding fee 400 x £0.30 = £120.00 this still equates to less than having deliveries every day and will therefore save us money in the long term.

Here is an example of a Stores Record Card:

Stores Record Card									
Item Description:									
Product Code:									
Date	Receipts			Issues			Balance		
	Quantity	Cost	Total Cost	Quantity	Cost	Total Cost	Quantity	Cost	Total Cost
		£	£		£	£		£	£

Goods are usually recorded on the Stores Record Card at their cost value and a stock rotation method may be used, there are different methods of stock rotation and each method will affect the value of goods being held at any one time in the business and also what profit is being made on each of the items. These are:

FIFO = First In First Out
LIFO = Last In First Out
AVCO = Average Cost

FIFO is commonly used to ensure that the oldest goods are sold first, this is the system used in supermarkets. New deliveries will be put to the back of the shelf, this is to ensure that older stock is not going to go out of date and perish as the new stock is sold as this will increase the business losses as all of the perished stock will have to be written out of the business.

Packaging and the look of products may also change as time goes by, if you were selling the newer stock first it may then become increasing difficult to sell the older items later down the line again this would lead to losses as the stock would need to be written off out of the business.

LIFO is rarely used and it is no longer used in the United Kingdom as the stock values are not very reliable.

LIFO is used when the newest items received are the first to be sold, this can be a benefit when the older stock is cheaper than the recently purchased, this way uses the highest priced goods first when the demand may be higher with a smaller profit, at a later date the lower priced goods are sold and there will be a higher profit on each of the goods.