

404 AEC Agriculture Accounting

Lecture#1

Final Accounts-1

By

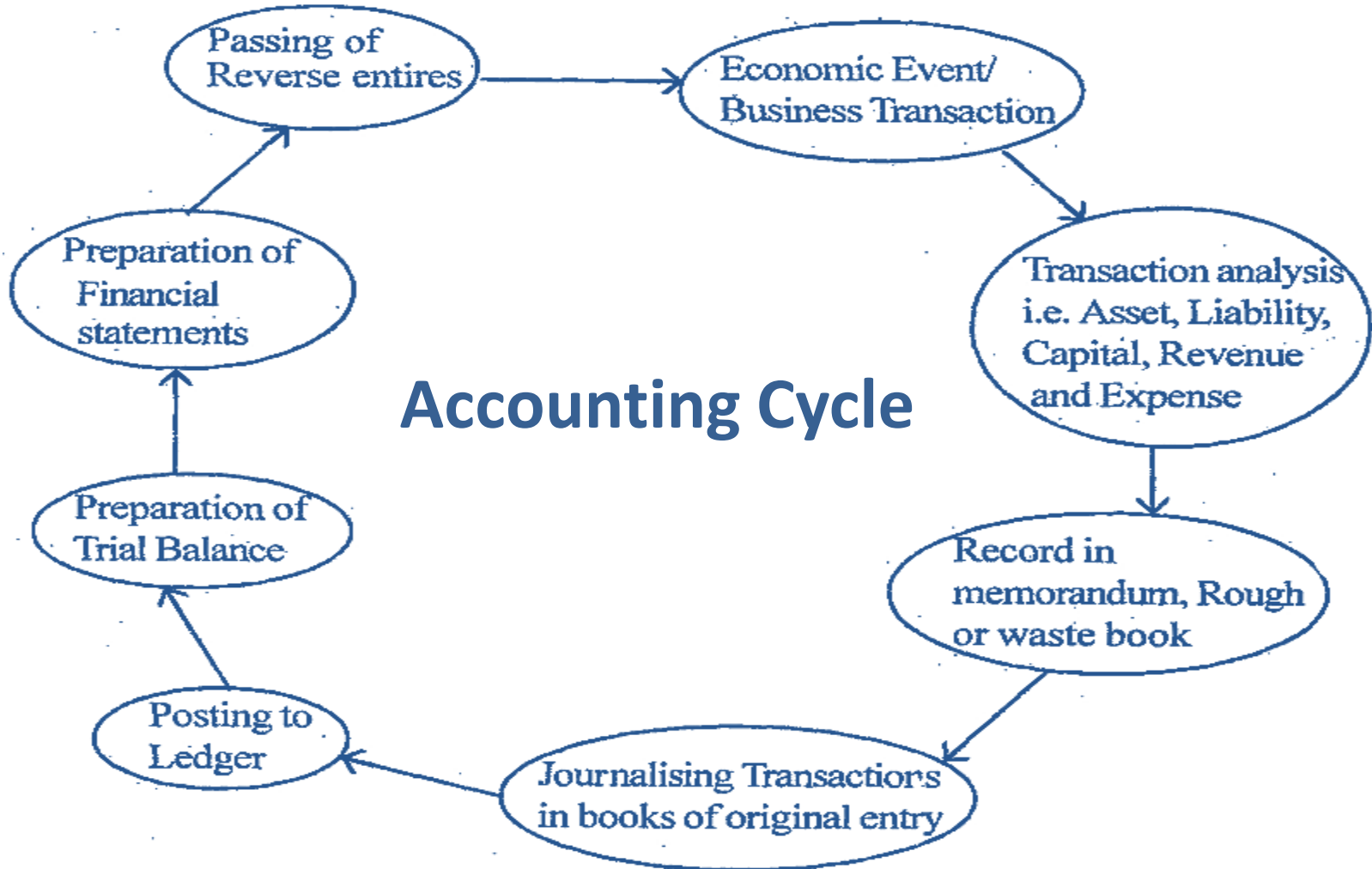
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INTRODUCTION



Final Accounts and balance sheet

1. Trading Account
2. Agricultural Utilization Account
3. Profit and loss account
4. Manufacturing Account
5. Balance sheet

1. Trading account

Trading Account is one of the financial statements which shows the result of buying and selling of goods and/or services during an accounting period.

The main objective of preparing the Trading Account is to get **gross profit or gross loss** during the accounting period.

Gross Profit is said to have made when the sale proceeds exceed the cost of goods sold.

Conversely, when sale proceeds are less than the cost of goods sold, gross loss is incurred.

The balance of Trading Account i.e. gross profit or gross loss is transferred to the P&L Account.

The pro-forma of a Trading Account is given below:

TRADING ACCOUNT

FOR THE YEAR ENDED 31ST June, 2015

Dr.

Cr.

Particulars

\$

Particulars

\$

To Debit

By Credit

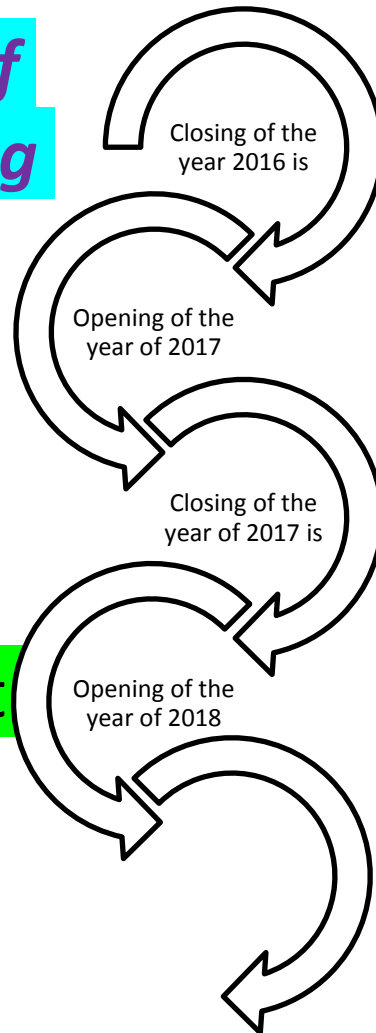
The Trading Account including the items below:

1-Stock: The term 'stock' includes goods lying unsold (inventory) on a particular date. The stock may be of two types:

(a) Opening stock, Debit

(b) Closing stock, Credit

Opening stock: refers to the closing stock of **unsold goods at the end of previous accounting period** which has been brought forward in the current accounting period. This is shown on the **debit side** of the Trading Account.



Closing stock: refers to the stock of **unsold goods at the end of the current accounting period**. Closing stock is **valued either at cost price or at market price whichever is less**. Such valuation of stock is based on the principle of conservatism which lays down that **the expected profit should not be taken into account but all possible losses should be duly provided for**. This is shown on the **Credit side** of the Trading Account.

2-Purchases: Purchases in **Trading account** refer to those goods which have been *bought for resale*. It includes both cash and credit purchases of goods.

The following items are shown by way of deduction from the amount of purchases:

- (a) Purchases Returns or Return Outwards.
- (b) Goods withdrawn by proprietor for his personal use.
- (c) Goods received on consignment basis (Amanaa) or on approval basis (Mousadakat) or on hire purchase (Beltakseet).
- (d) Goods distributed by way of free samples.
- (e) Goods given as charity (Sadaka).

3-Direct Expenses: Direct expenses are those expenses which are directly attributable to the purchase of goods or to bring the goods in saleable condition. Some examples of direct expenses are as under:

(a) **Carriage Inward:** Carriage paid for bringing the goods to the godown is treated as carriage inward and **it is debited to Trading Account.**

(b) Freight and insurance: Freight and insurance paid for acquiring goods or making them saleable is debited to Trading Account.

If it is paid for the sale of goods, then it is to be charged (debited) to Profit and Loss Account.

(c) Wages: Wages incurred in a business is direct, when it is incurred on manufacturing or merchandise or on making it saleable. Other wages are indirect wages. Only direct wages are debited to the Trading Account. Other wages are debited to the Profit and Loss Account. If it is not mentioned whether wages are direct or indirect, it should be assumed as direct and should appear in the Trading Account.

(d) **Fuel, Power and Lighting Expenses**: Fuel and power expenses are incurred for running the machines. Being directly related to production, these are considered as direct expenses and debited to Trading Account. Lighting expenses of factory is also charged to Trading Account, but lighting expenses of administrative office or sales office are charged to Profit and Loss Account.

(e) Octroi: When goods are purchased within municipality (township or city hall) limits, generally octroi duty has to be paid on it. It is debited to Trading Account.

(g) Manufacturing Expenses: All expenses incurred in manufacturing the goods in the factory such in factory rent, factory insurance etc. are debited to Trading Account.

(f) Packing Charges: There are certain types of goods which cannot be sold without a container or proper packing. These form a part of the finished product. One example is ink, which cannot be sold without a bottle. These type of packing charges are debited to Trading Account.

But if the goods are packed for their safe dispatch to customers, i.e. packing meant for transportation or fancy packing meant for advertisement will appear in the Profit and Loss Account.

(h) Royalties: These are the payments made to a patentee, author or landlord for the right to use his patent, copyright or land. If royalty is paid on the basis of production, it is debited to Trading Account. but if it is paid on the basis of sales, it is debited to Profit and Loss Account.

4. **Sales**: Sales include both cash and credit sales of those goods which were purchased for resale purposes. Some customers might return the goods sold to them (called sales return) which are deducted from the sales in the inner column and net amount is shown in the outer column.

Sales

The following points need attention:

- (a) If a fixed asset such as furniture, machinery etc. is sold, it should not be included in sales.
- (b) Goods sold on consignment (مودعه) or on hire (بالتقسيط) purchase or on sale or return basis should be recorded separately.

(c) If goods have been sold but not yet dispatched (not send yet) , these should not be shown under sales but are to be included in closing stock.

(d) Sales of goods on behalf of others (in the interests of another person). and forward sales should also be excluded from sales.

TRADING ACCOUNT

FOR THE YEAR ENDED 31 June, 2015

Dr.		Cr.	
Particulars	\$	Particulars	\$
To Opening Stock (Close of the year 2014)			
To Purchases Less		By Sales Less	
Expenses:		By Closing Stock (Opening Stock of the year 2016)	
Carriage Inward			
Wages			
Fuel, Power and Expenses Lighting			
Manufacturing Expenses			

Coal, Water and Gas	
Motive Power	
Octroi	
Import Duty	
Custom Duty رسوم جمركية	
Consumable Stores	
Freight and Insurance الشحن والتأمين	
Royalty on manufactured Goods البراءة	
Packing charges	
To Gross Profit transferred to P & L A/c	Or/ By Gross Loss transferred to P & L A/c

2- Agricultural Utilization Account

Agricultural Utilization Account shows the final result of the overall total Profits or total losses of activity, and we can calculate Profits or losses by finding the difference between the two sides of the account.

Items are involved in the Agricultural Utilization Account must be related to agricultural activity

Directly. Those items divided into two basic types are the debit, and the credit, the debit and credit can be reflected in the Agricultural Utilization Account by the following:

Agricultural Utilization Account

For the year ending in ...

Particulars (Dr.)	(\$)	Particulars (Cr.)	(\$)
Beginning inventory:		Ending inventory:	
- Animals		- Animals	
- Crops		- Crops	
- Production equipment and tools		- Production equipment and tools	
Purchases:		Sales:	
- Animals		- Animals	
- Crops		- Crops	
- Others		- Others	

Salaries, rewards and wages			
- agricultural and veterinary salaries			
- consultants and technicians rewards			
- Agricultural labor wages			
Depreciation:			
- Agricultural buildings			
- Agricultural Machinery			
- truck of crops			
- Agricultural equipment and tools			

Maintenance and repair:			
- Agricultural buildings			
- Agricultural Machinery			
Fuel and oils:			
- Agricultural Machinery			
- <u>trucks</u> of crops سيارة نقل			
Rent from:			
- Farmland			
- Tractor			
- Agricultural equipment and tools			

Rent from:			
- Farmland			
- Tractor			
- Agricultural equipment and tools			
To Gross Profits	xx	Or/ By Gross Losses	xx
Totals:	xxx	Totals:	xxx

Illustration Example

The following balances are extracted from the books of Maher's Co. on 31st March, 2006. You are required prepare the Trading A/C , Profit and Loss Account, and a Balance Sheet as on that date.

	\$		\$
Stock on April, 1	500	Commission (Cr.)	200
Bills receivable	2250	Returns Outwards	250
Supplements Purchases	19500	Trade Expenses	100
Agric. Labor Wages	1400	Office Fixtures	500
Insurance	550	Cash in Hand	250
Sundry Debtors	15000	Cash at Bank	2375
Animal 1-1	25000	Animals 31-12	30000
Crops 1-1	15000	Crops 31-12	20000
Animals Purchases	6000	Sales crops	2500
Official Salaries	6800	Rent Farmland for X com.	3000
Rewards veterinary	5000	Capital	8950
Depreciation of Agricultural Machinery	3500		

	\$		\$
Carriage Inwards	400	Rent & Taxes	550
Commission (Dr.)	400	Carriage Outwards	725
Interest on Capital	350	Crops Sales	25000
Stationary	225	Bills Payable	1500
Returns Inwards	650	Creditors	9825
Totals		Totals	

TRADING ACCOUNT (*in case of Trading Activity*)
FOR THE YEAR ENDED 31ST MARCH, 2006

Dr.		Cr.
Particulars	\$	Particulars
		\$
To Opening Stock	500	
To Purchases # 19500		By Sales #25000
Less Purchases Returns #250	19250	Less Sales Returns # 650
		24350
Carriage Inward	400	By Closing Stock
		12500
Wages	1400	
To Gross Profit transferred to P & L A/c	15300	
	36850	36850

Agricultural Utilization Account (*in case of Agri Activity*)

For the year ending in ...

Particulars	(\$)	Particulars	(\$)
Beginning inventory:		Ending inventory:	
- Animals	25000	- Animals	30000
- Crops	15000	- Crops	20000
Purchases:		Sales:	
- Animals	6000	- Crops	2500
Salaries, rewards and wages			
- agricultural salaries	6800		
- rewards veterinary	5000		
Depreciation:			
- Agricultural Machinery	3500		
To Gross Profits	18300		
Totals:	55500	Totals:	55500

Trial Balance as on 31.12.07

Debit Balances	Rs.	Credit Balances	Rs.
Cash in hand	2,000	Capital	2,00,000
Machinery	60,000	Sales	2,54,800
Stock	50,000	Sundry Creditors	40,000
Bills receivable	1,600	Bank overdraft	22,000
Sundry debtors	50,000	Return outwards	3,000
Wages	70,000	Discount received	1,800
Land	40,000	Bills payable	1,800
Carriage inwards	2,400		
Purchases	1,80,000		
Salaries	24,000		
Rent	4,000		
Postage	1,000		
Return inwards	3,200		
Drawings	10,000		
Furniture	18,000		
Interest	600		
Cash at bank	6,600		
	5,23,400		5,23,400

Trading A/c of Thiru. Venkatachalam as at 31.12.07

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Stock (1.1.07)	50,000	By Sales	2,54,800
To Purchases	1,80,000	Less Returns	3,200
Less Returns	3,000		2,51,600
	1,77,000		
To Wages	70,000	By Closing Stock	1,00,000
To Carriage inwards	2,400		
To Gross Profit C/d (transferred to P&L A/c)	52,200		
	3,51,600		3,51,600