

MGT101 Module 13, 14, 15

What is accounting cycle process?

The steps involved in accounting cycle are;

1. Accounting equation
2. Journal general
3. Ledger
4. Trial balance
5. Preparing final accounts (income statement and balance sheet)

FINAL ACCOUNT:

In final accounts we get an idea about the profitability and financial position of a business.

Preparation of Final Accounts:

Mostly the sole proprietors prepare following two financial statements as final accounts.

1. Income statement
2. Balance sheet

Income statement:

Income statement is prepared to know the financial performance of an entity. This is prepared with the help of all ledger account balances. Income statement is also called (Statement of profit or loss).

There are five components of financial statements;

- 1) Statement of Financial Position
- 2) Statement of Profit or Loss and Other Comprehensive Income
- 3) Statement of Cash Flows
- 4) Statement of Changes in equity
- 5) Notes to the Financial Statements.

Balance sheet:

Balance sheet is prepared to know the financial position of an entity. Financial position refers to the financial strength of entity on a specific date.

Manufacturing:

The procession of conversion from raw material into finished goods is called manufacturing.

Manufacturing account:

An account which is used to accumulate all the manufacturing costs of goods completed a business during an accounting period.

Manufacturing entities

A process through which raw-material is put into workshop where certain other costs are incurred to convert that raw-material into finished products. Examples include; furniture manufacturers, jewelry makers.

Trading entities:

Trading entities purchase goods in finished form, make those goods available in the showroom, do marketing to sell those goods to the customers. Examples include; importers, exporters.

Types of inventories:

There are three types of inventories that can be identified in a manufacturing entity.

1. Material and supplies inventory:

This is the inventory for raw materials, store items, spare parts and indirect materials that are used in production.

2. Work in process inventory:

This is the inventory of semi-finished goods. It is the cost that represents work in process.

3. Finished goods inventory:

This is the inventory of completed products, which are ready for sale.

Wages account:

Wages account show cost of production.

Net realizable value:

Net realizable value (NRV) is the value of an asset that can be realized upon the sale of the asset.

