METHODICAL BUSINESS BOOK KEEPING

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ABSTRACT

At present the Manufacturing Companies and Trading Companies are following Financial Accountancy and Cost Accounting to maintain their Books of Accounts. In this situation I am introducing a concept which I named as "Methodical Business Book Keeping" that mainly focuses Manufacturing Companies. I have written this concept which combines Inventory Maintenance, Cost Accounting, Department-wise Maintenance as well as Financial Positions of a company in Books of Accounts itself. In this concept Inventory Maintenance takes place as "Inventory Account" which reports inventory movements between one manufacturing department to another as well as the closing balances of Raw Materials and Work-in-Progress. Cost Accounting takes place as "Manufacturing Cost Account", reports proper postings of manufacturing cost in each department as well as finds the cost of Finished Products. To report trading activities I have written "Business Account" which includes sales and finished goods movements of a company. Profit & Loss A/c shows the net profit. And finally "Financial Status Report" shows the financial position of a manufacturing company by reporting new aspects of financials. The important aspect of this concept is flexibility. It can be prepared periodically like production-wise, month-wise and yearly.

KEY WORDS:

-INTRODUCTION

In modern world accounts handling is an essential part of companies to know the financial position. At present we are following the Financial Accounting to handle accounts i.e. double entry book keeping for both manufacturing companies and trading companies, in this situation I am introducing a new concept to handle accounts especially for manufacturing concerns. I have named this accounting procedure as Methodical Business Book Keeping.

-DESCRIPTION

Methodical Business Book-Keeping is an advanced procedure of Financial Accounting. It undertakes the entire double entry book keeping procedures, which help to maintain accounts in a proper way. The object of Methodical Business Book-Keeping is to find out the accurate profitability and to provide accurate information about the business position of a concern. Five Principal Statements of Methodical Business Book-Keeping which are follows

1. Inventory Account
2. Manufacturing Cost Account
3. Business Account
4. Profit & Loss Account
5. Financial Status Report

Those statements of Methodical Business Book-Keeping can be prepared for a particular month or for a particular period or for a particular production.

-INTRODUCTION OF NEW LEDGER ACCOUNTS

The advanced procedure of Methodical Business Book-Keeping is maintaining each and every transaction by newly created ledger accounts are as follows

a) Trade Discount – Input A/c

b) Trade Discount – Output A/c

c) Profit Reserve A/c (Closing balance of Trade Discount)

d) Trade Discount Income Earned A/c (Proportionate to stock transferred for manufacturing)

e) Stock Transferred to Department X - (WIP)

f) Process Completed Materials and Finished Goods

g) Tax Expenditure A/c (determine the amount of Stock Utilized for manufacturing)

h) Tax Input A/c (From Purchases of Raw Materials)

Methodical Business Book Keeping processes are explained in below Illustration

Financial Status Report of Previous Month Production Closure of XYZ Company

Liabilities	Amount	Assets	Amount
Capital A/c	15,00,000	**Fixed Assets**	
Add: Profit	2,27,500	Plant & Machinery – Dept I	7,50,000
		Plant & Machinery – Dept II	2,00,000
Current Liabilities		Office Premises	2,50,000
Sundry Creditors	8,09,250	Furniture & Fittings	75,000
Duties & Taxes	37,000	Computers	1,25,000
Bank CC A/c	8,75,000		
		Current Assets	
Provisions		Closing Raw Materials	2,75,000
Profit Reserve	27,500	Closing Finished Goods	4,25,500
		Sundry Debtors	6,10,000
		Bank A/c	6,35,000
		Cash in Hand	27,500
		Departments (WIP)	
		Production Dept – I	35,000
		Production Dept – II	27,000
		Reserve for Tax Expenditure	
		Tax Expenditure	41,250
Total	**34,76,250**	**Total**	**34,76,250**

Current Month Production Cost

Factory Overheads:		**34,350**
Wages of Foreman	2,500	
Power Charges (EB)	12,000	
Storekeeper Wages	3,000	
Oil & Water	1,500	
Factory Rent	1,500	
Repair & Maintenance Machinery	1,350	
Factory Lighting	1,500	
Consumable	7,750	
Labor & Wages	3,250	
Selling & Distribution Expenses:		**17,375**
Carriage Outward	1,375	
Salesmen Salary	12,500	
Travelling & Conveyance	750	
Advertisement	1,150	
Warehouse Charges	1,600	
Administrative Overheads:		**53,575**
R & M Office Building	2,750	
Office Lighting	500	
Power Charges Office (EB)	6,350	
Managers' Salary	15,000	
Director's Fee	17,500	
Office Stationary	650	
Telephone Charges	1,325	
Postage & Courier	750	
Office Staff Salary	8,750	

1. 50% of Finished Products Sold with 25% Margin
2. Expenses Paid by Cash 15,375/- and Paid by Bank 89,925/- and Purchases 3,57,500/-
3. 80% of Raw Materials transferred to each department in 50-50 ratio
4. 75% of opening WIP materials process completed in each departments
5. 100% of opening finished goods sold with 25% margin
6. Expenses are shared 60-40 ratio for each department
7. Sales Tax @ 15%
8. Depreciation 60% on Computers and 10% on all other assets
9. Depreciation percentages per annum and all other expenses are one month value
10. Prepare Departments A/c, Inventory A/c, Manufacturing Cost A/c, Business A/c and Profit & Loss A/c and Financial Status Report for One Month. (or else we can take a particular production period)

SOLUTION

-DEPRECIATION CALCULATION

In Methodical Business Book Keeping concept the Financial Status is prepared for production period-wise (or month-wise or as per our convenience), hence the depreciation is calculated for a particular period of production or else production period-wise. It is explained in the following statement, to know the depreciation value of the particular production period.

Depreciation Calculation

Assets	Value	Depreciation	per annum	per month
Plant & machinery – Department I	7,50,000	10%	75,000	6,250
Plant & machinery – Department II	2,00,000	10%	20,000	1,667
Office Premises	2,50,000	10%	25,000	2,083
Furniture & Fittings	75,000	10%	7,500	625
Computers	1,25,000	60%	75,000	6,250

Journal Voucher	Debit Amount	Credit Amount
By Depreciation for One Month Dr	16,875	
To Depreciation on Fixed Assets		16,875
Total	**16,875**	**16,875**
(Being Calculated depreciation for one month production)		

-DEPARTMENT WISE ACCOUNTS MAINTENANCE

The major benefit of this concept is maintaining books of accounts in department-wise. Transferring raw materials to production units can be shown in the books of accounts, we can maintain works-in-progress raw materials in books of accounts. The Department Books will be shown in the Financial Status Report in Asset Side. This ledger account helps to provide the value of Opening balance and closing balance of Work-In-Progress, exact value of Raw Material received for processes and the process completed materials value we can also transfer the process completed materials for further processes to other departments. The expenses which are incurred in departments need not to be maintained as opening balance and closing balance only inventory is enough for proper maintenance.

Report / Ledger of Department I

Particulars	Amount	Particulars	Amount
Opening WIP Material	35,000	Process Completed Materials Transfer	26,250
Raw Material Received	1,10,000	Closing WIP materials	1,18,750
Total	**1,45,000**	**Total**	**1,45,000**

Report / Ledger of Department II

Particulars	Amount	Particulars	Amount
Opening WIP Material	27,000	Process Completed Materials	46,500
Raw Material Received	1,10,000	Closing WIP materials	1,16,750
Received FG Transferred to Dept II	26,250		
Total	**1,63,250**	**Total**	**1,63,250**

Journals for Reference

Department Postings	**Amount**	**Amount**
By Department I	1,10,000	
By Department II	1,10,000	
To Work in Progress Department I		1,10,000
To Work in Progress Department II		1,10,000
Total	**2,20,000**	**2,20,000**
By Work in Progress Department I	26,250	
By Work in Progress Department II	20,250	
To Department I		26,250
To Department II		20,250
Total	**46,500**	**46,500**
Being process completed materials received from department I & II		

-PROCESS COMPLETED MATERIALS

The process completed materials value will be arrived by the departments by undertaking the raw materials received value. And the process completed materials can be transferred from one department to another department for further processes. After completing the final process or the finished goods will be stored in ware house or finished goods go down. The Process Completed Material value is the closing balance of Inventory A/c and it is carry down to the Manufacturing Cost A/c to value cost of goods. The processes are explained.

Department I process completed material value	26,250
Department II process completed material value	20,250
Total	**46,500**

Journal Voucher (for reference)	Debit Amount	Credit Amount
By Inventory	46,500	
To Process Completed Materials		46,500
Total	**46,500**	**46,500**

Department I Ledger A/c

Particulars (Dr)	Amount	Particulars (Cr)	Amount
Opening Balance	35,000	Work In Progress Dept – I A/c	26,250
Work In Progress Dept – I A/c	1,10,000	Balance c/d	1,18,750
Total	**1,45,000**	**Total**	**1,45,000**
Balance b/d	1,18,750		

Department II Ledger A/c

Particulars (Dr)	Amount	Particulars (Cr)	Amount
Opening Balance	27,000	Work In Progress Dept – II A/c	20,250
Work In Progress Dept – II A/c	1,10,000	Balance c/d	1,16,750
Total	**1,37,000**	**Total**	**1,37,000**
Balance b/d	1,16,750		

WORK IN PROGRESS

In this concept the work-in-progress value will be shown in the books of accounts as Department book balance. And the Work-In-Progress has the Opening balance and Closing balance the difference between opening and closing balance of WIP will be treated as Process Completed Materials and reducing the value of Scrap from the process completed material value. The work-in-progress value is excluding scrap materials value. WIP materials value will be shown in Financial Status Report Asset side.

Work In Progress Department I A/c

Particulars (Dr)	Amount	Particulars (Cr)	Amount
Department I	26,250	Department I	1,10,000
Balance transferred to Inventory A/c	83,750		
Total	**1,10,000**	**Total**	**1,10,000**

Work In Progress Department II A/c

Particulars (Dr)	Amount	Particulars (Cr)	Amount
Department II	20,250	Department II	1,10,000
Balance transferred to Inventory A/c	89,750		
Total	**1,10,000**	**Total**	**1,10,000**

Note: In this case no WIP has taken from Opening balance

Closing balance and Opening balance of Raw Materials will appear only in Inventory A/c not in Business A/c. Process completed materials value is arrived from WIP transfers from Departments. Finished Good Opening and Closing Stock appear only in Business A/c

-INVENTORY ACCOUNT

In this Methodical Business Book Keeping Concept, we can prepare Inventory A/c for maintaining inventory in books of accounts itself. In inventory a/c the raw materials value can be maintained in the purchase value. The Inventory A/c contains Opening Stock and Closing Stock of Raw Materials, Purchases of Raw Materials (or materials bought for production purpose) and Work-In-Progress (department wise). The closing balance of Raw Materials transferred to Financial Status Report, the process completed materials transferred to Production A/c. It helps to maintain the inventory as Raw Materials, Work-In-Progress and Process Completed Materials (i.e. Finished Goods' Raw Material Value). Hence the company could get the accurate value of raw materials in various dimensions in detailed and can be prepared production wise and periodical. It has been explained below in Inventory Account.

Inventory A/c for One Month Production

Particulars	**Amount**	**Particulars**	**Amount**
Opening Raw Materials	2,75,000	Work In Progress Department I	83,750
Purchases	3,57,500	Work In Progress Department II	89,750
		Process Completed Materials c/d	46,500
		Closing Raw Materials	4,12,500
Total	**6,32,500**	**Total**	**6,32,500**

Journal Voucher (Purchase)	**Debit Amount**	**Credit Amount**
By Purchases	3,57,500	
By Sales tax @ 15%	48,263	
To Trade Discount @ 10% on Purchases		35,750
To Supplier		3,70,013
Total	**4,05,763**	**4,05,763**

-PROFIT RESERVE

In Methodical Business Book Keeping concept has the additional feature of maintaining Profit Reserve. The Trade Discount which is received from supplier is accounted separately, the discount received calculated for a particular production as proportionate to the value of raw materials used or process completed raw materials, and the balance amount of trade discount received treated as Profit Reserve for next production.

Particulars	**Amount**	**Particulars**	**Amount**
Income Proportionate to RM usage	4,650	Opening Reserve	27,500
Profit Reserve (Closing)	58,600	Current Inputs	35,750
Total	**63,250**	**Total**	**63,250**

-TAX EXPENDITURE

And also this concept introduces the Tax Expenditure Reserve Feature. The input tax value from raw materials purchases will be taken the proportionate value of raw materials used to manufacture or process completed raw materials, the balance amount of input tax will be treated as Tax Expenditure Reserve.

Particulars	**Amount**	**Particulars**	**Amount**
Opening Reserve	41,250	Expenditure Calculated	6,975
Current Inputs	48,263	Tax Expenditure (Closing)	82,538
Total	**89,513**	**Total**	**89,513**

-MANUFACTURING COST ACCOUNT

In this concept the Manufacturing Cost A/c can be prepared to find out the Cost of Goods which including Factory Overheads and Administrative Expenses. The Expenses which is made in departments for production processes can be shown in department wise columnar basis.

The expenses which incurred in departments need not to maintain as opening and closing balance, only inventory is enough for proper maintenance. This department wise columnar basis helps to get the department expenditures. This Manufacturing Cost A/c starts with the Process Completed Materials brought down from Inventory A/c. The closing balance of manufacturing cost a/c will be treated as Finished Goods for a particular period of production. As an additional facility this can be prepared as production wise and period wise. The manufacturing a/c process is explained in below illustration.

Particulars	Dept I	Dept II	Amount	Particulars	Amount
Process Completed Materials b/d			46,500	Other Income	
Factory Overheads				Finished Goods	1,53,625
Wages of Foreman	1,250	1,250	2,500	Profit Reserve Used	4,650
Power Charges (EB)	6,000	6,000	12,000		
Storekeeper Wages	1,500	1,500	3,000		
Oil & Water	750	750	1,500		
Factory Rent	750	750	1,500		
R & M Machinery	675	675	1,350		
Factory Lighting	750	750	1,500		
Depn 10% on P & M	6,250	1,667	7,917		
Consumable	3,875	3,875	7,750		
Labour & Wages	1,625	1,625	3,250		
Administrative Expenses					
R & M Office Building	1,375	1,375	2,750		
Office Lighting	250	250	500		
Power Charge Office EB	3,175	3,175	6,350		
Depn 10% Office Premise	1,042	1,042	2,083		
Depn 10% Furniture	313	313	625		
Depn 60% on Computer	3,125	3,125	6,250		
Managers' Salary	7,500	7,500	15,000		
Director's Fee	8,750	8,750	17,500		
Office Stationary	325	325	650		
Telephone Charges	663	663	1,325		
Postage & Courier	375	375	750		
Office Staff Salary	4,375	4,375	8,750		
Tax Expenditure Used			6,975		
Total	**54,693**	**50,110**	**1,58,275**	**Total**	**1,58,275**

Journal Voucher (Sales)	Debit Amount	Credit Amount
By Customer	6,49,867	
By Trade Discount to Customer 10%	62,789	
To Sales A/c		6,27,891
To Sales Tax @ 15%		84,765
Total	**4,05,763**	**4,05,763**

Calculation of Sales	Amount
100% Opening Finished Goods	4,25,500
50% of Current FG (1,53,625 X 50%)	76,813
Sub-Total	5,02,313
Margin 25%	1,25,578
Sale Value	**6,27,891**

-BUSINESS ACCOUNT

In Methodical Business Book-Keeping Business A/c and Profit & Loss A/c prepared by undertaking the Finished Goods and Selling & Distribution expenses. Opening Stock and Closing Stock of Finished Goods and sales will be shown in Business A/c no purchase account (raw material purchases) is maintained in business a/c. The closing stock of finished goods will also be shown in Financial Status Report. In this concept there is no gross profit only the Marginal Profit takes place in Business A/c.

BUSINESS ACCOUNT FOR ONE MONTH PRODUCTION

Particulars	Amount	Particulars	Amount
Opening FG Stock	4,25,500	Sales	6,27,891
FG Stock	1,53,625	Closing FG Stock	76,813
Trade Profit	1,25,579		
Total	**7,04,704**	**Total**	**7,04,704**

-PROFIT & LOSS A/C

In this concept the profit & loss a/c is prepared to know the profit or loss on hand, the Selling & Distribution expenses will be accounted in this profit & loss a/c. the profit on hand is also shown in Financial Status Report. The difference between Marginal Profit and Selling & Distribution Expenses will be treated as profit of the concern.

Particulars	**Amount**	**Particulars**	**Amount**
Selling & Distribution Expenses:		Trade Profit	1,25,579
Carriage Outward	1,375		
Salesmen Salary	12,500		
Travelling & Conveyance	750		
Advertisement	1,150		
Warehouse Charges	1,600		
Trade Discount 10%	62,644		
Profit or Loss	45,415		
Total	**1,25,579**	**Total**	**1,25,579**

In this concept we could maintain finished goods value in books of accounts. The finished goods closing balance is shown in the Financial Status Report as well as in business account.

-FINANCIAL STATUS REPORT

Methodical Business Book-Keeping concept the Financial Status Report is the final report for production and it can be prepared Production-wise Report as well as Periodical Report. The consolidated report of production wise and periodical reports can be treated as Final Reports for a financial year. It is applicable for the all of the methodical business book keeping concept's reports.

- Inventory A/c
- Manufacturing Cost A/c
- Business A/c

- Profit & Loss A/c
- Financial Status Report

Financial Status Report additionally contains Closing Stock of Raw Materials, Closing WIP Stocks and Closing Finished Goods are shown in Asset side under Current Assets and Departments respectively. The profit on hand will be shown in Liabilities side.

FINANCIAL STATUS REPORT FOR ONE MONTH PRODUCTION

LIABILITIES	**Amount**	**ASSETS**	**Amount**
Capital A/c	15,00,000	**Fixed Assets**	
Add: Profit	2,27,500	Plant & Machinery – Dept I	7,43,750
Add: Profit Current Month	45,415	Plant & Machinery – Dept II	1,98,333
		Office Premises	2,47,917
Current Liabilities		Furniture & Fittings	74,375
Sundry Creditors	11,79,263	Computers	1,18,750
Duties & Taxes	1,21,765		
Bank CC A/c	8,75,000	**Current Assets**	
		Closing Raw Materials	4,12,500
Provision		Closing Finished Goods	76,813
Profit Reserve	58,600	Sundry Debtors	12,59,866
		Bank A/c	5,45,075
		Cash in Hand	12,125
		Department (WIP)	
		Production Department – I	1,18,750
		Production Department – II	1,16,750
		Reserve for Tax Expenditure	
		Tax Expenditure	82,538
Total	**40,07,542**	**Total**	**40,07,542**

-FEATURES

PROVIDES INFORMATION ABOUT THE CONCERN AS A WHOLE, AS PRODUCT-WISE AND DEPARTMENT-WISE

In Methodical Business Book-Keeping, information can be recorded for the whole concern, as product-wise and department-wise. If a concern manufactures few types of products, in this Methodical Business Book-Keeping concept we can maintain department-wise ledger accounts. The concern transfers its Raw Materials for manufacturing to its various departments to be accounted. It helps to provide information of a concern as a whole and department wise.

SUPPORTS FOR ACCURATE PRICE FIXATION

Methodical Business Book-Keeping supports in fixing accurate prices of a product as much as possible. In this concept The Purchase of Raw Materials Account reports the accurate value of Raw Materials which are transferred to manufacture, and the Production Account shows accurate amount of particular production cost and incomes which is proportionate to the Raw Materials used to manufacture.

ACCOUNTS WITH INVENTORY

In this concept the inventory maintenance in books of accounts is possible. The raw materials value will be calculated from purchase price, the movement of raw materials value will be the same till completion of production process. Vide Inventory account we could maintain raw materials and vide business account we could maintain the finished goods.

LIMITATION

The Methodical Business Book Keeping is not so much applicable to a trading company, dealership and retailers, in other words a dealer who deals with finished goods purchases and sells to the end user does not require this concept.

-OBJECTIVES

INVENTORY ACCOUNT

The Inventory Account is prepared to fulfill the company's inventory maintenance of preproduction raw materials, work in progress and post production finished goods as raw materials' value. It helps to know the movement of raw materials in various stages.

MANUFACTURING COST ACCOUNT

The objective of preparing Manufacturing Cost Account is to bring the finished goods value in books of accounts as well as the costing. The valuation of finished goods is an essential part of a manufacturing company. The manufacturing cost a/c helps to show the costing methods and cost calculations of a company in books of accounts itself.

BUSINESS ACCOUNT

The Business Account's object is to maintain the inventory of finished goods and sales and margin of a product in books of accounts itself. This account clearly states the margin what we have put for finished goods

PROFIT AND LOSS ACCOUNT

The objective of this statement is to calculate the profit of the concern when sales made. Various expenses will be incurred at selling and distribution of a concern, after deducting those selling & distribution expenses we could get the accurate profit of the company.

FINANCIAL STATUS REPORT

In this methodical business book keeping concept the Financial Status Report's object is to get the financial data of a concern for a particular period or for a particular production and the consolidated financial status report for a financial year will be the financial status of the concern.