

Q No - 13. What do you understand by production account? Difference between cost sheet and production account.

Ans

"The term production account is used to denote a particular form of manufacturing account prepared in conjunction with the financial accounts in order to show the actual cost of producing the goods manufactured during the period under review. These accounts may be drawn up at short intervals, or monthly."

The production account is presented in the form of an account based on double entry principle. ~~The object of an account based on double entry principle.~~ The object of this account is to show the cost of production, along with the cost per unit in a detailed and analytical way.

The production account also known as 'manufacturing Account' is used for industries producing, Bricks, Pig, iron, coal & coke, Yarn & cloth etc. This information in this account is presented in such a form that prime cost, works cost, cost of production, Total cost and profits may be clearly demarcated. The analysis of cost per unit by item of expenses adds to utility of account

Production Account

Particulars	Amount	Particulars	Amount
To direct material	—	By cost of production	—
To direct Labour	—		
Prime cost	←		
To works overheads	—		
To works in progress (op.)	—		
Less - works in progress	—		
Less - Sale by products	—		
work cost	←		
To administration overhead	—	By closing stocks	—
To cost of production b/d	—	fixed costs by	—
To opening stock of finished goods	—	cost of 800 of	—
		sales	←

(P.T.O)

Particulars	Amount	Particulars	Amount
To cost of goods sold		By sales	
To selling and distribution overheads			
Profit			

* Differences

Production Account	Cost sheet.
(i) It is based on double entry system.	i) It is not based on double entry system.
(ii) It consists of four parts. The first part gives prime cost, cost of goods manufactured, gross profit and net profit.	ii) It presents the elements of cost in a classified manner and the cost is ascertained at different stages such as prime cost, works cost, cost of production, cost of goods sold, and total costs.
(iii) It shows the cost in aggregate and thus facilitates comparison with other financial accounts.	iii) It shows the cost in detail and analytical manner which facilitates comparison of cost control.
(iv) It is not useful for preparing tenders and quotations.	iv) Estimate cost sheet can be prepared on the basis of actual cost sheet and these are useful for preparing tenders and quotations.
(v) It is prepared in the form of an account.	v) It is prepared in the form of a statement.
(vi) Expenses are not classified in this account.	(vi) Expenses are classified.
(vii) No comparison is possible due to non-availability of previous years figures.	(vii) Figures of previous years are provided to enable comparison.