# Manufacturing Accounts

**Costs Classification**

| RAW MATERIAL | | LABOUR | | EXPENSES | |
|---|---|---|---|---|---|
| Direct | Indirect | Direct | Indirect | Direct | Indirect |

**Prime cost**= Direct Material + Direct Labour + Direct Expense

**Overheads** = Indirect Material + Indirect Labour + Indirect Expense

<u>**Overheads**</u>

• Production / Factory / Manufacturing Overheads

• Non Production / Non Factory / Non-Manufacturing Overheads (E.g. Selling, Marketing, administration, Distribution, Office, Finance, R and D etc)

<u>**Building up of Costs**</u>

| | |
|---|---|
| Direct Material | XX |
| Direct Labour | XX |
| Direct Expenses | XX |
| Prime Cost | XX |
| Add: Production Overheads | XX |
| Production Costs | XX |
| Add: Non Production Overheads | XX |
| Total Cost | XX |

**Direct costs**
Direct cost are cost that can be traced / identified easily in the product or service being manufactured e.g. direct material, direct labour& direct expenses the sum of all the direct costs is known as the prime cost

**Examples**
• Cost of raw materials including carriage inwards on those raw materials.
• Labour directly involved in producing a unit or providing a service
• Hire of special machinery for a job or royalty expense

**Indirect cost**
indirect costs are costs that cannot be easily traced / identified in the product or service being manufactured or we treat them indirect because costs are negligible e.g. indirect material, indirect labour& indirect expenses the sum of all the indirect costs is known as the overheads

**Examples**
- wages of cleaners
- wages of crane drivers
- rent of a factory
- depreciation of plant and machinery
- costs of operating forklift trucks
- factory power
- factory lighting

**Administration expenses**
'Administration expenses' consist of such items as managers' salaries, legal and accountancy charges, the depreciation of accounting machinery and secretarial salaries.

**Selling and distribution expenses**
'Selling and distribution expenses' are items such as sales staff's salaries and commission, carriage outwards, depreciation of delivery vans, advertising and display expenses.

**Financial charges**
'financial charges' are expense items such as bank charges, discounts allowed and lease costs

**Manufacturing Account**
An account or statement where a company calculates cost of production/manufacturing cost. This helps in future decision making by comparing per unit cost with same products available in the market.

**<u>GOODS / INVENTORY:</u>**

An item of inventory could be in three different stages.

1. **Raw material** (product could be in raw shape like wood, sand, cement, nails etc)
2. **Work in process** (when good are partly completed, needs more work to be done to complete).
3. **Finished goods** (when product is fully completed, ready for sale)

ARD Textiles
Manufacturing Account for the year ended Dec 31, 2020

| | $ | $ |
|---|---|---|
| **Direct Raw material** | | |
| Opening inventory of RM | XX | |
| Add: Purchases of RM | XX | |
| Less: Purchases return RM | (XX) | |
| Add: Carriage Inwards RM | XX | |
| Closing inventory of RM | (XX) | |
| **Cost of Raw material consumed** | | **XX** |
| | | |
| **Add: Direct Labour / Factory wages** | | **XX** |
| **Add: Direct Expense / Royalty** | | **XX** |
| **Prime Cost** | | **XXX** |
| | | |
| **Add: Factory Overheads / Indirect Cost** | | |
| Salaries & wages (Factory Supervisor/Mgt salary) | XXX | |
| Insurance (factory) | XXX | |
| Indirect overheads (Factory) | XXX | |
| Heat and lighting (Factory) | XXX | |
| Rent (Factory) | XXX | |
| Depreciation (Factory equipment) | XXX | |
| Sundry expenses (factory) | XXX | **XXX** |
| | | XXX |
| Add: WIP (Opening) | XXX | |
| Less: WIP (Closing) | (XXX) | XX(XX) |
| | | |
| **Production / Manufacturing cost** | | **XXX** |

ARD Textiles
Income Statement for the year ended Dec 31, 2020

| | $ | $ |
|---|---|---|
| Sales Revenue (Finished Goods) | | XXX |
| **Less: Cost of Sales** | | |
| Opening Inventory of (FG) | XXX | |
| Add: Production / Manufacturing cost | XXX | |
| Purchase of finished goods (FG) | XXX | |
| Less: Purchases return (FG) | (XXX) | |
| Closing inventory (FG) | (XXX) | |
| **Cost of Sales** | | **(XXX)** |
| Gross profit | | XXX |
| **Add: Other Income** | | |
| Interest received | XXX | |
| Decrease in Provision for doubtful debts | XXX | |
| Discount received | XXX | **XXX** |
| | | |
| **Less: Non-Manufacturing Overheads** | | |
| Heat and lighting (Office) | XXX | |
| Office salaries | XXX | |
| Rent (Office) | XXX | |
| Depreciation (Office Related Assets) | XXX | |
| Carriage Outward / Distribution Costs | XXX | |
| Bad debts | XXX | |
| Increase in Provision for doubt debts | XXX | |
| Interest expense / financial cost | XXX | **(XXX)** |
| | | |
| Profit / (Loss) for the year | | XX/(XX) |

ARD Textiles
Statement of Financial Position as at 31 December 2020

| | | | |
|---|---|---|---|
| **Assets** | $ | $ | $ |
| **Non-Current Assets** | **Cost** | **Acc Dep** | **NBV** |
| Land | XXX | - | XX |
| Building | XXX | (XX) | XX |
| Equipment | XXX | (XX) | XX |
| | | | XXX |
| **Current Assets** | | | |
| Inventory | | | |
| **Raw Material** | XX | | |
| **Work in Progress** | XX | | |
| **Finished Goods** | XX | XXX | |
| Trade Receivables / Debtors | XXX | | |
| Less: Provision for doubtful debts | (XXX) | XXX | |
| Prepaid Expense | | XXX | |
| Accrued Income | | XXX | |
| Bank | | XXX | |
| Cash | | XXX | XXX |
| | | | |
| **Total Assets** | | | **XXX** |
| | | | |
| Capital and Liabilities | | | |
| | | | |
| Opening Capital | | XXX | |
| Add Profit for the year / Less (Loss) | | XX/(XX) | |
| Less: Drawings | | (XXX) | XXX |
| | | | |
| **Non Current Liablities** | | | |
| 6% Bank Loan 2025 | | | XXX |
| | | | |
| **Current Liabilities** | | | |
| Trade payables / Creditors | | XXX | |
| Bank O/D (Over Draft) | | XXX | |
| Accrued Expenses | | XXX | |
| Prepaid Income | | XXX | XXX |
| | | | |
| **Total Capital and Liabilities** | | | **XXX** |
| | | | |

## Exam Focused theory Questions

**Q. Why do we calculate manufacturing cost?**

A. Manufacturing cost give us the cost incurred on producing/Manufacturing goods. We calculate it because we would like to have per unit cost, which helps us in comparing cost with the same product available in the market. It helps us in future decision making, whether to continue production process or not it also helps us in controlling cost and other overheads.

**Q. Explain the term Prime cost?**

A Prime cost is the primary cost to produce any item/product/good without which it cannot be produced. It is the initial cost of production. Prime cost is the direct cost of production it includes direct raw material, direct labor and direct expense or we can say that , it we add all direct cost we can have the value of prime cost.

**Activity 1 - Place a tick in the appropriate column for each of the following items:**

| | Direct Material | Direct Labour | Direct Expense | Production Overheads | Admin Costs | Selling & Distribution Costs | Financial Charges |
|---|---|---|---|---|---|---|---|
| (*a*) Purchases of raw materials | | | | | | | |
| (*b*) Direct wages | | | | | | | |
| (*c*) General factory expenses | | | | | | | |
| (*d*) Depreciation of machinery | | | | | | | |
| (*e*) Commission on sales | | | | | | | |
| (f) Factory rent | | | | | | | |
| (*g*) Carriage inwards of raw materials | | | | | | | |
| (*h*) Royalties | | | | | | | |
| (*i*) Stock of raw materials | | | | | | | |
| ( *j* ) Administration salaries | | | | | | | |
| (*k*) Indirect labour | | | | | | | |
| (*l* ) Bank charges | | | | | | | |
| (*m*) Carriage outwards | | | | | | | |
| (*n*) Discounts allowed | | | | | | | |
| (*o*) Factory lighting | | | | | | | |

Q1 The following balances were extracted from the books of Khan, a manufacturer, on 31 July 2012:

| | $ | |
|---|---|---|
| Factory equipment (cost) | 160 000 | |
| Office equipment (cost) | 40 000 | |
| Provisions for depreciation: | | |
| Factory equipment | 56 000 | |
| Office equipment | 26 000 | |
| Office equipment disposal account | 500 | Dr |
| Bank | 9 700 | Dr |
| Capital | 200 000 | |
| Inventory at 1 August 2011: | | |
| Raw materials | 26 000 | |
| Work-in-progress | 36 000 | |
| Finished goods | 48 000 | |
| Purchases of raw materials | 183 000 | |
| Direct factory expenses | 38 000 | |
| Indirect factory expenses | 19 700 | |
| Production wages | 164 500 | |
| Rent and rates | 22 000 | |
| Production management salaries | 63 000 | |
| Office wages and salaries | 69 500 | |
| Revenue | 680 000 | |
| Marketing expenses | 27 850 | |
| Distribution costs | 62 000 | |
| General office expenses | 6 700 | |
| 8% Loan – repayable 31 December 2025 | 35 000 | |
| Loan interest paid | 2 100 | |
| Provision for doubtful debts | 3 000 | |
| Trade receivables | 75 000 | |
| Trade payables | 53 550 | |

Additional information at 31 July 2012:

1 Inventory was valued as follows:

| | $ |
|---|---|
| Raw materials | 29 000 |
| Work-in-progress | 40 000 |
| Finished goods | 55 000 |

2 Production wages, $6500, were accrued. Marketing expenses, $1350, were prepaid.

3 Rent and rates are to be apportioned on the basis of area occupied. Three-quarters of the area is occupied by the factory and one-quarter by the administration.

4 Contained within the office wages and salaries is $8000 taken by Khan. He also took finished goods for his own personal use, $1500.

5 Depreciation is to be charged as follows:
Factory equipment at 20% per annum using the diminishing (reducing) balance method
Office equipment at 10% per annum on cost using the straight-line method.

6 The provision for doubtful debts is to be maintained at 6% of trade receivables.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 31 July 2012. Show clearly the prime cost and cost of production. [14]

**(b)** Prepare the income statement for the year ended 31 July 2012. [13]

**(c)** Prepare the balance sheet at 31 July 2012. [13]

**[Total: 40]**

**Q2** The following balances were extracted from the books of Fairview Manufacturing on 31 October 2015.

| | $ |
|---|---|
| Purchases of raw materials | 486 000 |
| Purchases of finished goods | 74 000 |
| Carriage inwards | 36 000 |
| Factory wages | 295 000 |
| Office wages | 75 000 |
| Factory packaging cost | 55 000 |
| Rent | 38 400 |
| Factory management salaries | 75 600 |
| Office management salaries | 50 000 |
| Factory indirect expenses | 8 500 |
| Office expenses | 15 000 |
| Factory equipment (at cost) | 245 000 |
| Office equipment (at cost) | 60 000 |
| Provisions for depreciation: | |
| Factory equipment | 105 000 |
| Office equipment | 20 000 |
| Inventory 1 November 2014: | |
| Raw materials | 108 000 |
| Work in progress | 84 300 |
| Finished goods | 150 000 |

Additional information

1 Inventory at 31 October 2015

| | $ |
|---|---|
| Raw materials | 94 000 |
| Work in progress | 81 400 |
| Finished goods | 160 000 |

2 Half of the carriage inwards is for raw materials and half for finished goods.

3 Factory wages owing are $9000.

4 60% of factory packaging costs are direct and 40% indirect.

5 Rent is allocated to the factory and the office on the basis of floor area occupied:
Factory 5000 sq m and Office 3000 sq m

6 Factory equipment and office equipment are both depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 31 October 2015.

Fairview Manufacturing
Manufacturing Account for the year ended 31 October 2015

3 The following information was extracted from the books of CookSmart Ltd, manufacturer of cooking oil, for the year ended 30 September 2007:

| | 1 Oct 2006 | 30 Sept 2007 |
|---|---|---|
| | $ | $ |
| Stock – raw materials | 18 700 | 18 100 |
| Stock – containers and packing | 34 100 | 33 800 |
| Stock – work in progress | 100 | 200 |
| Stock – finished goods | 56 200 | 50 300 |
| Purchases – raw materials | | 111 400 |
| Purchases – containers and packing | | 176 200 |
| Carriage on raw materials | | 31 200 |
| Direct factory wages | | 103 400 |
| Depreciation of factory plant | | 96 200 |
| Salary of factory supervisor | | 21 800 |
| Sales | | 610 700 |

**REQUIRED**

Prepare, in good style, the manufacturing account for the year ended 30 September 2007. Show clearly the cost of raw materials consumed, prime cost and cost of production.

CookSmart Ltd
Manufacturing Account for the year ended 30 September 2007

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**[Total: 17]**

**Q4** The following balances were extracted from the books of Digby Products for the year ended 31 March 2017.

| | $ |
|---|---|
| Inventory at 1 April 2016 | |
| Raw materials | 27 000 |
| Work in progress | 67 000 |
| Purchases of raw materials | 101 900 |
| Raw materials returned to supplier | 6 650 |
| Factory direct wages | 78 800 |
| Royalties | 10 000 |
| Factory indirect wages | 20 800 |
| Factory management salaries | 49 000 |
| Office wages and salaries | 37 800 |
| Rent | 21 000 |
| Electricity | 2 200 |
| Maintenance | 15 000 |
| Depreciation on factory equipment | 17 100 |
| Depreciation on office fixtures and fittings | 9 000 |

Additional information at 31 March 2017

1 Inventory

| | $ |
|---|---|
| Raw materials | 23 450 |
| Work in progress | 58 100 |

2 Factory direct wages, $3500, were accrued.

3 Electricity, $200, was prepaid.

4 Rent and electricity are to be apportioned: 70% to the factory, 30% to administration.

5 Maintenance is to be apportioned: 80% to the factory, 20% to administration.

**REQUIRED**

**(a)** Prepare the manufacturing account of Digby Products for the year ended 31 March 2017.

Digby Products
Manufacturing Account for the year ended 31 March 2017

| | $ | $ |
|---|---|---|

[12]

**Q5** The following balances were extracted from the books of JT Manufacturing for the month of August 2016.

| | |
|---|---|
| Inventory at 1 August 2016 | $ |
| Raw materials | 3800 |
| Work in progress | 7000 |
| Purchases of raw materials | 15600 |
| Raw materials returns outward | 1200 |
| Rent | 9 000 |
| Direct factory expenses | 800 |
| Factory direct wages | 9350 |
| Factory indirect labour | 2 150 |
| Factory management salaries | 14550 |
| Office wages and salaries | 32450 |
| Power | 4 000 |
| Depreciation on factory machinery | 6000 |
| Depreciation on office computers | 9000 |

Additional information at 31 August 2016

| | | |
|---|---|---|
| 1 | Inventory | $ |
| | Raw materials | 5350 |
| | Work in progress | 7500 |

2 Rent and power are to be apportioned: 60% to the factory, 40% to the office.

**REQUIRED**

**(d)** Prepare the manufacturing account of JT Manufacturing for the month ended 31 August 2016.

JT Manufacturing
Manufacturing Account for the month ended 31 August 2016

| | $ | $ |
|---|---|---|
| | | |

[10]

**[Total: 20]**

**Q6** The following balances were extracted from the books of Project Manufacturing on 30 September 2016.

| | $ |
|---|---|
| Capital | 140000 |
| Drawings | 39800 |
| Revenue (Sales) | 380000 |
| Purchases of finished goods | 36000 |
| Factory managers' salaries | 29000 |
| Office wages and salaries | 50000 |
| Premises maintenance | 11000 |
| Royalties | 8000 |
| Factory wages | 73000 |
| Rent | 16400 |
| Insurance | 5000 |
| Advertising expenses | 15400 |
| Administration and finance costs | 9500 |
| Factory machinery (cost) | 115000 |
| Office fixtures (cost) | 14000 |
| Provisions for depreciation | |
| Factory machinery | 50000 |
| Office fixtures | 6200 |
| Purchases of raw materials | 106000 |
| Inventory at 1 October 2015 | |
| Raw materials | 8700 |
| Work in progress | 19000 |
| Finished goods | 34100 |
| Provision for doubtful debts | 900 |
| Trade receivables | 32000 |
| Commission received | 3000 |
| Trade payables | 18700 |
| Bank overdraft | 23100 |

Additional information at 30 September 2016

1 Inventory

| | $ |
|---|---|
| Raw materials | 9750 |
| Work in progress | 17550 |
| Finished goods | 40400 |

2 Expenses are to be apportioned to the factory and the office as follows:

| | Factory | Office |
|---|---|---|
| Insurance | 80% | 20% |
| Rent | 75% | 25% |
| Premises maintenance | 60% | 40% |

3 Administration and finance costs owing were $750.

4 Advertising expenses of $1200 were prepaid.

5 Depreciation is to be charged as follows:
(i) factory machinery at 20% per annum using the diminishing (reducing) balance method
(ii) office fixtures at 10% per annum using the straight-line method.

6 A provision for doubtful debts is to be maintained at the rate of 5%.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 30 September 2016.
Show clearly the prime cost and the cost of production.

Project Manufacturing
Manufacturing Account for the year ended 30 September 2016

| | $ | $ |
|---|---|---|

[15]

**(b)** Prepare the income statement for the year ended 30 September 2016.

Project Manufacturing
Income Statement for the year ended 30 September 2016

| | $ | $ |
|---|---|---|

[14]

**(c)** Prepare the statement of financial position at 30 September 2016.

Project Manufacturing
Statement of Financial Position at 30 September 2016

| | $ | $ | $ |
|---|---|---|---|

[11]

**[Total: 40]**

**Q7** The following balances were extracted from the books of Wang Manufacturing on 30 April 2017.

| | $ |
|---|---|
| Inventory at 1 May 2016 | |
| Raw materials | 18 200 |
| Work in progress | 23 000 |
| Finished goods | 37 000 |
| Purchases of raw materials | 210 000 |
| Purchases of finished goods | 135 000 |
| Manufacturing wages | 102 000 |
| Direct factory expenses | 8 800 |
| Factory management salaries | 36 500 |
| Buildings maintenance | 31 000 |
| Administration salaries | 71 400 |
| Revenue | 755 000 |
| Rent | 24 000 |
| Rent receivable | 3 300 |
| Insurance | 9 800 |
| Selling expenses | 18 500 |
| Other operating expenses | 32 300 |
| Factory machinery (cost) | 120 000 |
| Office fixtures and fittings (cost) | 18 000 |
| Provisions for depreciation | |
| Factory machinery | 30 000 |
| Office fixtures and fittings | 12 500 |
| Provision for doubtful debts | 3 500 |
| Capital | 150 000 |
| Drawings | 45 000 |
| Trade receivables | 63 100 |
| Trade payables | 59 000 |
| Bank | 9 700 Debit |

Additional information at 30 April 2017

1 Inventory

| | $ |
|---|---|
| Raw materials | 16 500 |
| Work in progress | 18 100 |
| Finished goods | 41 500 |

2 Manufacturing wages of $2500 are owing.

3 Rent and insurance are to be apportioned 50% to the factory and 50% to administration.

4 $25 000 of the buildings maintenance relates to the factory.

5 Selling expenses of $1400 were prepaid.

6 Office fixtures and fittings costing $5000 had been purchased by cheque. No entries had been made in the books.

7 Depreciation is to be charged as follows:
(i) Factory machinery at 25% per annum using the diminishing (reducing) balance method
(ii) Office fixtures and fittings at 10% using the straight-line method.

8 A debt of $3100 was considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

**REQUIRED**

**(a)** Prepare the manufacturing account of Wang Manufacturing for the year ended 30 April 2017. Show clearly the prime cost and the cost of production.

Wang Manufacturing
Manufacturing Account for the year ended 30 April 2017

| | $ | $ |
|---|---|---|

[15]

**(b)** Prepare the income statement for the year ended 30 April 2017.

Wang Manufacturing
Income Statement for the year ended 30 April 2017

| | $ | $ |
|---|---|---|
| | | |

[15]

**(c)** Prepare the statement of financial position at 30 April 2017.

Wang Manufacturing
Statement of Financial Position at 30 April 2017

| | $ | $ | $ |
|---|---|---|---|
| | | | |

| | $ | $ | $ |
|---|---|---|---|
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[10]

**[Total: 40]**