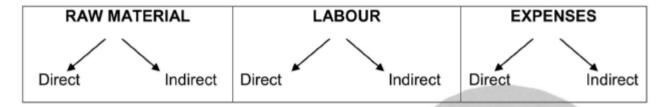
### **Manufacturing Accounts**

#### Costs Classification



Prime cost= Direct Material + Direct Labour + Direct Expense

Overheads = Indirect Material + Indirect Labour + Indirect Expense

#### **Overheads**

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

#### **Building up of Costs**

Direct	Materia	al		XX
Direct	Labour			XX
Direct	Expens	ses	1	XX
Prime	Cost			XX
Add: P	roducti	on Ov	erheads	XX
Produc	ction Co	osts		XX
Add: N	Ion Pro	ductio	n 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.

#### GOODS / INVENTORY:

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)
- 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
		1986
Add: Factory Overheads / Indirect Cost		A
Salaries & wages (Factory Supervisor/Mgt salary)	XXX	A
Insurance (factory)	XXX	
Indirect overheads (Factory)	XXX	
Heat and lighting (Factory)	XXX	- 4
Rent (Factory)	XXX	1
Depreciation (Factory equipment)	XXX	1000
Sundry expenses (factory)	XXX	XXX
	4000	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		1
Work in Progress	XX		
Finished Goods	XX	XXX	
Trade Receivables / Debtors	XXX		
Less: Provision for doubtful debts	(XXX)	XXX	
Prepaid Expense		XXX	A
Accrued Income		XXX	1
Bank		XXX	
Cash		XXX	XXX
			1
Total Assets			XXX
Capital and Liabilities		10000	
		100000	
Opening Capital		XXX	
Add Profit for the year / Less (Loss)		XX/(XX)	
Less: Drawings		(XXX)	XXX
	700		
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							
(/) 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:

Dr Dr

	\$
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
Bank	9 700
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.

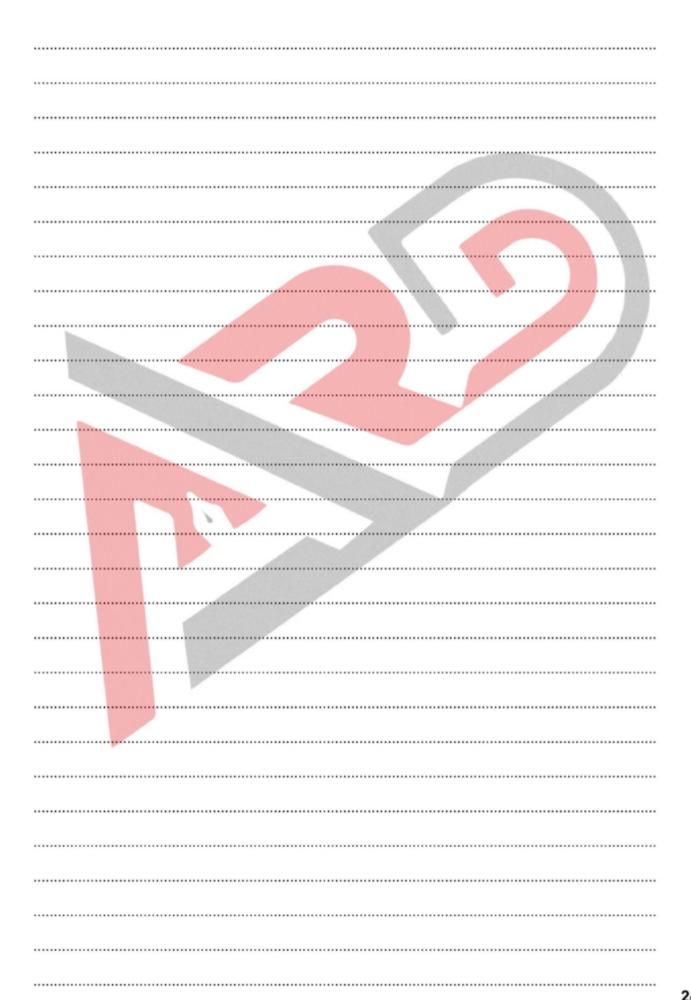
6 The provision for doubtful debts is to be maintained at 6% of trade receivables.

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

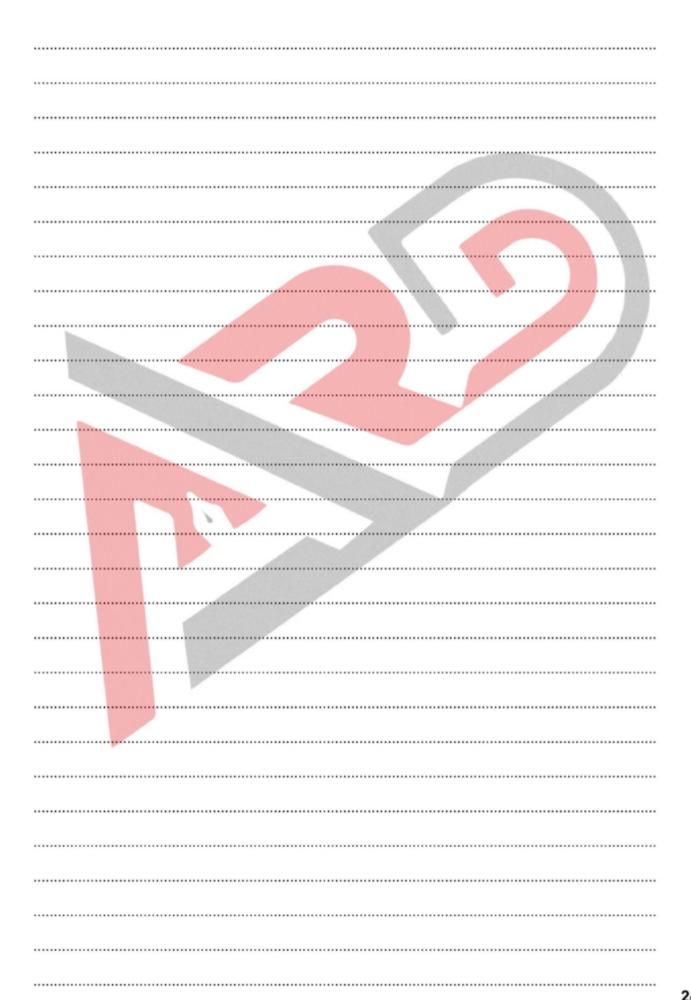
(b) Prepare the income statement for the year ended 31 July 2012. [13]

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

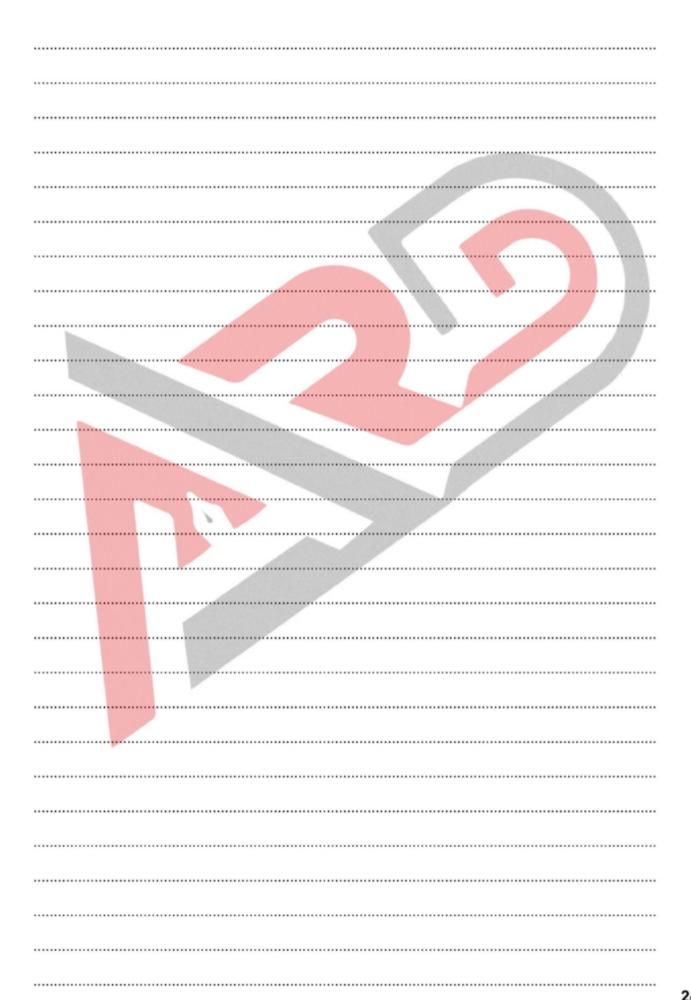
[Total: 40]









The following balances were extracted from the books of Fairview Manufacturing on **Q**2 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	8500
Office expenses	15000
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	84300
Finished goods	150 000

#### Additional information

Inventory at 31 October 2015

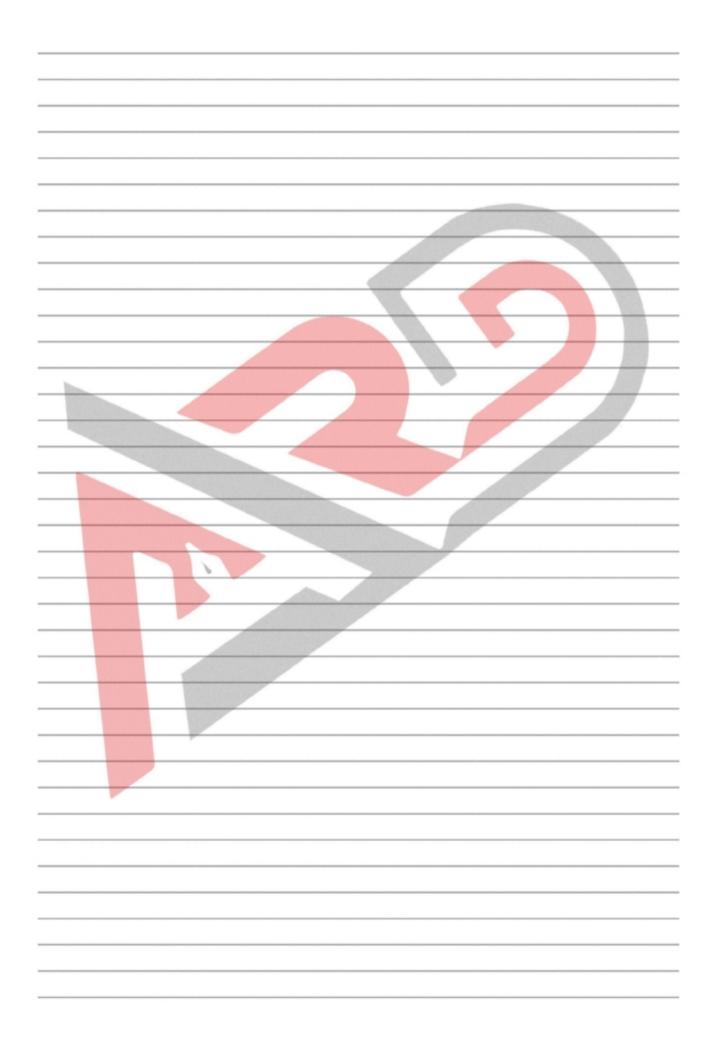
	\$
Raw materials	94 000
Work in progress	81 400
Finished goods	160 000

- 2 Half of the carriage inwards is for raw materials and half for finished goods.
- Factory wages owing are \$9000. 3
- 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 sqm and Office 3000 sqm
- 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	100	103 400
Depreciation of factory plant		96 200
Salary of factory supervisor		21 800
Sales		610 700

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 \_\_\_\_\_

[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	27000
Work in progress	67000
Purchases of raw materials	101900
Raw materials returned to supplier	6650
Factory direct wages	78800
Royalties	10000
Factory indirect wages	20800
Factory management salaries	49 000
Office wages and salaries	37800
Rent	21 000
Electricity	2200
Maintenance	15000
Depreciation on factory equipment	17100
Depreciation on office fixtures and fittings	9000

#### Additional information at 31 March 2017

1	Inventory	\$
	Raw materials	23450
	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.

(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

\$	\$

**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.

(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

\$	\$
1000	
 	•••••

[10]

[Total: 20]

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

	\$
Capital	140 000
Drawings	39800
Revenue (Sales)	380 000
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	ALC: UNKNOWN
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

\$
9750
17550
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%.

(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

\$	\$
	<b></b>
•••••	
***************************************	***************************************

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

# Project Manufacturing Income Statement for the year ended 30 September 2016

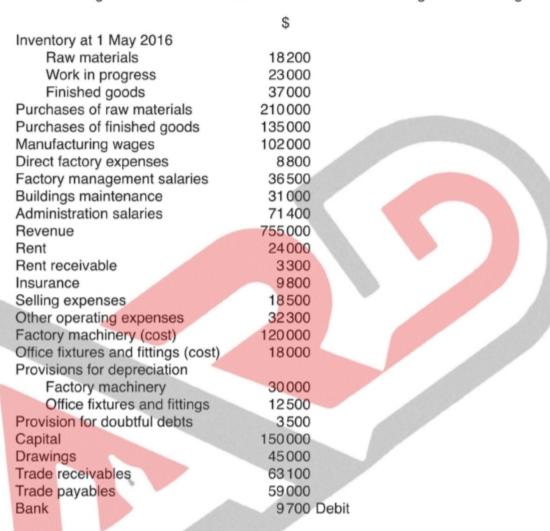
\$	\$
•••••	
***************************************	
•••••	

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

### Project Manufacturing Statement of Financial Position at 30 September 2016

\$	\$	\$
 		<u></u>
	2	

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



#### Additional information at 30 April 2017

#### 1 Inventory

	\$
Raw materials	16500
Work in progress	18100
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 \$25000 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%.

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(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

\$	\$
	/
	·····
	.,,
,	

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

# Wang Manufacturing Income Statement for the year ended 30 April 2017

	\$ \$
	<b>/</b>

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

### Wang Manufacturing Statement of Financial Position at 30 April 2017

\$	\$	\$
 		·····
		<i></i>
		<u></u>
 	***************************************	

