MANUFACTURING A1C's

Manufacturing Account

Raw - Materials / Direct Materials:

- Opening Stock
- Materials purchased during the year (Less) Purchases, Returns
- Material available for use (Less) Closing Stock
- Material Consumed

Add Direct Labour:

- Factory / Manufacturing wages

Add Direct Expenses:

- Royalties
- License fees

Prime Cost

Add Factory Overheads:

- Indirect Materials
- Indirect Labour
- All Factory Expenses:
- Factory Rent
- Value of Loose Tools (Difference between beginning and end)
- Depreciation of factory machinery

Total Factory Cost

+ Opening Work-in-Progress
- Closing Work-in-Progress

Cost of Production (Transferred to Trading A1C in Income Statement)
## Income Statement for a Manufacturing Business

<table>
<thead>
<tr>
<th></th>
<th>$</th>
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</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Less) Returns Inwards</td>
<td>xxxx</td>
<td></td>
</tr>
<tr>
<td>(Less) Cost of Sales</td>
<td></td>
<td>xxxx</td>
</tr>
<tr>
<td>Opening stock of finished goods</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Add Costs of production (From the Manufacturing Account)</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>(Less) Closing stock of finished goods</td>
<td>x</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
<td>xxxx</td>
</tr>
<tr>
<td>Add Other Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission receivable (received+outstanding)</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Disposal of fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
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<tr>
<td>(Less) Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office staff salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales staff salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office general expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of office fixtures &amp; fittings</td>
<td>x</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Net Profit (Loss)</td>
<td></td>
<td>xxxx</td>
</tr>
</tbody>
</table>

**Balance Sheet (Contains stock of all 3)**

- **Current Assets:**
  - Raw materials
  - Work-in-progress
  - Finished goods

Why may it be necessary to purchase finished goods?

- Supply did not meet demand
- It is cheaper to buy goods, rather than make them.
Finished goods & other sales & administration costs are not added in the Manufacturing A/c since they are related with sales & are included in the Income Statement. Other items include: Fixtures & Fittings.

Distinguish b/w direct & indirect costs.

**DIRECT COSTS** - A cost which can be linked to a specific unit of production. e.g. wages, materials, repairs, advertising.

**INDIRECT COSTS** - A cost which cannot be linked to a specific unit of production. e.g. cost of depreciation, insurance, power, rent.
Q. Why is it necessary to prepare a manufacturing account at the end of the financial year?

To calculate how much it has cost the business to manufacture the goods produced in the financial year.

Q. Why would a business purchase finished goods? Why does the B. purchase the goods rather than manufacturing them themselves?

1. Production did not meet demand.
2. It was cheaper to buy the goods rather than make them.
3. Those particular items could not be made by the B.

Distinguish blw direct material, direct labour, prime cost & factory overheads.
PRIME COST:
It is the total of the direct materials, direct labour & direct expenses. Costs which can be traced to a product.

FACTORY OVERHEADS:
The costs involved in operating the factory / factory indirect expenses. They cannot be directly linked with / traced to the product being manufactured. E.g. indirect wages, factory rates, depreciation of factory machinery.

* "Work-in-progress" are goods which are partly completed.

Change in "work-in-progress" = (Operating inventory goods in progress + raw materials + direct labour + FOH) - ending inventory