# CHAPTER FIFTEEN

# enting accounts

# CHAPTER OUTLINE

- Manufacturing accounts.
  - \* Items of cost of production.
    - Manufacturing account format

# Learning Objectives:

At the end of this chapter, the student should be able to

- > Explain the meaning of a manufacturing account
- Describe the components of a prime cost
  - > Explain how manufactured goods are transferred to the trading account.
  - Show the different components of a manufacturing account such as raw materials, work-in-progress and finished goods.ons to about badainst and warmwiting the

# 15.1 MANUFACTURING ACCOUNTS

A manufacturing account is prepared to show or find out the cost of goods manufactured during the accounting period. It is prepared by business organizations that engage in the manufacture of goods for sale, a topic land

Every business organization employs two major ways of getting stock for sale. One is by wholesale purchase of finished goods. Two is by manufacturing such finished needs if it has the needed capacity, iis don's is If the organization is consequently and in synolesale purchases, then the final

accounts will be limited to statement of comprehensive income. However, if the business manufactures the goods, there will be need to prepare the manufacturing account before preparing the statement of comprehensive income.

The aim of preparing the manufacturing account is to ascertain the cost of goods produced during the year in order to know the gross profit or loss in the production as well as determine the selling price to be fixed for the finished goods.

### 15.2 ITEMS OF COST OF PRODUCTION

There are various cost items that make up the cost of production. These items include:

- 1. **Direct expenses:** These are those expenses that vary according to the volume of output. Whenever the output increases, such expenses would increase and vice versa. This implies that these expenses vary directly with the output. These expenses can be referred to as variable expenses. Such direct expenses include:
- a. **Costs of raw material:** These can be called direct material and are items or materials used in production of other goods. The term raw material is mostly determined by what the goods are used for because raw materials of one entity may be the finished goods of another entity. The cost of raw materials includes carriage inwards of raw materials.
- b. **Direct labour**: This is the cost of wages if it is directly traceable to the volume of production. It is referred to as direct expenses. In a situation where it is not directly traceable to the volume of production, it is referred to as salary and will form part of indirect expenses.
- c. **Direct expenses:** There are other direct expenses outside the cost of raw materials and direct labour. Such direct expenses are those specifically incurred on the units being produced. It should be noted that when the units are not being produced, the direct expenses will cease.

- d. **Prime cost:** The addition of the above three elements of cost is known as prime cost. Prime cost therefore, is all cost attributable to the items produced.
- 2. **Indirect Expenses:** These are costs incurred in producing goods which are not directly traceable to the items produced. They are referred to as factory overheads. That is all other expenses or costs incurred in the factory which are not directly traceable to units of goods produced.
- 3. **Work-in-Progress**: Raw materials undergo some processes before they become finished goods. At the end of the accounting period, there may be some materials already in process but not yet completed. At that stage, they are neither raw materials nor finished goods, hence they are called work-in-progress. The cost of work-in-progress is part of cost of production. It is therefore, adjusted by adding opening work-in-progress and deducting closing work-in-progress.
- 4. **Finished Goods:** These are items which have been manufactured and are ready for consumption or distribution. If the business organization is engaged in both manufacturing and distribution/sales of goods, the value of the finished goods is transferred from manufacturing account to statement of comprehensive income by adding the opening stock of the finished goods to purchases ( if any) to obtain the value of goods available for sale.

Finished goods can be transferred using either of the following two methods: Method 1: Finished goods transferred at cost: In this method, there is no profit margin for the effort/resources put in production. This method is rarely used as every business will always expect profit from its activities. Companies that engage in inter-departmental transfer of products (i.e where finished goods of one department become raw materials of another department) may find this method useful.

Method 2: Finished goods transferred at market value: Here, the goods are transferred at market value or a value above the cost of production. Note that no two goods are exactly the same, hence the market value can be an assumption of the value of an alternative good. The difference between the

cost of producing the goods and its market value is known as the manufacturing profit.

When goods are transferred at market value, it has the effect of reducing the gross profit on trading by a sum equal to the manufacturing profit. The manufacturing profit is added back to the gross profit to obtain the total gross profit. Again, when goods are transferred at market value, the implication will be that closing stock of finished goods is carried at a value above cost.

# 15.3 MANUFACTURING ACCOUNT FORMAT.

The format of a manufacturing account is shown below:

Manufacturing, Trading and Statement of Comprehensive Income Account for the year ended .....

for the year ended	st of whise-in-product	
	ed Av adding open	meretia e, adust
Opening stock of raw material		closia Xwark-in-p
Purchases of raw materials	* ×	
Purchase returns T 1990 9V61 Holdware	do(X) nese are item	FinXhed God
Carriages inwards on raw material	nsumption or distrib	on and what con
Cost of raw materials available for use		rttod i pXocogo
Closing stock of raw materials		(X)
Cost of raw materials used		vizandov-X
Direct Wages Totaldaliavs aboot to au	lev and nietho of /vev	ACHEVIANIANIANIO
Direct expenses	A P. P. B.	Y CORDINATION
Direct expenses Prime cost who prime all a prime and a	is of another entity	$\frac{\lambda}{\forall \forall}$
Depreciation of Plant and Machinery Factory light and power	NEG GOODS DELISIELLE	
Factory light and power Foreman's salary	A 14059 141610 -901	
Foreman's salary	Ship sill Messal Asha	used as every
Foreman's salary of the land of the Factory rent	E DEBTHE THE PERTURE BE	Companies that
Eactoryingurance	of One departmen	
General factory expenses	y nin this method us	
Other factory overheads	er direct exper	
d at market value hier et alle goods are	er direct expex	Methy 2. Finish
Opening work in progress	16V 5 JOI SWIEV JOY ST	n 16 beardtanner
Closing work in progress	C DILL VILLE (VA	JOD OW OR, 15-
Cost of goods produced	he value of an altern	XX XXX XX
and a second produced		XXX

Add manufacturing profit (if any)		
Market value of goods produced		X
Sales saido de avende de la	15,1.	noneXXX
Sales and Do salood and many-balos	balances were extr	The X llavance
Less Sales returns redmand "It is as and Less: Cost of goods sold:	manui <b>X</b> turerin Ontu	XXX
Less, cost of goods sold.		
Opening stock of finished goods Goods produced	te Xiribnuá a	Rawmaterials
		ninuba X naMe
Purchases of finished goods (if any) Purchase returns	× 2004	Factory exper
	onne (X) Raw materi	
carriage of finished goods	ia -ni -shoW- X	
doods available for Sale	XX-Finished go	77 440
3.35 This ica goods	(X)	
Cost of goods sold		(XX)
Add/(Deduct): increase/(Decrease) provi	ision for unrealized	netterierded)
Profit on Stock		X7,830
Add manufacturing profit (if any)		X7,740
QQC e Lexpenses		ORep X of pla
Add: other incomes		Proctory pow
Discount received	alary X	Foreman s s
Rent received	X	Adverusing
Interest received	X bewa	Discount all
Commission received	X	Offic X xper
Less: Administrative expenses		Rent and rat
Administrative salaries	X	Salesmen's
Office electricity	vards on <b>X</b> <sub>3</sub> w materials	000ahrage inv
office refit and rates	factory & chanses	berib tente30
Printing and stationery		Office salar
Administrative Insurance	X	
Other Administrative expenses	Inform Xtion:	(X)
Less: Selling and distribution expenses.	stocks as at 31" Decen	ngiao 2 5 500
Salesman's salaries and commission	naterialsX	TWE G
N4, 920 blockboog technology	- In- proo	
Advertising took of the OPI 19514	ned good X 0,561	Finich
Discount allowed	2060	
Depreciation on sales van	dirates st Vuldibe appo	ne took a
Carriage inwards  Net Profit	X	(X) / 6/01
Net Profit		XXX 330
	nistration	HIIIDA

#### Illustration 15.1.

The following balances were extracted from the books of Ochinanwata Enterprises, a manufacturer in Onitsha as at 1st December, 2013.

		152 (COST OLGOODS AND #50]
Raw materials purcha		shoop bentsmill to line 2 77,440
Manufacturing wages	5	00000037,740
Factory expenses		(ii) 20000 bariawiii 1673 20,240
Stocks at 1/1/2006:	-Raw materials	2010 2010 2010 2010
	-Work- in- progress	Sevende on finished goods
	-Finished goods	9162 for sldsligva 24 760
Sales		270.000
Depreciation:	-Plant and machinery	blos sboop 15,120
	-Delivery vans	080,6 Deduct): Increased the
	-Office equipment	1,614
Repair of plant and ma	achinery	6,040
Factory power		6,200
Foreman's salary		5 060
Advertising		7,112
Discount allowed		3,048
Office expenses	A CONTRACTOR OF THE PARTY OF TH	5,820
Rent and rates		008,6 Administrative expenses
Salesmen's salaries X		2,840
Carriage inwards on ra	aw materials	violabele 5,440
Other direct factory ex	penses	200,4 rent and rates
Office salaries X	Ø.	vienodata bna p10,340
		Comment of the Pitto Pitto

## **Additional Information:**

Raw materials X	31st December were as follows: Jaib bas pailled: 2233
Work- In- progres	
Finished goods	N29, 140 pniemsybA
	Discount allowed

Rent and rates should be a	apportioned as follows	Depreciation on sales
Factory	50%	arri <b>age inw</b> ards
Administration	30%	Not Profits #

Selling and distribution 3.2

20%

Required: Prepare the Manufacturing, Trading and Statement of Comprehensive income of Ochinanwata Enterprises for the year ended 31st December, 2013.

#### Solution 15.1

Manufacturing, Trading, and Statement of Comprehensive Income for the year ended 31st December, 2013.

year chaca 31 December, 2013.		Salarmen's salaries
32.440	H	Samples S tell Miles
Opening stock of raw materials		16,920
Purchases of raw materials		77,440
Carriage Inwards on raw materials		5,440
Cost of raw materials available for use		99,800
Closing stock of raw materials	Goodluck Mar	(21,970)
Cost of Raw materials used		21,570) 21,570 and from his
Manufacturing wages		
Direct expenses 000 4		37,740
Prime cost		4,200
Factory overheads:		19,770
	ilding at cost	Freehold land and bu
Factory sundry expenses	20,240	Plant and Machinery
Depreciation on Plant and machinery	15,120	
Repair of Plant & Machinery	6,040	
Factory power	6,200	*ixtures and fittings
Foreman's salary	5,060	Provision for degrees
Rent and rates (50% of 16,800) (Note2)	5,060	
560		61,060
		180,830
Opening work- in- progress	6,140	- Purchases.
Closing work- in- progress	(4,920)	Raw materials
	20.08:	Visums[ 1 1s 1,220
Cost of goods produced 100		282,050 terials
Sales (Revenue)		270,000 Progress
Less: Cost goods sold OSE,		Finished goods
Opening Stock of finished goods	24,760	
Cost of goods produced	182,050	Sales
Cost of goods available for sale	206,810	Wages:
Closing Stock of finished goods	29,140	Factory
Cost of goods sold	23,110	noite (177,670)
Gross profit		(177,070) 100,000
Administrative expenses		32,330
, MITTING LAUVE CADELISES		

			A THE RESIDENCE OF THE PARTY OF
	Depreciation of office equipment	1,614	
	Office expenses	E 030	
	Rent and rates (30% x 8, 400) (Note:	2) Datum <u>5,040</u>	Selling and distr
	Office Salaries	5.040 5.040	Required: Prepare
	selling and distribution expenses	OLE ALE ALIAN SE	22,814 Compression
	Depreciation of delivery van	6,080	December, 2013.
5	Advertising	7,112	
	Discount allowed	2 040	Solution 15.1
	Rent and rates (20% x 8,400)(Note 2	3,360	Manufacturing, Trac
	Salesmen's salaries	9 20 4 60 cmc	vear anded 31" Dece
	Net Profit	TO HOLD OF	32 440
	NEL Profit	w materials	37.076
			Purchases of raw m
	008,66	1 raw materials	Carriage Inwards of
	Illustration 15.2: Goodluck Manu trial balance from his books:	facturing Firm extra	acted the following
	trial balance from his books:	a sing sand	acted the following
		Dr. Der	Cost of Raw materi
		N'000	Mandacturing was
	Capital	<del>14</del> 000	C000'H xpenses
	Freehold land and building at cost	2.000	4,080
	Plant and Machinery at cost	3,000	Factory overheads
	Deliveryon		Factory sundry exp
	Fixtures as Actus	800	Depreciation on Pl
	Provision for dense in the second	400	Repair of Plant & N
	Provision for depreciation:		Factory power Boreman's salary
	Plant and machinery 000,2	9% of 16,800) (Note	2) 29ts 1-1 400
	TER AR		560
	Purchases:		500
	Raw materials (DSG)	3,700 2019	Opening works in
	Stock at 1st January 2008:	progress	Closing work- in-
	Raw materials		
	Work – In- Progress	oduced	Cost of goods pro
	Finished goods		
	24,760 Sales	1,320	Cost noods
	Wages: 050,050,051	13,200	Opening Stock U
	Factory 018,005	paphpo	Cost of goods pr
	Administration	2,728	Cost of goods av
		1.080	Closing Stock of
	Sales department	600	Cost of goods so
		2620000	Gross profit
			the state of the s

Rates and insurance	220 021 delivet e 2011 2
Repairs 827.28	Cost of raw material use 028.  Manufacturing wages 002
Selling expenses	Prime Cost 882
Electricity	Opening W.L.P. 9.1,200
Administrative expenses 1	Closing W.I.P con 262
Provision for doubtful debts	Cost of goods produced 002
Trade debtors 000,852,0	Mark Up (manufacturing 1021) 10% of
Trade creditors	Market value of goods 716
Bank overdraft	sales (Revenue) 248
Cash	Less: cost of goods sold: 05_
1,320,000	Openi 800,098 init 20,998 ing 0
7,180,800	Market value of goods produced
Additional Information:	Goods available for sale on
1. Closing stock as at 31 <sup>st</sup> Dece	Closing stock of finisher world as follows:
DEGREE PAST X	

Raw Materials 400,000
Work-In- Progress 160,000

Finished Goods
160,000 q printed and bbA
770,000
Tillorg 22019 Latel

2. For a number of years, the firm had maintained a policy of transferring finished goods to trading account at market value which is obtained by adding a mark-up of 10% of cost of goods produced. Both the opening and closing stock were stated at transfer value.

Required: Prepare the Manufacturing, Trading and Statement of Comprehensive Income of Good luck Manufacturing Firm. Balb & Bandle 2 229 J

# Solution 15.2

O Goodluck Manufacturing firm's

Manufacturing, Trading and Statement of Comprehensive Income for the year ended 31st December, 2008

14

	N
Opening stock (Raw Material)	600,000
Purchases of Raw material	3,700,000
Raw material available	4,300,000
Closing stock of raw material	(400,000)

Cost of raw	material used		
Manufactur	ing wages		3,900,000
Prime Cost	es epr		2,728,000
Opening W.	I.P		6,628,000
Closing W.I.	D	54.80	60,000
Cost of good	is produced	(160,000	$\Delta = (100.000) = \exp($
Mark Up (ma	anufacturing profit) 10% of		6,528,000
Market value	e of goods	6,528,000	652,800
Sales (Rev	e of goods		7,180,800
Less: cost of	enue) ÇAS		13,200,000
Less: cost of	goods sold:		4/1019
Market value	ck of finished goods	1,320,000	
Coods availe	of goods produced	7,180,800	
Goods availa	ble for sale	8,500,800	
Closing stock	of finished goods	cat 31 December	(770,000)
Cost of goods			7,730,800
Gross profit			5,469,200
Add manufac	turing profit Oal		
lotal gross pr	ofit Duliging Recost		- 1652,800
Less administ	rative expenses:		6,122,000
Administrativ	e wages	1 080 000	
Rates & Insur	ance from the discourse prices	320,000	2. For a nu
Repairs	ading accomplished by the property of the prop	200,000	
Electricity		1 200,000	
Admin expens	ited at blansfer value. Y	F62,000	opening and closi
	Diffe profest personal	562,000	
Less Selling &	distribution expenses and leaves	3,362,000	Required: Pre
Sales departm	ent wages	ncome of Good	
Selling expens		600,000	
Work -in-Proc		288,000	Solution 15,2
Total Admin se	Manufacturing firm's	888,000	
Vet profit	elling & distribution expense	Trading and Sta	4,250,000 sM
Valen		ecember, 2008	1,872,000

GENERAL QUESTIONS, AND SUGGESTED SOLUTIONS
Goodluck Manufacturing Firm's
Statement of Financial position as at 31st December, 2008.

suld by able to answer	and a Muse of a contract	at 31 Decem	The state of the s
Freehold land Plant & Machinery	3,000,000 2,900,000	on: The	3,000,000
Delivery Van	800,000	1,400,000 560,000	1,500,000 240,000
Fixtures & fittings	400,000	sunting conce	400,000
Current Assets:	v co-zinamu ob :		5,140,000
Raw material	apion	200 000 b	
W.I.P An insurance of	ambany, sulfe	400,000	
Finished goods		160,000	
Debtors (1,220,000 - 200,0	000)	770,000	
Cash	,00)	1,020,000	2 270 000
		20,000	2,370,000
			7,510,000
Current Liabilities:	n statements		
Creditors ametaya I			716,000
Overdraft			842,000
ong town link its			-,-,
ong term liability:			
Capital Net profit			4,080,000
vec pront			1,872,000
	TONS AND ANS		7,510,000

2. What is the Phain source document for recording rush lodgment hito the

e nelsa la P bat