**Manufacturing Account (Grade 11)**

Businesses that manufacture goods have to keeps records, one of these records is the manufacturing account, which is prepared in addition to the Trading and profit and loss account at the end of each accounting period. It is produced for internal use only.

**Manufacturing account**- This is an account prepared at the end of a financial period in order to calculate the production cost of manufactured goods.

**Division of Cost**

1. Prime Cost- The total of all direct costs incurred when producing the products.

(Direct materials + Direct Labour+ Direct expenses)

1. Production Cost- The total of all the costs of manufacturing products. (production cost of completed goods/production cost of manufactured goods)

(Prime Cost + factory overhead cost/indirect manufacturing costs)

1. Total Cost- Production cost + Administration expenses + selling distribution expenses + Financial charges)

Direct Cost

Cost that can be traced to the item being manufactured. Costs that is attributable to a particular product. (eg) direct materials, direct labour and direct expenses

Examples:

1. Cost of raw materials including carriage inwards on those raw materials.
2. Hire of special machinery for a job.
3. Wages of a machine operator.

Indirect Cost/expenses/Indirect manufacturing cost(factory overheads)

These are all those costs which occur in the factory or other place where production is being done, but which cannot easily be traced to the items being manufactured.

Examples: Wages of cleaners (cleaners pay), wages crane drivers, rent and rates of the factory, depreciation of plant and machinery, costs of operating forklift trucks, factory power and factory lighting.

Administration Expenses

Administration expenses consist of such items as: Managers’ salaries, legal and accountancy charges, the depreciation of accounting machinery, secretarial salaries.

Selling and distribution expenses

These are items such as: Sales staff salaries and commission, carriage outwards, depreciation of delivery vans, advertising and display expenses.

**Format of financial statements**

**Manufacturing account section**

This is debited with the production cost of goods completed during the accounting period. It contains costs of:\***Direct materials, direct labour (wages), direct expenses (royalties), and indirect manufacturing costs.** The manufacturing account includes all:

* Purchases of raw materials
* Stock adjustments of raw materials

Stock adjustments for **work-in-progress (WIP**) - goods that are partly completed at the end of a period.

**Steps:**

1. Add opening stock of raw materials to purchases and subtract the closing stock of raw materials.
2. Add in all the direct costs to get the prime cost.
3. Add in the indirect manufacturing costs.
4. Add the opening stock of work-in-progress and subtract the closing stock of work-in-progress to get the production on cost of all goods completed in the period.

**Note:** Thus, when completed, the manufacturing account shows the total of production cost that relates to those manufactured goods that have been available for sale during the period.

**This figure will then be transferred down to the income statement where it will replace the entry for purchases**.

**Trading account section of the income statement**

1. Production cost brought down (b/d) from the manufacturing account
2. Opening and closing stock of finished goods
3. Sales

**Note:** When completed, this account shows the gross profit. This is then carried down to the profit and loss account part.

**Profit and Loss section of the income statement**

1. Gross profit brought down from the trading account.
2. All administration expenses
3. All selling and distribution expenses
4. All financial charges

**Note**: When completed, this account will show the net profit.

**Example of format**

Manufacturing account for the year ending..........

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | $ | $ |
| Production costs for the period:Direct MaterialsDirect LabourDirect ExpensesPrime costIndirect costsProduction cost of goods completed c/d to trading a/c |  |  | XXXXXXXXXXXXXXX |

Trading account for year ending......

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | $ | $ |
| SalesLess production cost of goods sold:Opening stock of finished goodsAdd production cost of goods completed b/dLess closing stock of finished goodsGross profit |  | xxx(A)xxxxxx(xxx)(B) | xxxxxxxxx |

A is production costs of goods unsold in previous period.

B is production costs of goods unsold at the end of the current period.