

## **Manufacturing Accounts**

### Definition

Manufacturing businesses are those that take raw materials and, with the help of labour and machinery, turn these raw materials into finished goods.

These businesses do not purchase finished goods and so do not have a Purchases Account in the Trading and Profit and Loss. The Purchases Account is replaced by the **PRODUCTION COST OF GOODS COMPLETED** ( how much did it cost to manufacture the goods that the business has sold).

### Types of Costs of a manufacturing business

1. **DIRECT COSTS** - these costs can be traced to the product being manufactured. For example, wages of labour who actually make the product (direct wages); raw materials; royalties; other direct expenses.
2. **INDIRECT COSTS** – these are costs which cannot be traced to the product being manufactured yet are still a cost of the factory. For example, wages of cleaners and supervisors; rent of the factory; factory electricity; depreciation of the machinery. These are called ***Factory Overhead Expenses***.

### Apportionment of expenses

It is common for a manufacturing business to be divided into:

- a) the factory section
- b) the administrative (or selling and distribution) section

This means that these sections will have to share certain expenses such as Rent and electricity and insurance.

These common expenses need to be divided (or apportioned) between the factory and the other sections. For example, the factory must share 70% of the Rent and the administrative section must share 30%.

The factory overhead expenses appear in the Manufacturing Account while all other expenses appear in the Profit and Loss Account.

The common expenses between the Factory and other sections can be apportioned on the basis of fractions of:

- a) Floor area
- b) Number of labourers
- c) Percentages or fractions given

Format of the Manufacturing Account

	Open Stock of Raw Materials	5000	
<u>ADD</u>	Purchases ( <i>of raw materials</i> )	10000	
	Carriage Inwards	<u>1000</u>	
		16000	
<u>LESS</u>	Closing Stock of Raw Materials	<u>3000</u>	
	<b>Cost of Raw Materials Consumed</b>	<b>13000</b>	
<u>ADD</u>	<b>Direct Labour (wages)</b>	<b>6000</b>	
	<b>Direct Expenses</b>	<b><u>4000</u></b>	
	<b>PRIME COST</b>	<b>23000</b>	
<u>ADD</u>	<b>Factory Overhead Expenses</b>		
	Rent	7000	
	Insurance	2000	
	Depreciation of machinery	1000	
	Electricity	<u>6000</u>	16000
		39000	
<u>ADD</u>	<b>Open Work in Progress</b>	<b><u>9000</u></b>	
		48000	
<u>LESS</u>	<b>Closing Work in Progress</b>	<b><u>7000</u></b>	
	<b>PRODUCTION COST OF GOODS COMPLETED</b>	<b>41000</b>	
	Sales	80000	
<u>LESS</u>	Cost of Goods Sold		
	Open Stock ( <i>of Finished Goods</i> )	4000	
<u>ADD</u>	<b>PRODUCTION COST OF GOODS COMPLETED</b>	<b><u>41000</u></b>	
		45000	
<u>LESS</u>	<b>Closing Stock (<i>of finished goods</i>)</b>	<b><u>8000</u></b>	37000
	<b>GROSS PROFIT</b>	<b>43000</b>	
<u>LESS</u>	<b>Expenses</b>		
	Rent	1000	
	Electricity	500	
	Insurance	2500	
	Salaries	<u>4000</u>	8000
	<b>NET PROFIT</b>	<b><u>35000</u></b>	