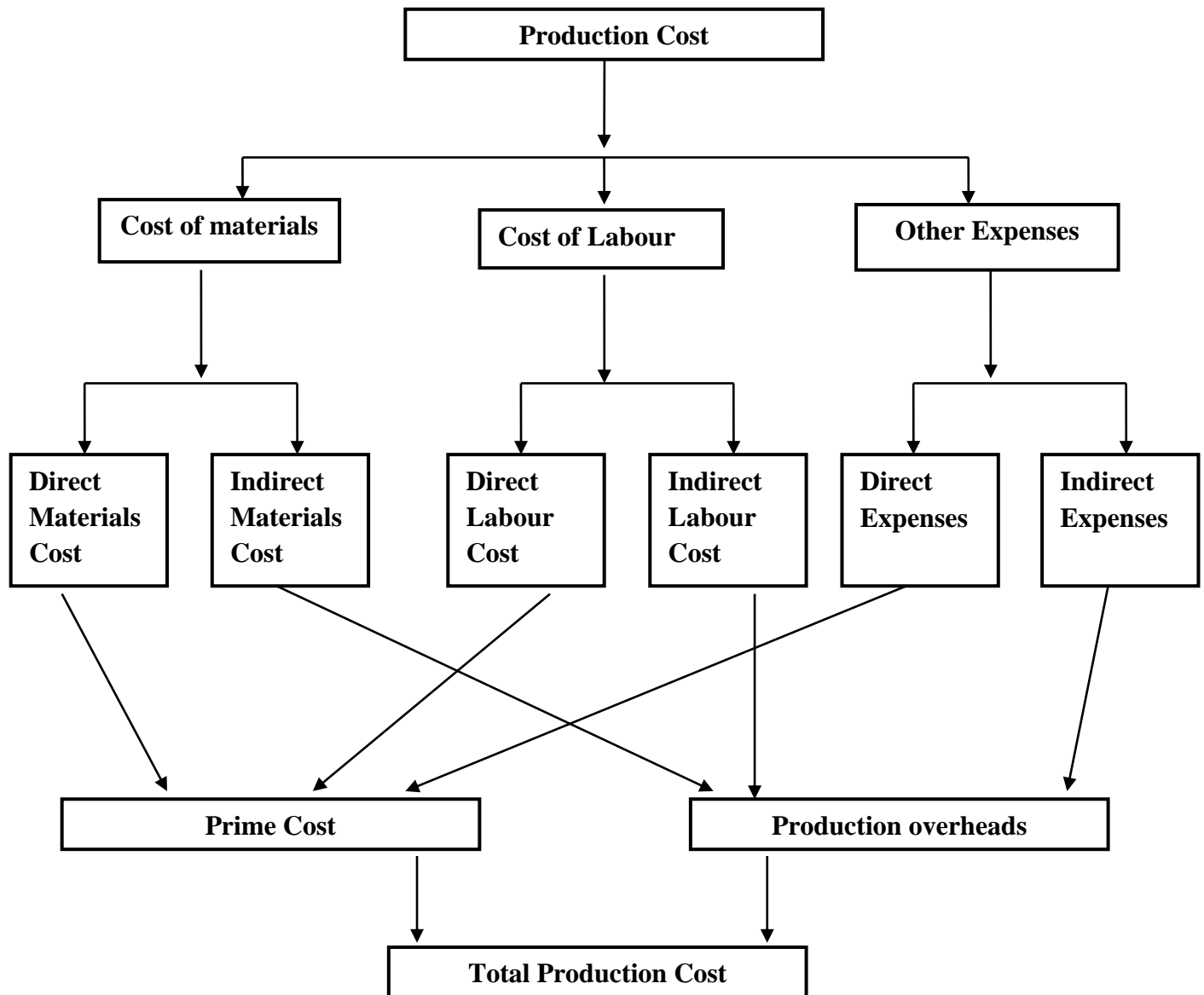


# Manufacturing Accounts



☞  $DM + DL + DO = \text{PRIME COST}$

☞  $DM + DL + DO + POH = \text{Manufacturing cost/ product cost /production cost}$

☞  $DM + DL + DO + POH + \text{Non production overheads} = \text{TOTAL COST}$

☞  $DL + DO + POH = \text{Conversion cost}$

☞  $\text{production overhead} + \text{non production overheads} = \text{Total overheads}$

☞  $DM + \text{Conversion cost} + \text{non production overheads} = \text{Total cost}$

☞  $\text{Prime cost} + \text{Total overheads} = \text{Total cost}$

☞  $\text{Total Direct cost} + \text{Total indirect cost} = \text{Total cost}$

☞  $\text{Prime cost} + \text{Total overheads} - \text{Non manufacturing cost} = \text{manufacturing cost}$

☞  $\text{Prime cost} + \text{variable production overhead} + \text{fixed production overhead} = \text{manufacturing Cost}$

$\text{Cost of Sales} = DM + DL + DO + POH + \text{Finished goods}$

## How to adjust Increase or Decrease in Stocks

### Increase in Inventories

Raw material	}	( - ) manufacturing Account
Work in progress		
Finished goods		

### Decrease in Inventories

Raw material	}	( + ) manufacturing Account
Work in progress		
Finished goods		

### ABC Ltd

Manufacturing and Trading Account for the year ended 31.03.2019

	Rs.	Rs.
Opening stock raw materials		xx
Raw material purchase	xx	
Return outwards	(xx)	
	xx	
Carriage inwards of raw materials	xx	xx
Cost of raw material available for production		xxx
Less : closing stock of raw materials		(xx)
<b>Cost of raw materials consumed</b>		xxx
<b><u>Direct Labour</u></b>		Xx
Direct wages		
<b><u>Other direct expenses</u></b>		
Royalty		Xx
<b>Prime cost</b>		Xxx
<b><u>Factory overhead expense</u></b>		
Supervisors salary	xx	
Power	xx	
Factory building rent	xx	
Factory building rates	xx	
Factory building insurance	xx	
Electricity	xx	
Depreciation of plant and machinery	xx	
Depreciation of loose tools	xx	
Indirect material	xx	
Maintenance expenses	xx	xxx
		xxxx
(+) Opening stock of work in progress	xx	
(-) closing stock of work in progress	(xx)	xx
<b>Production cost of goods completed</b>		xxxxx
Opening stock of finished goods		xx
Less : closing stock finished goods		(xx)
<b>Cost of goods sold/cost of sales</b>		xxxxxx

### Exercise 01

The following list of balances has extracted from the book of Tile manufactures and Co. Ltd as at 31<sup>st</sup> March 2020.

	Rs.
Stock as at 01 <sup>st</sup> Aril 2019	
- Raw materials	7,800
- Work in progress	1,100
- Finished goods	20,000
Purchase of raw materials	180,500
Raw material returned to suppliers	2,000
Direct factory wages	60,400
Salaries (supervision & administration)	24,000
License fees paid to patent holder	10,500
Factory power	8,000
General factory expenses	6,000
Depreciation of machinery	8,000
Stocks as at 31st March 2020	
- Raw materials	9,700
- Work in progress	1,600
- Finished goods	?
Sales	275,000

### Additional information

- (i) Two thirds of the salaries are to be treated as a manufacturing expenses
- (ii) 8,000 tiles were in stock at 1<sup>st</sup> April 2019 all these were sold during this year. The production during the year amounted to 95,000 completed tiles. During the year 85,000 tiles were sold.
- (iii) License fees are to be treated as direct expenses.

### Required

- 1. Prepare the manufacturing account for the year ended 31<sup>st</sup> March 2020
- 2. Calculate the cost of production a tile
- 3. Ascertain the value of the finished stock at the end of the year
- 4. Prepare the trading account for the year ended 31<sup>st</sup> March 2020

### Exercise 02

The following information for the year ended 31<sup>st</sup> December 2020 is extracted from the books of Isura Ltd a bricks manufacturer.

	Rs.(opening)	Rs.(closing)
Raw materials	5,000	9,000
Work in progress	21,000	20,000
Finished goods	14,000	?
Factory Equipment (net)	9,500	8,300
Other balances for the year ended 31 <sup>st</sup> December 2020		
Raw materials purchases		160,000
Sales		368,000
Manufacturing wages		60,000
Factory overheads (Excluding depreciation)		50,000
Purchases of factory equipment		1,800

5000 bricks were in stock at 01<sup>st</sup> January 2020. Production during the year amounted to 90,000 bricks. 92,000 bricks were sold during the year.

### Required

1. Prepare the manufacturing account for the year 2020
2. Ascertain the value of the finished stocks at the end of the year 2020 based on total production cost
3. Prepare the trading account for the year 2020

### Exercise 03

The information given below related to Saman's business of manufacturing garments for the month of March 2020.

	Rs.
Stock as at 01.03.2020	
- Fabric (200 meters)	20,000
- Finished garments (100 units)	17,000
Other transactions which took place during the month March	
- Purchase of fabric (3000 meters)	360,000
- Direct wages	98,000
- Factory Manager's salary	18,000
- Carriage inwards	4,000
- Machinery depreciation	35,000
- Indirect material	35,000
- Factory rent and electricity	30,000
Stock as at 31.03.2020	
Fabric (300 meters)	36,000
Finished garments (400 units)	?

Closing stock of finished garments comprise items manufactured in March only. 200 meters of fabric purchased in March were lost. This has not been accounted for. One meter of fabric is required to produce one unit of finished garment.

### Required

1. Cost of fabric used
2. Prime cost
3. Total production cost
4. Value of closing stock based on total production cost

## Exercise 04

The following information is extracted from the books of Lexco Ltd., a manufacturer of television sets for the year ended 31<sup>st</sup> March 2020.

	Rs.
Stock as at 01 <sup>st</sup> April 2019	
- Raw materials	120,000
- Finished goods( 60 Televisions)	276,000
- Work in progress	35,000
Purchase of raw materials	732,000
Direct wages	110,000
Carriage inward	5,000
Factory rent	44,000
Sales	1,260,000
Factory electricity	62,000
Factory supervision	90,000
Indirect material	26,000
Depreciation – Machinery	24,000

### Additional information

- |     |   |        |  |
|-----|---|--------|--|
| (1) | Stock as at 31 <sup>st</sup> March 2020 | Rs.    |  |
|     | - Raw materials                         | 90,000 |  |
| (2) | - Work in progress                      | 46,000 | Two television sets were stolen from the factory |
- and Rs. 12,000 worth of raw materials was destroyed by fire during the year. No entries have been made in respect of these events.
- (3) There were 78 television set in stock as at 31<sup>st</sup> March 2020
- (4) During the year 180 television sets were sold which included the opening finished goods stock of 60 television sets.

### Required

Prepared the manufacturing and trading account for the year ended 31<sup>st</sup> March 2020, showing clearly the following information

1. Cost of raw material consumed
2. Prime cost
3. Total manufacturing cost
4. Value of closing finished goods stock based on total manufacturing cost
5. Cost of sales

### ☞ ADVANCED LEVEL – 2003

Moratuwa enterprises commenced business on 1<sup>st</sup> January 2020. The company produces cabinets of a standard model and its production staff consists of a machine operator and carpenter. In making the cabinets each employee is paid on completion of his activity. The machine operator is paid Rs. 600 and the carpenter is paid Rs. 1,000 for their activities on each cabinet. On 31<sup>st</sup> December 2020 the following balances were extracted from the books of Moratuwa enterprises.

	Rs.
Machinery and equipment at cost	750,000
Purchase of wood	266,000
Wages to machine operator	66,000
Wages to carpenter	104,000
Factory watcher's wages	33,000
Administration expenses	105,000
Purchases of hinges and locks	48,000
Cost of indirect materials such as sand paper, nails etc.	5,400
Rent for premises (one third for administration)	30,000
Power for machines	4,500
Delivery expenses on cabinets to customer's residence	8,400
Maintenance of machines	3,600
Sales	600.000

#### Additional information

- (1) Each Cabinet is sold for Rs. 6,000
- (2) Hinges and locks costing Rs. 450 are required for each cabinet
- (3) As at 31<sup>st</sup> December 2020 the company holds unused wood costing Rs 46,000 and 4 completion cabinets. Further 6 more cabinets were in progress for which only wood expenses and machine operator wages have been incurred.
- (4) Machine and equipment is to be depreciated 5% per annum on cost

#### Required

1. Total number of cabinets fully completed during the year
2. Cost of an incomplete cabinet
3. Manufacturing account of Moratuwa Enterprises for the year ended 31<sup>st</sup> December 2020.
4. Cost of a completed cabinet

### ☞ ADVANCED LEVEL – 2007

Use the following information to answer the questions No: 01 and 02

Description	Rs.	As at 31.03.2006 Rs.	As at 31.03.2007 Rs.
Stocks			
Raw materials		50 000	60 000
Work in progress at prime cost		90 000	70 000
Expenses incurred during the year 2007			
Purchase of raw materials		660 000	
Raw material returns outward		20 000	
Carriage inward on raw materials		10 000	
Direct wages		200 000	
Direct expenses		60 000	

1. Material consumption for the year 2007 is Rs.....
2. Prime cost for the year 2007 is Rs. .. .....

### ☛ ADVANCED LEVEL – 2012

1. The cost of production of a product is equal to the sum of?
  - (1) Direct costs and Overhead costs
  - (2) Raw material costs and Labour costs
  - (3) Prime cost and Production overhead costs
  - (4) Prime cost and Manufacturing costs
  - (5) Manufacturing costs and Nonmanufacturing costs (.....)

**The following information is given in relation to a manufacturing organization for the month of February 2012.**

	Rs.
Raw materials purchases	300 000
Direct labour	170 000
Direct expenses	30 000
Production overheads	300 000

Inventory	29.02.2012 - Rs.	31.01.2012 - Rs.
Raw material	50 000	100 000
Work-in-progress	150 000	100 000
Finished goods	100 000	180 000

- Assume that inventory of work-in-progress is adjusted at cost of production
- The manufactured items are sold keeping a profit margin of 25% on cost of sales

1). What is the prime cost and cost of production for the month of February 2012?

- (a) Prime cost: .....
- (b) Cost of production: .....
- (c) What is the gross profit earned during this month? .....

2). Classify the following costs related to a shoe manufacturing firm as direct or indirect.

- (a) Cost of processed leather.....
- (b) Factory managers salary .....
- (c) Wages of machine operators .....
- (d) Depreciation of machinery .....

### ☛ ADVANCED LEVEL – 2013

1. The information given below relates to a manufacturing business for March 2013

Description	Rs. '000
Increase in work in progress inventory (valued at prime cost)	300
Decrease in finished goods inventory	100
Direct materials consumed	300
Direct labour	200
Factory overheads	200

No	Prime Cost (Rs.)	Cost Sales (Rs.)
1	200 000	300 000
2	200 000	500 000
3	800 000	900 000
4	800 000	1 100 000
5	1 000 000	900 000

(.....)

Which of the following cost items of a furniture manufacturing business can be categorized as components of prime cost?

Cost item	Component of Prime Cost (Yes/No)
A Wages of carpenters	.....
B Electricity charges of the factory	.....
C Cost of wood used	.....
D Depreciation of machinery	.....

#### ☛ ADVANCED LEVEL – 2019

01) The prime cost and the total production cost of manufacturing business for the year ending 31.03.2019 were Rs. 9000 000 and Rs. 1 600 000 respectively. The work in progress inventories, which were mentioned at production cost as at 31.03.2018 and 31.03.2019 were Rs. 200 000 and Rs. 330 000 respectively.

What is the production overheads for the year ending 31.03.2019?

- |                 |                   |                 |
|-----------------|-------------------|-----------------|
| (1) Rs. 570 000 | (2) Rs. 700 000   | (3) Rs. 830 000 |
| (4) Rs. 900 000 | (5) Rs. 1 030 000 |                 |

(.....)