

## 5. MANUFACTURING ACCOUNT

### FORMAT OF MANUFACTURING ACCOUNT Manufacturing Account of ..... for the year ended .....

Particulars	₹	Particulars	₹
To Materials Consumed:		By Net Factory Cost of production, transferred to Trading A/c (bal. fig)	
Opening Stock of Raw Materials		By NRV / Sale Value of By-Products, if any.	
<b>Add:</b> Purchases of Raw Materials			
Sub-Total			
<b>Less:</b> Closing Stock of Raw Materials			
Net balance = Materials Consumed			
To Direct Manufacturing Wages			
To Direct Expenses, if any			
Sub-Total <b>Prime Cost</b>			
To Production Overheads			
Sub-Total <b>Gross Factory Cost</b>			
<b>Add:</b> Opening Stock of WIP			
<b>Less:</b> Closing Stock of WIP			
<b>Total</b>		<b>Total</b>	

Trading Account is prepared as under in this case:

### TRADING ACCOUNT OF ..... FOR THE YEAR ENDED ... ..

Particulars	₹	Particulars	₹
To Opening Stock of Finished Goods		By Sales	
To Manufacturing Account, i.e. Cost of Production		By Closing Stock of Finished Goods	
To Gross Profit c/d to P&L Account			
<b>Total</b>		<b>Total</b>	

## 5.1 Significance of Manufacturing Account

### 1. Meaning:

- The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of **Cost**.
- The debits to this account consist of the Cost of Materials Consumed, Manufacturing Wages and Expenses incurred directly or indirectly on manufacture.
- This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

### 2. Purposes:

- This Account provides details of Factory Cost and facilitates **reconciliation** of Financial Books with Cost Records.
- It also serves as a basis of **comparison** of manufacturing operations from year to year.
- Separate Columns provided for **Quantity and Values**, will enable the entity to ascertain the cost of production per unit of the product.
- It may be useful to have a **column for percentage** in the Manufacturing A/c showing the cost of each item as a percentage of the total.
- Where the output is carried to the Trading A/c at above cost, e.g. market prices, the Manufacturing Account discloses the Profit or Loss on manufacture, which is transferred to P&L A/c. This will be used to fix the amount of production or **profit sharing bonus** when such schemes are in force. [**Note:** In such cases, there is a necessity to reverse the unrealised profit on goods not yet sold, by creating Stock Reserve.]

## 5.2 Items in Manufacturing Account

Item	Explanation	Treatment
1. Materials Consumed	Cost of Raw Materials Consumed during the period = Opening Stock of Raw Materials <b>Add:</b> Purchases of Raw Materials <b>Less:</b> Closing Stock of Raw Materials	<b>Debit</b> in Mfring Account
2. Direct Wages	Wages paid to workers engaged in production process, (i.e. in Factory Departments) is debited to the Manufacturing Account.	<b>Debit</b> in Mfring Account
3. Direct Expenses	<ul style="list-style-type: none"> <li>Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product / service.</li> <li><b>Examples:</b> (a) Royalty for use of licence / technology, (b) Hire Charges of Plant / Equipment, if based on units produced.</li> </ul>	<b>Debit</b> in Mfring Account
4. Prime Cost	<b>Prime Cost</b> (or Direct Cost) = Raw Materials Consumed + Direct Wages + Direct Expenses.	<b>Sub-Total</b> in Dr. Side.
5. Indirect Manufacturing Expenses	<ul style="list-style-type: none"> <li>These are called Factory Overheads / Production Overheads / Works Overheads / Manufacturing Overheads, etc.</li> <li>It is the total <b>Indirect Costs</b> (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced.</li> <li><b>Examples:</b> Factory Rent, Rates &amp; Insurance, Depreciation on Machinery, Supervisor's Salary, Consumables like Oils, Lubricants, etc.</li> </ul>	<b>Debit</b> in Mfring Account
6. By-Product Revenues	<ul style="list-style-type: none"> <li>By-Product is an incidental product, arising during the production operations, having some saleable value.</li> <li><b>Examples:</b> Molasses is the by-product in sugar manufacturing.</li> <li>Net Realizable Value of By-Product is credited to Manufacturing A/c.</li> </ul>	<b>Credit</b> in Mfring Account
7. Factory Cost	It is the Net Cost of Production as shown by Manufacturing A/c, and is computed as under – Prime Cost (as per 4 above) <b>Add:</b> Production Overheads (as per 5 above) <b>Add:</b> Opening Stock of Work-in-Progress <b>Less:</b> Closing Stock of Work-in-Progress <b>Less:</b> NRV of By-Products, if any. <b>Net Factory Cost</b>	<b>Balancing Figure</b> in Manufacturing Account, and is transferred to Trading Account.

**Illustration 2: Manufacturing Account, Trading Account and Profit & Loss Account**

Ram Company is a metal and wood cutting manufacturer, selling products to home construction market. Consider the following data for the year ending 31<sup>st</sup> March.

Particulars	₹	Particulars	₹
Sandpaper	5,000	Plant Leasing Costs	1,35,000
Material Handling Costs	1,75,000	Depreciation – Plant Equipment	90,000
Lubricants and Coolants	12,500	Property Taxes on Plant Equipment	10,000
Misc. Indirect Manufacturing Labour	1,00,000	Fire Insurance on Plant Equipment	7,500
Direct Manufacturing Labour	7,50,000	Direct Materials Purchased	11,50,000
Direct Materials, 1 <sup>st</sup> April	1,00,000	Sales Revenues	34,00,000
Direct Materials, 31 <sup>st</sup> March	1,25,000	Marketing Promotions	1,50,000
Finished Goods, 1 <sup>st</sup> April	2,50,000	Office Salaries	2,50,000
Finished Goods, 31 <sup>st</sup> March	3,75,000	Distribution Costs	1,75,000
Work-in-Process, 1 <sup>st</sup> April	25,000	Customer Service Costs	2,50,000
Work-in-Process, 31 <sup>st</sup> March	35,000		

Prepare Manufacturing Account, Trading and Profit & Loss Account from the above data.

**Solution:**

<b>Dr. 1. Manufacturing Account for the year ended 31<sup>st</sup> March Cr.</b>			
Particulars	₹	Particulars	₹
To Materials Consumed:		By Net Factory Cost of production,	
Opening Stock of Raw Materials	1,00,000	Transferred to Trading A/c (b/f)	<b>24,00,000</b>
(+) Purchases of Raw Materials	11,50,000		
Sub-Total	12,50,000		
(-) Closing Stock of Raw Materials	(1,25,000)		
<b>Materials Consumed</b>	<b>11,25,000</b>		
To Direct Manufacturing Labour	7,50,000		
<b>Prime Cost</b>	<b>18,75,000</b>		
To Factory Overheads (WN below)	5,35,000		
<b>Gross Factory Cost</b>	<b>24,10,000</b>		
(+) Opening Stock of WIP	25,000		
	24,35,000		
(-) Closing Stock of WIP	(35,000)		
<b>Total</b>	<b>24,00,000</b>	<b>Total</b>	<b>24,00,000</b>

<b>Dr. 2. Trading Account for the year ended 31<sup>st</sup> March Cr.</b>			
Particulars	₹	Particulars	₹
To Opening Stock of Finished Goods	2,50,000	By Sales	34,00,000
To Factory Cost of Prodn – tfr	24,00,000	By Closing Stock of Finished Goods	3,75,000
To <b>Gross Profit</b> (balancing figure)	<b>11,25,000</b>		
<b>Total</b>	<b>37,75,000</b>	<b>Total</b>	<b>37,75,000</b>

<b>Dr. 3. Profit and Loss Account for the year ended 31<sup>st</sup> March Cr.</b>			
Particulars	₹	Particulars	₹
To Office Salaries	2,50,000	By Gross Profit b/d	<b>11,25,000</b>
To Marketing Promotion	1,50,000		
To Distribution Costs	1,75,000		
To Customer Service Costs	2,50,000		
To <b>Net Profit</b> (balancing figure)	<b>3,00,000</b>		
<b>Total</b>	<b>11,25,000</b>	<b>Total</b>	<b>11,25,000</b>

**4. Schedule of Indirect Manufacturing Expenses / Production Overheads / Factory Overheads**

Particulars	₹
Sandpaper	5,000
Material Handling Costs	1,75,000
Lubricants and Coolants	12,500
Misc. Indirect Manufacturing Labour	1,00,000
Plant Leasing Cost	1,35,000
Depreciation – Plant Equipment	90,000
Property Tax – Plant Equipment	10,000
Fire Insurance – Plant Equipment	7,500
<b>Total Factory Overheads</b>	<b>5,35,000</b>

**Illustration 3: Manufacturing Account****N 19**

Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.

	₹
Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory for Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages—contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P	
Repairs and Maintenance	1,80,000
Units produced—5,00,000 units	

Required a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

**1. Manufacturing Account for the year ended 31<sup>st</sup> March**

Particulars	₹	Particulars	₹
To Materials Consumed:		By Net Factory Cost of production,	
Opening Stock of Raw Materials	2,60,000	Transferred to Trading A/c (b/f)	<b>19,33,600</b>
(+) Purchases of Raw Materials	8,20,000		
Sub-Total	10,80,000		
(-) Closing Stock of Raw Materials	(3,20,000)		
<b>Materials Consumed</b>	<b>7,60,000</b>		
To Direct Wages	4,05,600		
(5,00,000 x 0.8 + 14,000 x 0.4)			
<b>Prime Cost</b>	<b>11,65,600</b>		
To Factory Overheads (WN below)	7,90,000		
<b>Gross Factory Cost</b>	<b>19,55,600</b>		
(+) Opening Stock of WIP	26,000		
	19,81,600		
(-) Closing Stock of WIP	(48,000)		
<b>Total</b>	<b>19,33,600</b>	<b>Total</b>	<b>19,33,600</b>

**2. Schedule of Indirect Manufacturing Expenses / Production Overheads / Factory Overheads**

Particulars	₹
Hire Charges of Factory	2,60,000
Hire Charges of Machinery (5,00,000 x 0.70)	3,50,000
Repairs and Maintenance (assumed in Factory)	1,80,000
<b>Total Factory Overheads</b>	<b>7,90,000</b>