

# Simplified Cost Accounting for Widget Manufacturing

Create these accounts if they aren't already there

1. WIP Widget A : Asset
2. Finished Goods Widget A : Asset
3. AR : Asset
4. WIP Widget A Parts : Liability
5. WIP Widget A Labor : Liability
6. WIP Widget A Overhead : Liability
7. COGS Widget A: Expense
8. Widget A: Income

When parts are purchased:

1. debit WIP, credit WIP Parts. Later--debit WIP parts, credit checking

When direct labor is paid:

1. debit WIP, credit WIP Labor. Later--debit WIP Labor, credit checking

When overhead costs are paid:

1. debit WIP, credit WIP Overhead. Later--debit WIP Overhead, credit checking

When manufacturing is completed:

1. debit Finished Goods, Credit WIP

When a sale is made:

1. debit COGS, credit Finished Goods
2. debit AR, credit Sales

See diagram on next page

Asset Accounts

Raw materials

WIP

Finished Goods

Raw materials → WIP

when requisitioned  
for production

direct labor → WIP

As expenses incurred

mfy overhead → WIP

As appropriate  
(applied @ overhead rate)

WIP → Finished Goods

when product ready  
to ship

At time of sale

Finished goods → COGS

AR  
+  
x

sales  
+  
x