

## Module 3 Technical Profile

Type of raw material to be used, Demand and supply position of raw material, Availability of substitutes of raw material, Details about production process and production methods, Technical details about production technology and availability of substitutes, Costs involved in operation and maintenance of technology.

## What Are Raw Materials?

- Raw materials are materials or substances used in the primary production or manufacturing of goods.
- Raw materials are commodities that are bought and sold on [commodities](#) exchanges worldwide.
- Businesses buy and sell raw materials in the [factor market](#) because raw materials are [factors of production](#).



## Raw Materials

*[ˈrɒ mə-ˈtɪr-ē-əls]*

Materials or substances used in the manufacturing of goods.

# Raw Materials

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- Raw materials are the input goods or inventory that a company needs to manufacture its products.
- **Examples** of raw materials include steel, oil, corn, grain, gasoline, lumber, forest resources, plastic, natural gas, coal, and minerals.
- Raw materials can be **direct raw materials**, which are directly used in the manufacturing process, such as wood for a chair.
- **Indirect raw materials** are not part of the final product but are instead used comprehensively in the production process.
- The value of direct raw materials inventory appears as a current asset on the balance sheet.

# ❑ PURCHASE SPECIFICATION

## ❖ Definition :

- Written **guidelines** that precisely **define** the operational, physical, and/or chemical **characteristics**, as well as the **quality** and **quantity** of a particular item to be acquired.

**rawmaterial.doc**

## ❖ Mode of purchasing :

- By inspection
- By sample
- By description of brand
- By grading



## ❑ Steps involved in purchase procedure:

1. Purchase requisition
2. Selection of supplies
3. Inviting Quotation
4. Placing the order
5. Receiving the material
6. Checking of invoice or bill
7. Recording of bills in books
8. Releasing the payment to the supplier

## Accounting for Raw Materials

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- Manufacturing companies take special steps to account for raw materials inventory.
- This includes **three distinct inventory classifications** on their balance sheet compared to just one for non-manufacturers.
- The [current assets](#) portion of the balance sheet represents the assets that are likely to be used up in less than one year and include:
  - Raw materials inventory
  - Work-in-process
  - Finished goods
- All inventory, including raw materials inventory, should be valued at its comprehensive cost. This means its value includes shipping, storage, and preparation.

## **Types of Raw Materials**

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Raw materials can be classified in several ways, but **one common classification is the nature of how the good is extracted**. These types include:

- **Mined raw materials** extracted from the earth, such as ores, stones, metals, minerals, lime, sand, soil, oil, and coal.
- **Plant-based raw materials** come from trees or plants, including fruits, nuts, flowers, vegetables, resins, wood, cotton, and latex.
- **Animal-based raw materials** are extracted from animals such as milk, meat, furs, leather, and wool.



## Example of Raw Materials

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- **Production of the tables and chairs**

- **Direct raw materials:** timber, wood, cushions, padding for the chairs, cloth fabric to cover the chairs
  - **Indirect raw materials:** fittings, nails, wood glue, and equipment for workers.
- Since the wood, padding, and fabric can be directly tied to the production of the tables and chairs, they are considered direct raw materials.
- When calculating the cost on a per-unit basis, the direct raw materials could be traced to each unit.
- The glue, nails, and worker equipment would likely be considered indirect materials since the quantities used would not be significant, nor would they be directly tied to each unit produced.
- These types of costs would likely be allocated to a product via manufacturing overhead.



## **What Are Raw Materials in Food?**

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Raw materials in food can be standalone items like meats, milk, fruits, and vegetables. They can also be referred to as ingredients that go into a food item or recipe. For instance, milk is a raw material used in the production of cheese and yogurt.

### **Is Water a Raw Material?**

Yes, water can be thought of as a raw material that is used in a wide range of products and production processes, from beverages to agriculture to industrial uses.

## **What Is the Difference Between Inventory and Raw Materials?**

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- **Inventory** is a complete list of items such as property, goods in stock, or the contents of a building.
- In many cases, **raw materials are a type of inventory**.
- It represents goods on a balance sheet that have not yet been converted to work-in-progress or a finished product. Companies often buy, acquire, or extract raw materials for use, then report raw materials as an asset.
- Then, as the company uses raw materials in the production of finished goods, it converts the raw materials into products it can sell to consumers.