

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Week 18

SUBJECT: ACCOUNTING

YEAR/LEVEL: 13

Strand 6: COST ACCOUNTING

Sub-strand 6.1: Manufacturing Statements

Content Learning Outcome: Explore the nature and purpose of manufacturing industries and prepare a fully classified manufacturing statement.

Greetings to all my students, this week (week 18) we will start with strand 6: Cost Accounting (sub-strand Manufacturing Statements).

Lesson Notes:

Cost Accounting

- provides information to management on controlling the cost of producing the good or service which a business sells.
- Cost accounting provides the detailed cost information that management (internal users) needs to control current operations and plan for the future.
- helps management to decide on how the resources can be allocated efficiently and profitably to the business.

Manufacturing Enterprise

- produces goods for sale by processing raw materials in a factory.

- A manufacturing enterprise prepares a manufacturing Statement to calculate **cost of production**. Their inventory mainly consists of **raw materials; work in process and finished goods**.

Trading business

- Includes buying and selling of tangible goods.
- Trading firms also known as *merchandising firms*, buys goods at a certain price and sells it at a marked up price to make profit.
- Trading businesses prepare Statement of Financial Performance and Statement of Financial Position.
- They do not prepare Manufacturing Statement since they sell readymade products.

Cost of production (DM + DL + FOH)

-measures the cost of goods manufactured during the production period.

-It is found by adding direct material, direct labour and factory overhead used in the production.

-Three categories of manufacturing costs are:

Material costs (Direct/Indirect materials costs).

Labour costs (Direct/Indirect labour costs).

Factory overhead costs.

- Prime Costs- refers to **total direct cost** involved in the manufacturing process.(DM + DL)
- Direct costs- are those that are readily traceable to the manufacturing of a product, i.e direct material and direct labour costs.
- Indirect Costs- are those that cannot be directly traced to the manufacture of a product. i.e. indirect material, indirect labour and other factory overhead costs.

Difference between the statement of financial performance of manufacturing firm and Retailing firm

Manufacturer's statement of financial performance includes **cost of production** in the calculation of cost of goods available for sales where as retailers statement of financial performance includes **purchases** in the calculation of cost of goods available for sale.

(Because a manufacturer produces their own goods so have cost of production whereas retailers purchases their goods for resale to customers).

Inventories/Stock of Manufacturers (are 3 types)

- Raw materials inventory (materials which have not been used in production process yet)
- Work in progress/process inventory (partially finished products- materials partially processed)
- Finished goods inventory (completed goods ready for sales- materials included in finished goods)

- Thus **stock/inventory** = (raw materials inventory + work in process inventory + finished goods inventory)

Format of Manufacturing Statement

- **1. Work in progress calculated as a single amount for the whole factory.**

Business name			
	\$	\$	\$
Work in progress (opening)			XX
Direct Materials			
Inventories- direct material (opening)	XX		
Purchases- direct material	XX		
Direct materials available for use	XX		
Less Inventories- direct material (ending)	XX		
Cost of direct materials used		XX	
Direct Labour			
Direct labour		XX	
Factory Overhead			
Indirect labour	XX		
Factory light and power	XX		
Factory supplies	XX		
Depreciation- plant and equipment	XX	XX	XX
			XX
Less Work in progress (ending)			XX
Cost of Production			XX

2. When work in progress is given as individual amounts on direct material, direct labour and factory overhead.

Business			
	\$	\$	\$
Direct Materials			
Work in progress – direct materials (beginning)		XX	
Inventories- direct material (beginning)		XX	
Purchases- direct material		XX	
Direct materials available for use		XX	
Less Inventories- direct material (ending)	XX		
Work in progress – direct materials (ending)	XX	XX	
Cost of direct materials used			XX
Direct Labour			
Work in progress – direct labour (beginning)		XX	
Direct labour		XX	
		XX	
Less Work in progress – direct labour (ending)		XX	XX
Prime cost			XX
Factory Overhead			
Work in progress – factory overhead (beginning)		XX	
Indirect labour	XX		
Factory light and power	XX		
Factory supplies	XX		
Depreciation- plant and equipment	XX	XX	
		XX	
Less Work in progress – factory overhead (ending)		XX	XX
Cost of Production			XX

Note: Look at the question than decide whether to apply 1st or 2nd format of manufacturing statement, if only **2 work in progress** given apply 1st format but if **6 work in progress** given than apply 2nd format)

(This week only assignment is for you to learn format of manufacturing statement as it will be tested in external exam, Best wishes for week 18 studies, take care and Stay Safe)