

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Week 19

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 19) we will continue with strand 6: Cost Accounting (sub-strand Manufacturing Statements). If there are any queries do contact me in our 13C Accounting Viber group.

Lesson Notes (For detailed **reference** use your text book MOE YEAR 13 ACCOUNTING PG. 135-148)

You students are already familiar with manufacturing enterprise, refers to producers that produce the goods in a factory.

To calculate the **manufacturing cost/cost of production** they prepare manufacturing statement.

manufacturing statement format is generally (DM + DL + FOH = Cost of production)

If there is **2** work in progress(WIP) given than format is

(WIP Opening + DM + DL + FOH – WIP Closing = cost of production)

If there is **6** work in progress(WIP) given than format is

(WIP DM Opening + DM – WIP DM Closing)	=	DM
+ (WIP DL Opening + DL – WIP DL Closing)	=	DL
+ (WIP FOH Opening + FOH – WIP FOH Closing)	=	<u>FOH</u>
		<u>Cost of production</u>

General Journal Entries to record:

Note: opening inventories of DM/finished goods is recorded on credit side, **opposite side** to close/transfer as it will **not** be recorded in balance sheet.

Furniture Makers Manufacturing Ltd General Journal (extrac			
Date	Particulars	Debit (\$)	Credit (\$)
2018 Dec 31	Manufacturing Statement Inventories- direct material <i>(Transfer of opening direct material inventories to Manufacturing account.)</i>	16 900	16 900
	Trading Account	75 000	
	Inventories- finished goods Trading Account <i>(Transfer of closing finished goods inventories to trading account.)</i>	62 000	62 000

Note: Closing inventories of DM/finished goods is recorded on debit side, as these inventories will be recorded in balance sheet as an asset at year end, they are **not closed**.

Closing Journal Entries

Date	Particulars	Debit (\$)	Credit (\$)
2018 Dec 31	Manufacturing Statement Purchases- direct materials Direct labour Indirect labour Factory light and power Factory supplies Depreciation on plant and equipment Customs duty Cartage inwards <i>(Closing of expenses to manufacturing statement.)</i>	110 700	25 000 50 000 12 000 10 000 5 000 8 000 500 200
	Purchases Returns- direct materials Manufacturing Statement <i>(Closing of purchases returns to manufacturing sta</i>	2 000	2 000
	Trading Manufacturing 2 Statement <i>(Closing of cost of production to trading account.)</i>	116 200	116 200
	Sales Trading Account <i>(Closing of sales to trading account.)</i>	230 000	230 000
	Trading Account Returns, finished goods <i>(Closing of returns to trading account.)</i>	4 000	4 000
	Trading 3 Account Profit and loss account <i>(Closing of gross profit to profit and loss account.)</i>	96 800	96 800

Notes:

1. Revenue, Expenses and opening inventories will be **closed off** as they belong to only one accounting period and are not recorded in Balance sheet which is forwarded to next accounting period.
2. Expenses recorded in manufacturing statement will be closed off to the manufacturing statement. Expenses recorded **on credit side** to close (opposite side)
3. Expenses/Revenues recorded in trading account/Income statement will be closed to trading account/ income statement.

Example of Manufacturing Statement (Without work in progress)

XXX LTD			
Manufacturing Statement for the year Ended 31st December, 2019			
	\$	\$	\$
<u>Direct Materials</u>			
Opening Inventories-DM		16 900	
<u>Add</u> Net Purchase		23 000	
<u>Add</u> Inwards/Customs duty		<u>700</u>	
Cost of Direct material available for use		40 600	
<u>Less</u> Closing stock		<u>9 400</u>	
Cost of Direct material used			31 200
<u>Direct Labour</u>			
Direct wages/labour costs			<u>50 000</u>
Prime Costs (DM + DL)			81 200
<u>Factory Overhead</u>			
Indirect labour		12 000	
Indirect materials/Factory supplies		10 000	
Factory light and power		5 000	
Depreciation factory plant & equipment		<u>8 000</u>	<u>35 000</u>
Cost of Production			<u>116 200</u>

Helps to determine the cost of production



Taken to Revenue Statement/Statement of Financial
Performance

Statement of Financial Performance of XXX Ltd			
for the year Ended 31st December, 2019			
Net Sales-Finished Goods (230 000 – 4 000)			226 000
<u>Less Cost of Sales</u>			
Opening Inventories- Finished Goods		75 000	
<u>Add: Cost of Production</u>		<u>116 200 (₹)</u>	

		191 200	
Less: Closing Inventories- finished Goods		<u>62 000</u>	
Cost of Sales			<u>129 200</u>
Gross Profit			<u>96 800</u>

Helps to determine Gross profit/Loss

FORMAT OF MANUFACTURING STATEMENT (With 2 Work in progress given)

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

XXX LTD			
Manufacturing Statement for the year Ended 31st December, 2019			
	\$	\$	\$
Work in Progress (opening)			1 000
<u>Direct Materials</u>			
Opening Inventories-DM	16 900		
Add Net Purchase	23 000		
Add Inwards/Customs duty	<u>700</u>		
Cost of Direct material available for use	40 600		
Less Closing stock	<u>9 400</u>		
Cost of Direct material used		31 200	
<u>Direct Labour</u>			
Direct wages/labour costs		50 000	
<u>Factory Overhead</u>			
Indirect labour	12 000		
Indirect materials/Factory supplies	10 000		
Factory light and power	5 000		
Depreciation factory plant & equipment	<u>8 000</u>	<u>35 000</u>	<u>116 200</u>
			117 200
Less Work in progress (ending)			<u>2 000</u>
Cost of Production			<u>115 200</u>

(Note: Use this format when 2 Work in progress is given in the question)

FORMAT OF MANUFACTURING STATEMENT (With 6 Work in progress given)

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

XXX LTD			
Manufacturing Statement for the year Ended 31st December, 2019			

	\$	\$	\$
<u>Direct Materials</u>			
<i>Work in progress- Direct materials (beginning)</i>		1 000	
Add: Opening Inventories-DM		16 900	
Add Net Purchase		23 000	
Add Inwards/Customs duty		<u>700</u>	
Cost of Direct material available for use		41 600	
Less Closing stock	9 400		
<i>Work in progress- Direct materials (ending)</i>	<u>2 000</u>	<u>11 400</u>	
Cost of Direct material used			30 200 (DM)
<u>Direct Labour</u>			
<i>Work in progress- Direct labour (beginning)</i>		10 000	
Add Direct wages/labour costs		<u>50 000</u>	
		60 000	
Less <i>Work in progress- Direct labour (ending)</i>		<u>20 000</u>	40 000 (DL)
Prime Cost			
<u>Factory Overhead</u>			
<i>Work in progress- FOH (beginning)</i>		5 000	
Add: Indirect labour	12 000		
Indirect materials/Factory supplies	10 000		
Factory light and power	5 000		
Depreciation factory plant & equipment	<u>8 000</u>	<u>35 000</u>	
		40 000	
Less <i>Work in progress- FOH(ending)</i>		<u>10 000</u>	<u>30 000</u> (FOH)
Cost of Production			<u>100 200</u>

(Note: Use this format when 6 Work in progress is given in the question)