

Manufacturing Accounts

AAT Level I

FAC - Financial Accounting

Sandeepa Jayasekera

MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, ACCA (UK), SAT,CIMA (UK) Passed
Finalist, CA and CIMA Prize Winner



JMC Jayasekera Management Centre (Pvt) Ltd
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65/2A, Chittampalam Gardiner Mawatha, Colombo 02 | T: +94 112 430451 | E: info@jmc.lk | F: +94 115 377917



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AAT 01 – Financial Accounting

Chapter 04 – Manufacturing Accounts

Sandeepa Jayasekera

MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, FCA, ACCA (UK), SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, Visiting Lecturer – Colombo University

Trading Businesses



Manufacturing Businesses



Manufacturing Business and Manufacturing Account

Manufacturing businesses are the business that purchase raw materials and uses labour and machineries to convert the raw materials into a final product.

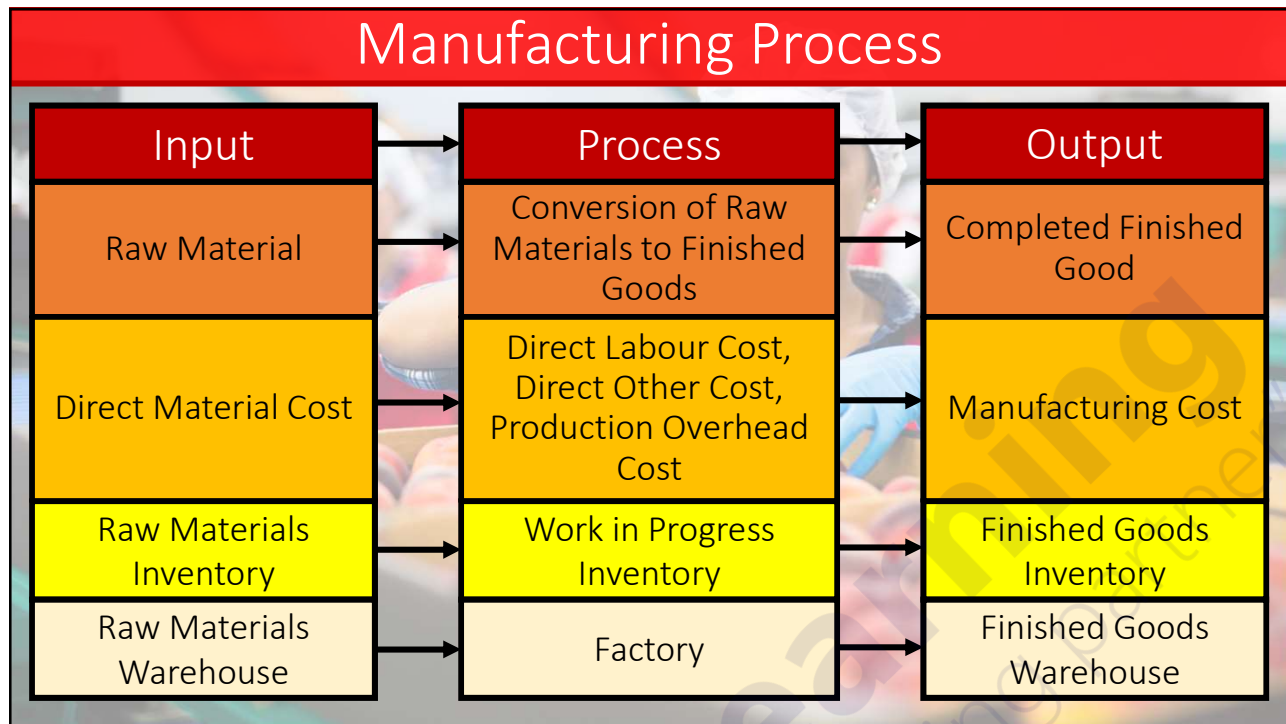
Manufacturing account is prepared in a manufacturing business to calculate manufacturing cost of the items completed in a factory for the given period.

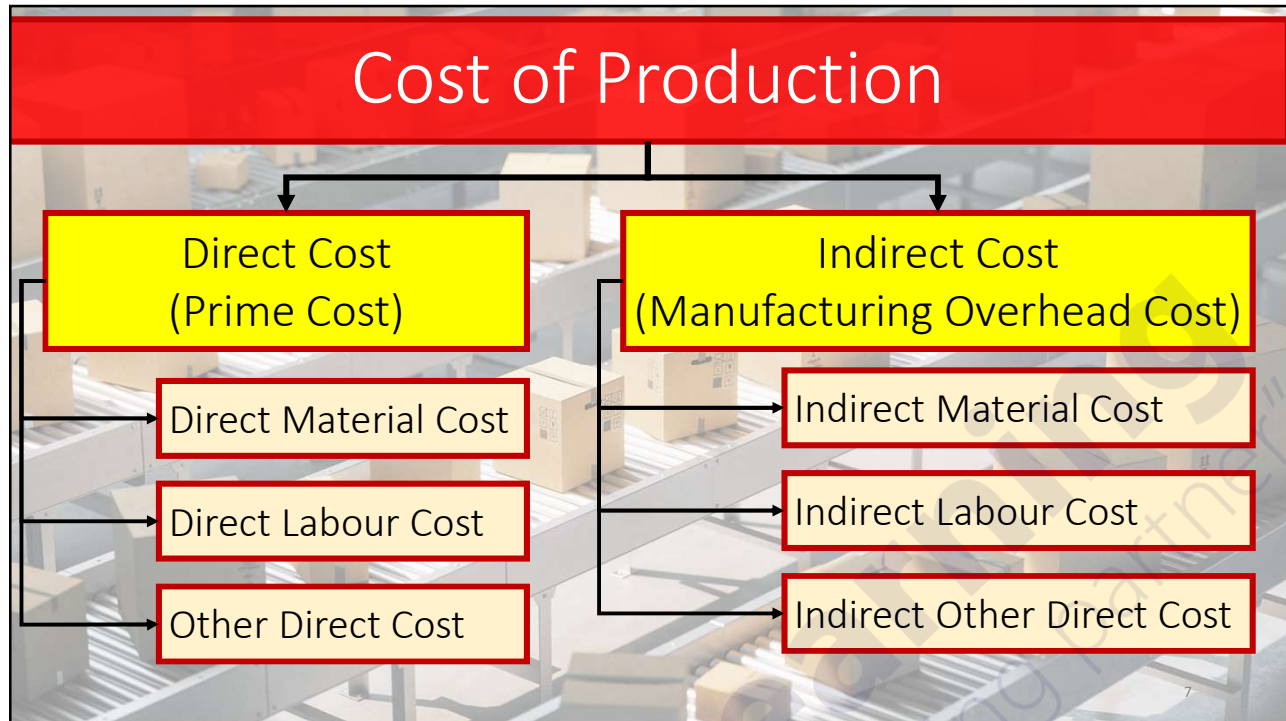
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3



Manufacturing Process





Question 01

Fill the following table taking the garment manufacturing factory as an example.

Cost Item	Direct Material Cost	Direct Labour Cost	Other Direct Cost	Indirect Material Cost	Indirect Labour Cost	Indirect Other Cost

Classification of Cost of Production

Direct Costs

Direct costs are the cost items that can be clearly identified from a product or directly attributed to a product. Generally, direct costs are varying with the number of products. Direct costs are production costs. Direct costs are classified as direct material, direct labour and other direct costs.

E.g. Cost of fabric in garments, wages paid to employees in garment.

Manufacturing Overhead Costs

Manufacturing overhead costs are the cost items that cannot be clearly identified from a product. Manufacturing overheads can be both variable and fixed. It include indirect material, indirect labour and indirect other costs.

E.g. Production Overheads such as supervisor salary, factory electricity.

Non-Production Costs

Indirect costs are classified as both manufacturing and non-manufacturing. The manufacturing overheads are accounted under the production account. The non-production overheads are the administration costs, selling and distribution costs, finance costs etc. These are accounted in the profit or loss.



Direct Costs

Direct Materials Cost

- Direct material is the main input of the manufactured item.
- E.g.
 - Fabric in a garment manufacturing business.
 - Corn flour in a bakery.
 - Tea leaves in a tea factory.
- Cost associated in acquiring the raw material for production is called the direct material cost.
- Generally, the direct material cost vary with the number of products.

Direct Labour Cost

- Direct labour is the main staff involved in the manufacturing process.
- E.g.
 - Machine operators in a garment.
 - Carpenters in furniture manufacturing
 - Bakers in a bakery
- Cost of the employee benefits such as salary, overtime, EPF, ETF are considered as the direct labour cost.
- Generally, the labour cost may not vary with the production volume unless there's a piece rate.

Other Direct Costs

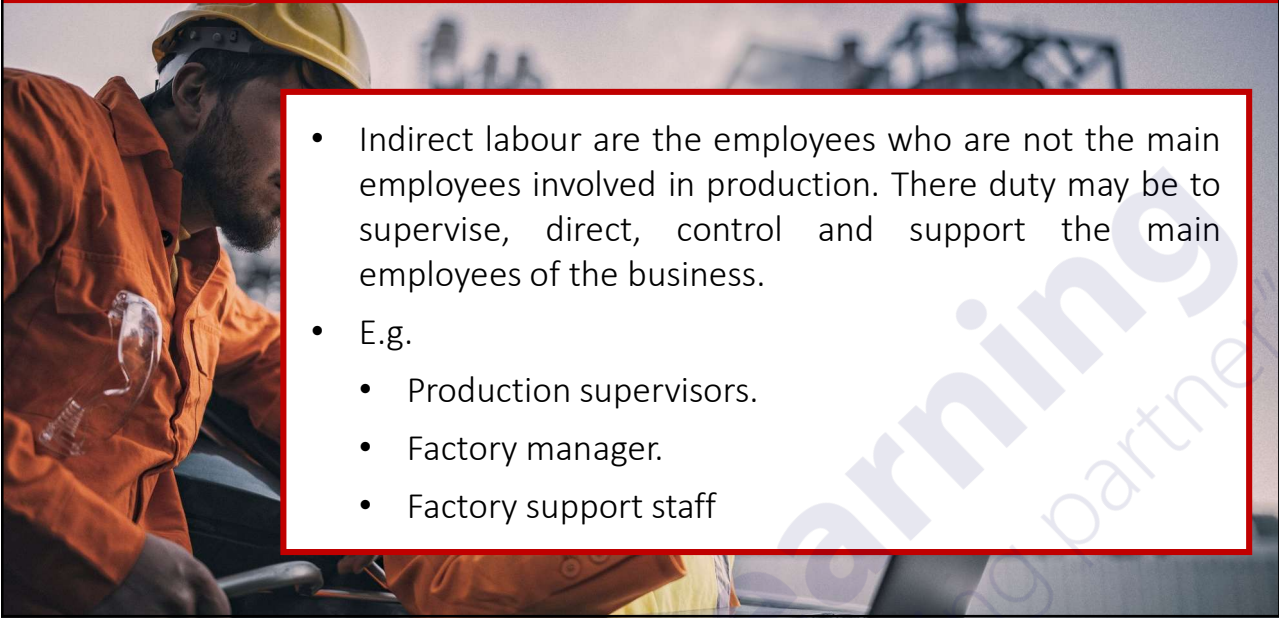
- Except the direct material and direct labour, if there's another cost that vary with the number of products, such cost is considered as an other direct cost.
- E.g.
 - Royalties paid on number of production.
 - Cost of designers.



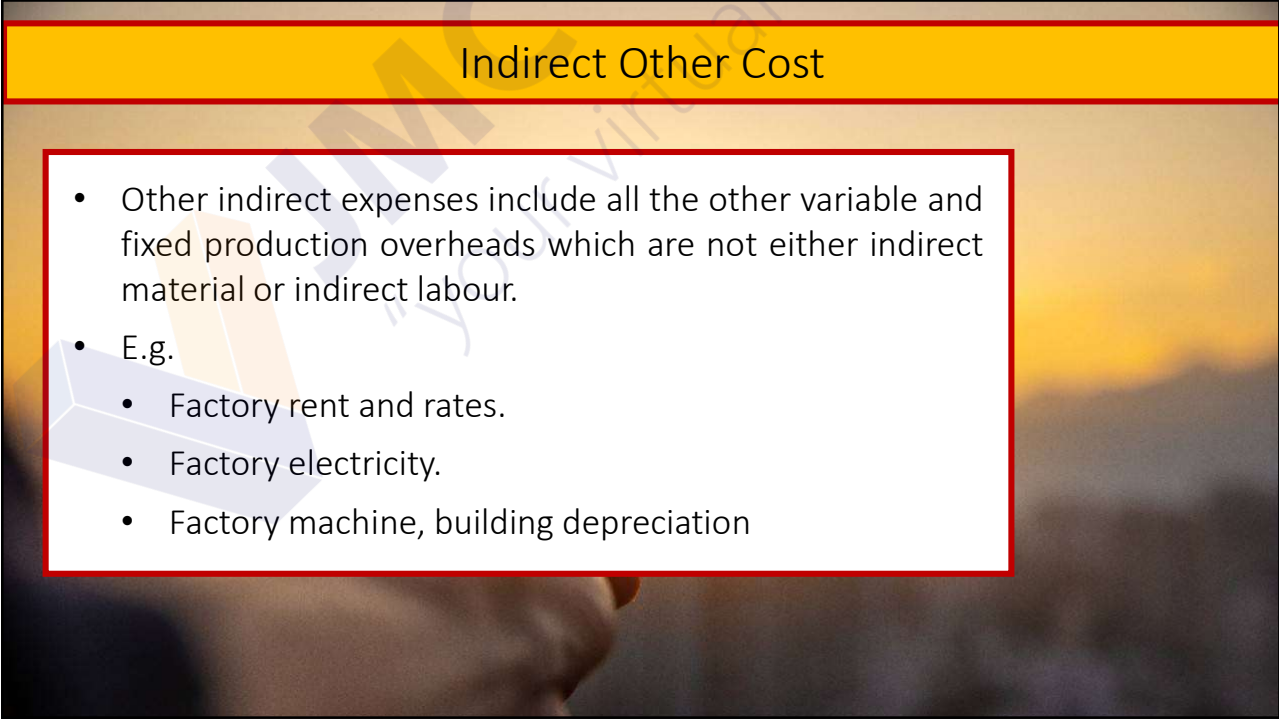
Indirect Material Cost

- Indirect materials are the materials that are not the main inputs of a product. Generally, indirect materials are not directly attributable to a product. Some insignificant direct materials are even considered as indirect material.
- E.g.
 - Fuel used for the machines in a manufacturing facility
 - Buttons and zippers in a garment
 - Wood used in a bakery

Indirect Labour Cost

- 
- Indirect labour are the employees who are not the main employees involved in production. Their duty may be to supervise, direct, control and support the main employees of the business.
 - E.g.
 - Production supervisors.
 - Factory manager.
 - Factory support staff

Indirect Other Cost

- 
- Other indirect expenses include all the other variable and fixed production overheads which are not either indirect material or indirect labour.
 - E.g.
 - Factory rent and rates.
 - Factory electricity.
 - Factory machine, building depreciation

What are the Three different types of Inventory in a Manufacturing Business?



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19





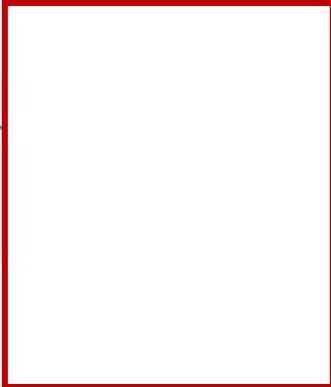
Work in Progress



Finished Goods

Inventory Types

Raw Materials



Work in Progress



Finished Goods



Work in Progress Inventory Accounting

Work in progress inventory includes the items which are still in the process of production as of reporting date. Since, it's not completed, the cost of closing work in progress shall be deducted from manufacturing cost. If there, was an opening work in progress, as it was completed in current reporting period, it shall be added to the manufacturing cost.

+ Opening Work in Progress	X	
(-) Closing Work in progress	(X)	X/(X)

Valuing the Work in Progress can be to

Prime Cost



Total Production Cost



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Adjusting the WIP to Prime Cost

If the WIP has incurred majorly the prime costs, WIP will be adjusted to Prime cost in Manufacturing Account.

Manufacturing Account Extract

Prime Cost incurred for the period		XX
+ Opening Work in Progress	X	
(-) Closing Work in Progress	(X)	X
Prime Cost of Completed Goods		X

Adjusting the WIP to Total Production Cost

If the WIP has absorbed the total production cost, WIP will be adjusted to Total cost in Manufacturing Account.

Manufacturing Account Extract

Production Cost incurred for the period		XX
+ Opening Work in Progress	X	
(-) Closing Work in Progress	(X)	X
Cost of Completed Goods		X

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Format of Manufacturing Account

ABC Manufacturers
Manufacturing Cost Statement
For the year ended 31st March 20X7

Direct Material Costs		
+ Opening Raw Materials Inventory	X	
+ Raw Materials Purchases	X	
+ Carriage Inwards	X	
(-) Purchase Returns	(X)	
(-) Damaged Raw Materials	(X)	
(-) Closing Raw Materials Inventory	(X)	
Raw Material Consumption		X
Direct Labour Costs		X
Direct Other Costs		X
Primary Cost		XX

28

Production Overhead Cost		
Factory Electricity	X	
Factory Rent and Rates	X	
Indirect Consumables	X	
Machine Depreciation	X	
Machine Maintenance	X	X
Production Cost incurred for the Period		XX
+ Opening Work in Progress Inventory	X	
(-) Closing Work in Progress Inventory	(X)	X/(X)
Cost of Production		XX
Manufacturing Profit		X
Transfer Price of Goods to Trading Division		XX

29

- The cost of production of completed items will be calculated from manufacturing account. This will be taken to the trading account and adjust the finished goods to calculate the cost of sales.

Dr. Trading Account

Cr. Manufacturing Account

- When transferring the manufacturing cost to Trading account, there are two alternatives.
 - Transfer the manufacturing cost
 - Transfer the Transfer price (Manufacturing cost + Profit kept by Factory)

Transfers from Manufacturing Account to Trading Account

At Manufacturing Cost

In this method the cost of completed goods in the manufacturing account is directly transferred to trading account. In this method factory does not keep any profit.

At Transfer Price

Sometimes, the factory will add a profit to the manufacturing cost and transfer the items to the trading division. Profit included cost is considered as a transfer price.

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31

Income Statement Extracts If Manufacturing Cost Transferred

At Manufacturing Cost

Sales		X
Cost of Sales		
Opening Finished Goods	X	
+ Manufacturing Cost	X	
(-) Closing Finished Goods	(X)	(X)
Gross Profit		X

At Transfer Price

Sales		X
Cost of Sales		
Opening Finished Goods	X	
+ Manuf. Cost (Transfer Price)	X	
(-) Closing Finished Goods	(X)	(X)
Gross Profit		X
Manufacturing Profit		X
		XX

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Question 02

Milan Limited manufactures a single product. The following balances have been extracted from the ledgers for the year ended 31 December 20X5:

Inventories at cost at 1 January 20X5	
Raw materials	10,400
Work-in-progress	12,600
Finished goods at transfer price	14,904
Purchases of raw materials	146,200
Carriage inwards	3,160
Carriage outwards	2,790
Direct wages	249,400
Indirect wages	54,650
Rent	49,000

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33

Heat, light and power	28,600
General expenses	12,600
Office salaries	24,780
Revenue	742,490
Bad debt expense	2,484
Plant and machinery at cost	200,000
Office equipment at cost	15,000
Motor vehicles used by salesmen	25,000
Return inward	5,000
Return outward	2,500
Damaged raw materials	2,000
Drawings – Finished Goods	3,000
Discounts received	5,000
Discounts given	4,000
Salaries of management	20,000

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34

Additional information

1. Closing inventory was valued as follows:

Raw materials	11,750	Work in progress	14,670
Finished goods	15,750		

2. Expenses are to be apportioned to the production department as follows

Rent	80%	Heating and Light	80%
General Expenses	75%		

3. Rent has been prepaid by Rs. 4,000

4. Heat and light is in arrears by Rs. 3,500

5. Depreciation is to be provided as follows:

Plant and machinery 10% per annum on cost

Motor vehicles 25% per annum on cost

Office equipment 15% on cost

Required

(a) Prepare the manufacturing account for the year.

(b) Prepare the income statement for the year.

35

2024 July Q3

Rishard Aluminum is a manufacturer of Aluminum Fabrications and the following information was extracted from the books of accounts of Rishard Aluminum for the year ended 31st March 2024:

Description	Rs.
Raw Material Stock as at 01st April 2023	380,000
Raw Material Purchased during the year	3,600,000
Work-In-Progress as at 01st April 2023	Nil
Carriage Inwards of Raw Material	55,000
Direct Wages to Production Workers	1,800,000
Maintenance of Machinery	120,000
Security Charges	450,000
Electricity	800,000
Rent	570,000
Depreciation of Machinery	120,000
Depreciation of Vehicles	320,000

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The following additional information is also provided:

(1) Closing inventory balances as at 31st March 2024 were valued as follows:

Description	Rs.
Raw Material Stock (At cost)	150,000
Work-in-Progress (Valued at Prime Cost)	180,000

(2) The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Rent	70%	30%
Security Charges	80%	20%

(3) Plant & Machinery are used to manufacture aluminum fabrications while motor lorry is used by the business to deliver the manufactured items to customers..

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37

(4) Manufactured items are transferred to the trading division at a profit of 15% on the cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Rishard Aluminum for the year ended 31st March 2024. (10 marks)

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38

2024 January Q3

Nazeer Machine Works is a manufacturer of machine parts, and the following information was extracted from the books of accounts of Nazeer Machine Works for the year ended 31st March 2023

Description	Rs.
Raw Material Stock as at 01 st April 2022	850,000
Raw Material Purchases	3,500,000
Work -In -Progress as at 01 st April 2022 (valued at prime cost)	225,000
Carriage Inwards of Raw Material	75,000
Direct wages -Production Workers	1,500,000
Security Charges	500,000
Electricity Expenses	520,000
Factory Manager's Salary	370,000
Depreciation on Plant & Machinery	320,000
Depreciation of Vehicles	360,000

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The following additional information is also provided:

(1) Closing inventory balances as at 31st March 2023 were valued as follows:

Description	Rs.
Raw Material Stock (At cost)	250,000
Work -in -Progress (Valued at Prime Cost)	425,000

(2) The following expenses should be allocated as follows:

Expenses Description	Factory	Office
Electricity Expenses	85%	15%
Security Charges	90%	10%

(3) Plant & Machinery and motor lorry are completely used for the factory purpose.

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40

(4) In addition to direct wages, an incentive of Rs.100/- per part is entitled by production workers for each machine parts produced. 10,000 machine parts were produced.

(5) The manufactured units are transferred to the trading division at a profit margin of 20% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Nazeer Machine Works for the year ended 31st March 2023.

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41

2023 July Q3

Shakthi Concrete Works is a manufacturer of concrete products and the following information was extracted from the books of accounts of Shakthi Concrete Works for the year ended 31st March 2023:

Description	Rs.
Raw Material Stock as at 01st April 2022	650,000
Raw Material purchases	4,250,000
Work-In-Progress as at 01st April 2022 (valued at prime cost)	150,000
Carriage Inwards of Raw Material	25,000
Direct Wages	1,200,000
Factory Manager's Salary	625,000
Rent	300,000
Water	50,000
Electricity	820,000

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42

Description	Rs.
Machine Repairs	105,000
Depreciation on Plant & Machinery	120,000
Depreciation on Motor Lorry	220,000

The following additional information is also provided:

1. Closing inventory balances as at 31st March 2023 were valued as follows:

Description	Rs.
Raw Material Stock (At cost)	585,000
Work -in -Progress (Valued at Prime Cost)	235,000

2. Motor lorry is used by the business to deliver the products to customers, while all plant &
3. machinery are used to produce concrete products.

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43

4. The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Water	90%	10%
Rent	80%	20%

5. The manufactured concrete products are transferred to the trading division at a profit margin of 18% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Shakthi Concrete Works for the year ended 31st March 2023. (10 marks)

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44

2023 January Q3

Kaluwara Furniture is a manufacturer of dining tables & chairs and the following information was extracted from the books of Kaluwara Furniture for the year ended 31st March 2022:

Description	Rs.
Raw Material Stock as at 01st April 2021	600,000
Raw Material purchases	4,700,000
Carriage Inwards of Raw Material	185,000
Work-In-Progress as at 01st April 2021	Nil
Factory Manager's Salary	680,000
Direct Wages	600,000
Rent	800,000
Insurance on Factory Building	200,000
Electricity	720,000

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45

Water	300,000
Depreciation on Plant & Machinery	350,000
Depreciation on Factory Building	600,000

The following additional information is also provided:

- Closing inventory balances as at 31st March 2022 were valued as follows:

Raw Material Stock at cost	650,000
Work -in -Progress (Valued at Total Manufacturing Cost)	250,000

- The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	75%	25%
Water	40%	60%
Rent	60%	40%

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46

3. The manufactured furniture are transferred to the trading division at a profit margin of 25% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Kaluwara Furniture

2022 July Q3

Lassana Pots is a manufacturer of flowerpots and the following information was extracted from the books of Lassana Pots for the year ended 31st March 2022:

Description	Rs.
Raw Materials Purchased	3,800,000
Carriage Inwards of Raw Materials	350,000
Factory Manager's Salary	420,000
Direct Wages - Production Workers	700,000
Electricity	620,000
Water	400,000
Insurance on Factory	125,000
Depreciation - Plant & Machinery	250,000
Depreciation - Motor Lorry	120,000

The following additional information is also provided:

1. Inventories are valued as follows.

Description	As at 01st April 2021	As at 31st March 2022
Raw Material (At cost)	800,000	850,000
Work -in -Progress (Valued at Prime Cost)	235,000	Nil

2. The following expenses should be allocated as follows:

Expense	Factory	Office
Electricity	80%	20%
Water	90%	10%

3. Motor lorry is used only for delivering raw materials to the factory.

4. An incentive of Rs.25/- is entitled by production workers for each produced pot other than direct wages. Total number of pots produced during the year was 10,000.

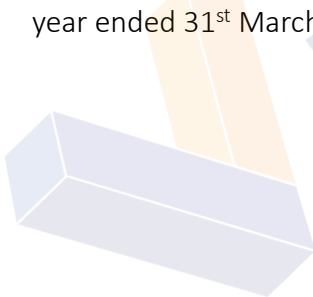
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49

5. The manufactured pots are transferred to the trading division at a profit margin of 20% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Lassana Pots for the year ended 31st March 2022. (10 marks)



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50

2022 January Q4

Ransiri Traders is a manufacturer of paint and the following information was extracted from the books of Ransiri Traders for the year ended 31st March 2021:

Description	Rs.
Raw Material Purchased	2,771,000
Carriage inwards of raw material	29,000
Direct Wages	920,000
Insurance	328,000
Factory Manager's salary	900,000
Electricity	420,000
Depreciation - Plant & Machinery	450,000
Depreciation - Factory Building	180,000

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51

The following additional information is also provided:

1. Inventories are valued as follows.

Description	As at 01st April 2020	As at 31st March 2021
Raw Material	900,000	875,000
Work-in-Progress (Valued at Prime Cost)	175,000	420,000

2. The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	80%	20%
Insurance	60%	40%

3. Manufactured products are transferred to the trading division at a profit margin of 15% on cost of production.

You are required to:

Prepare the Manufacturing Cost Statement (Manufacturing Account) of Ransiri Traders for the year ended 31st March 2021.

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52

2021 July Q3

KDI Traders is a manufacturer of rubber products and the following information was extracted from the books of KDI Traders for the year ended 31st March 2021:

Description	Rs.
Raw Material Stock as at 01st April 2020	600,000
Raw Material Purchases	2,300,000
Work in- Progress as at 01st April 2020	350,000
Direct Wages	890,000
Electricity	360,000
Factory Manager's salary	625,000
Water	180,000
Depreciation on Plant & Machinery	110,000
Depreciation on Building	135,000

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53

The following additional information is also provided:

1. Closing inventory balances as at 31st March 2021 were valued as follows.

Description	Cost (Rs.)
Work-in-Progress (Valued at Prime Cost)	290,000
Raw Material Stock	1,250,000

2. 90% of the floor area of the building belongs to the factory and plant & machinery are fully utilized for the production process.

3. The following expenses should be allocated as follows:

Expenses	Factory	Office
Electricity	90%	10%
Water	60%	40%

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54

4. An additional incentive of Rs.100/- per unit for each unit produced is entitled by production workers other than the direct wages. Total number of units produced during the year was 600 units.

You are required to:

Prepare the Manufacturing Account of KDI Traders for the year ended 31st March 2021.

(10 marks)

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55

2021 January Q4

Ramanayake Ceramic is a manufacturer of ceramic items and the following information was extracted from the books of Ramanayake Ceramic for the year ended 31st March 2020:

Description	Rs.
Raw Material purchased	2,100,000
Raw Material inventory as at 01st April 2019	650,000
Work-in-Progress as at 01st April 2019 (Valued at Prime Cost)	910,000
Carriage inwards - Raw material	330,000
Direct Wages	1,650,000
Electricity	400,000
Fuel for Factory Generator	125,000
Depreciation on Motor Lorry	250,000
Depreciation on Buildings	160,000
Insurance for factory building	270,000

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The following additional information is also provided:

1. Closing inventory balances as at 31st March 2020 were valued as follows.

Description	Cost (Rs.)
Raw Material	700,000
Work -in - Progress (Valued at Prime Cost)	440,000

2. The policy of the business is to provide depreciation on the straight-line basis at cost as follows. Buildings 10% per annum and Motor vehicles 25% per annum.

3. The following expenses should be allocated as follows:

	Factory	Office
Electricity	80%	20%
Depreciation on Buildings	80%	20%
Depreciation on Motor Lorry	90%	10%

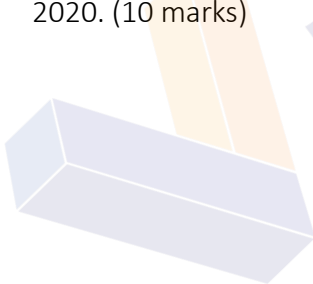
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57

4. The manufactured goods are transferred to the trading division at a profit of 10% on cost.

You are required to:

Prepare the Manufacturing Account of Ramanayake Ceramic for the year ended 31st March 2020. (10 marks)



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58