

# Lecture 1

# Manufacturing Accounts

In this chapter, you will learn how to prepare manufacturing accounts and the reasons for doing so. You do not touch the preparation of balance sheet at this course.

***Manufacturing account is not retailing account.***

For the manufacturers, a *manufacturing account* is prepared in addition to the trading and profit and loss accounts. It is produced for internal use only. People other than the owners and managers of the organization rarely see a manufacturing account.

## *Layout*

### 1] Cost of materials used

Opening stock of raw materials plus purchases of raw materials less closing stock of raw materials.

### 2] Direct labour costs

Wages paid to workmen engaged on actual production.

### 3] Direct expenses

Any expenses incurred on actual production.

### 4] Prime cost

The subtotal of [1], [2] and [3].

5] Factory overheads

Associated with production such as factory rent and rates, salary of works manager, and depreciation of plant and machinery.

6] Work in progress at the beginning of the period  
(added)

7] Work in progress at the end of the period (deducted)

## *Relationship of Manufacturing and Trading Account*

In Manufacturing account

Direct materials

+ Direct labour

+ Direct expenses

= PRIME COST

+ Factory overheads

= TOTAL PRODUCTION COST (see below)

## *In Trading Account*

Sales		X
Less Cost of sales		
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+ Opening stocks finished goods	X	
+ Production costs ( <i>as above</i> )	X	
- Closing stocks finished goods	<u>(X)</u>	<u>X</u>
Gross Profit		<u>X</u>