

Manufacturing Accounting and Practical Example

Welcome to our presentation on manufacturing accounting. In this session, we will explore the concepts of cost of goods sold and its impact on financial statements, using a real-life case study.

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Overview of Manufacturing Accounting

1 What is Manufacturing Accounting?

Manufacturing accounting involves tracking and analyzing the costs associated with the production of goods.

2 Key Objectives

Manufacturing accounting aims to provide insights into production costs, inventory valuation, and profitability analysis.

3 Challenges

Manufacturing accounting requires accurate cost allocation, monitoring of inventory levels, and adherence to accounting standards.

Cost of Goods Sold (COGS)

1 Definition of COGS

COGS represents the direct costs involved in manufacturing or acquiring products for sale.

2 Calculation of COGS

COGS is calculated by adding the beginning inventory, purchases or production costs, and subtracting the ending inventory.

3 Impact on Financial Statements

COGS directly affects the gross profit and subsequently influences the net income and overall financial health of the company.

Case Study: Calculating and Analyzing COGS

1

Step 1: Gather Data

Collect data related to the inventory, production costs, and sales of the manufacturing company.

2

Step 2: Calculate COGS

Apply the formula for COGS calculation using the beginning inventory, purchases, and ending inventory figures.

3

Step 3: Analyze COGS

Evaluate the COGS in relation to the company's revenue, gross profit margin, and industry benchmarks.

Terminologies

Prime cost - Direct costs of physically making the products (e.g. raw materials)

Overhead cost - Other indirect costs associated with production but not in a direct manner

The cost of manufacturing the products will be the total of the prime cost and the overhead cost added together.

This total factory cost (or production cost) will then be transferred to the trading account where it will appear instead of the 'normal' purchases

Terminologies

In a manufacturing concern, usually there are three kinds of stocks:

Stock of Raw materials (the materials which are mainly used for production of the item)

Stock of Work in progress (the materials on which some work process have been completed)

Stock of Finished goods (The materials on which all the production processes are completed and ready for sale to the customers)

Opening stock of raw materials	XXXX	
Add purchase of raw materials	XXXXX	
Add carriage inwards (if any)	<u>XXX</u>	
	XXXXX	
Less Returns outwards (of raw materials)	<u>XXX</u>	
	XXXXX	
Less Goods drawings (if any)	<u>XXX</u>	
	XXXXX	
Less Closing stock of raw materials	<u>XXX</u>	
Cost of Direct Materials		XXXXXXXX
Add Direct labour		XXXXXXXX
Add Direct expenses (Eg: royalties)		<u>XXXXXXXX</u>
Prime Cost		XXXXXXXX
<u>Add Factory overhead expenses</u>		
Factory lighting	XXXXXX	
Factory heating	XXXXXX	
Factory insurance	XXXXXX	
Factory rent	XXXXXX	
Factory maintenance	XXXXXX	
Factory indirect wages	XXXXXX	
Factory supervisor's wages	XXXXXX	(+)
Depreciation on plant & machinery	XXXXXX	
Depreciation on factory building	XXXXXX	
Depreciation on factory furniture	XXXXXX	
Depreciation on factory motor van	XXXXXX	
Depreciation on other factory fixedassets	<u>XXXXXX</u>	<u>XXXXXXXX</u>
		XXXXXXXX
Add Opening stock of work in progress		XXXXXX
		XXXXXXXX
Less Closing stock of work in progress		XXXXXX
Cost of production		XXXXXXXX

Sales of finished goods		XXXXX
Less Returns inwards		<u>XXXXX</u>
		XXXXXX
<u>Less Production cost of goods sold</u>		
Opening stock of finished goods	XXXXX	
Add Cost of production	<u>XXXXXXXX</u>	(-)
	XXXXXX	
Less closing stock of finished goods	<u>XXXXX</u>	
	XXXXXXXX	
Less finished goods drawings by the owner	XXXXX	XXXXXXXX
Gross profit or Gross loss		XXXXXX
SELLING AND DISTRIBUTION		
Bad debt	XXXXXX	
Depreciation-Motor vehicle	XXXXXX	
Wages and Salaries:	XXXXXX	
Lawani	XXXXXX	
Sales Manager	XXXXXX	
Sales Dept.	XXXXXX	
Sundry expenses	XXXXXX	
Rates and Insurance	XXXXXX	
Motor expenses	<u>XXXXXX</u>	
TOTAL		<u>XXXXXX</u>
Net Profit c/d		XXXXXX

thank
you