

SUBJECT: ACCOUNTING

CLASS:

THEME: MANUFACTURING ACCOUNT

DATE:

UNIT TOPIC: MANUFACTURING ACCOUNT

LESSON TOPIC: Meaning, Purpose, Terminologies and Computation of Cost of Raw Material and Prime cost of production.

TIME:

DURATION:

INSTRUCTIONAL OBJECTIVES: At the end of the lesson the students should be able to;

1. Define manufacturing account
2. Explain the terminologies in manufacturing account
3. Explain, what to do with cost of raw materials produced and how finished goods are transfer from manufacturing dept/account to sale/trading account &dept
4. Draw up a format of manufacturing profit and loss account.

INSTRUCTIONAL RESOURCES: The teacher draw up the format/layout of the manufacturing account to depict all the terminologies therein.

PRESENTATION: The teacher presents the lesson as follows;

STEP 1: IDENTIFICATION OF PRIOR IDEAS

MODE: ENTIRE CLASS

TEACHERS ACTIVITY: The teacher guides the students into the new topic by asking them to:

- a) Define Accounting
- b) Defined suspense account & general journal
- c) Defined Trading, Profit & Loss a/c and Balance sheet
- d) Defined Bank reconciliation statement & control a/c

EXPECTED RESPONSE:

Accounting is the process of recording, classifying, selecting, measuring, interpreting and communicating financial data of an organization to enable users make decision.

Suspense account is an account used to record the difference on a trial balance temporarily until errors are detected and corrected. **General journal** is a book of original or prime entries used to record transactions in chronological order.

Trading account is an account prepares to ascertain the gross profit realized on sales. Profit and Loss Account is defined as the account prepared to ascertain the net profit/loss after operating expenses for the period

Control Account can be defined as the memorandum Account, the balance of which reflects the aggregate balances of many related subsidiary accounts which are part of double entry system.

Bank reconciliation is an account prepared to harmonize cash book record of bank and record statement

The students respond positively.

STEP 2: EXPLORATION

MODE: ENTIRE CLASS

TEACHER ACTIVITY: The teacher guides the students through an inspection of their findings about manufacturing company account.

STUDENT'S ACTIVITY: The students respond by expressing what they have been able to study in preparation for the class as regards to the lesson topic.

STEP 3: DISCUSSION

MODE: ENTIRE CLASS

TEACHER'S ACTIVITY: The teacher defines and explain the meaning of manufacturing company account as shown below;

First, we must be reminded that;

Trading, Profit & Loss a/c is said to be the first phase of the final account of a sole trader. While balance sheet is said to make up the 2nd phase of the final account i.e., Trading account is prepared to determine the gross profit on sale.

While profit and loss account is prepared to determine the net profit or loss after settling all the expenses and balance sheet prepared to determine and show a clear position of a company financial status as represented in the presentation of a summary of its asset and liabilities.

Thus, bring us to the introduction of What manufacturing account is all about.

Manufacturing Account can be defined as the account of a manufacturing company/production company prepared in a view to ascertain the cost of goods produced during the year in such as manner as to show the components of the cost analysis of the goods produce.

COST COMPONENTS OF A MANUFACTURING FIRM(TERMINOLOGIES)

- A. **DIRECT MATERIALS:** (Items of Production) This comprises of cost of raw materials consumed, such as cost of R.M purchased carriage costs and the adjustment of opening & closing stock of R.M by way of adding opening stk of R.M to the fold and deducting closing stock of R.M.
- B. **DIRECT LABOUR:** (Direct mfg wages) This is the wages of workers per unit of production such as operator of a mowing machine in the textile company different from the salary of foreman who supervises every other job within the firm which is considered as indirect or overhead expenses because its work could not be traced directly to any unit produced at any period during the year.
- C. **DIRECT EXPENSES:** (Royalties & hiring cost) This consist other production expenses incurred when specific goods are produced expenses such as
 - * Royalty payable per unit of output
 - * Cost of hiring specific plant& machinery for particular jobs.

- D. PRIME COST: This is the sum of the three elements of cost in production mentioned above.
- E. PRODUCTION OVERHEAD EXPENSES: All other expenses incurred in the factory which cannot be directly traced to any of the units being produced are referred to as indirect expenses or overhead factory expenses. This includes, such cost as foreman salary, depreciation of factory plants and machinery, factory rent and rates, factory cleaning, insurance of factory plant and machinery, factory power and factory repairs.
- F. WORK IN PROGRESS: These are partly manufactured goods in various stages of production. They cannot be classified as raw materials neither can they be classified as finished goods, but in order to get the true cost of goods produced, adjustment must be made to work in progress at the beginning and at close by the way of subtracting the latter (close) from the opening work in progress.
- G. FINISHED GOODS: These are items considered to have passed through and completed all the necessary state of production and is ready for distribution or sales.

WHAT TO DO WITH THE COST OF GOODS PRODUCED

The cost of goods produced when ascertained will be transferred to trading account to take the place where purchases figure is normally shown since the firm sells the goods it produces. However, there are cases where a firm may purchase finished goods from other manufacturers to take advantage of market demand when theirs are sold out or not enough to engage the market. These occurrences are usually minimal and infrequent and purchases of finished goods are if any will be added along with the value of goods produced to the opening stock of finished goods to obtain the cost of goods available for sale.

TRANSFER OF FINISHED GOODS TO TRADING ACCOUNT AND SALES DEPARTMENT VALUES

Where a firm manufactures the goods it sells, it follows that a portion of the gross profit earned on the sale of the good is attributable to the cost saving achieved by manufacturing instead of buying the goods. The cost saving also referred to as manufacturing profit which is a fraction/percentage of cost of goods produced is known as MARK-UP on cost of goods produced. Thus, the cost of goods produced plus manufacturing profit (mark-up) is the market value of goods produced. Where the manufacturing profit is given, it is debited to manufacturing account after obtaining the cost of goods produced and credited to the profit and loss account. Thus, goods produced are transferred to trading account of market value.

MANUFACTURING, PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DEC., 20.....

	N	N		N
Opening stock of R.M		xxx	Market value of gds produced	xxx
Add: Purchases of R.M	xx			
Less Pur. Returned R.M	<u>xx</u>	xxx		
Carriage of R.M		xxx		
Cost of R.M available for use		xxx		
Closing stock of R.M		<u>xxx</u>		
Cos t of R.M used		xxx		

Direct labour (mfg wages)		xxx	
Direct exps (royalties)		<u>xxx</u>	
PRIME COST		xxx	
<u>Factory Overhead exps</u>			
Depr. of plant & mach.	Xx		
Factory light & power	xx		
Foreman salaries	xx		
Factory rent	xx		
Gun factory overhead	<u>xx</u>	<u>xxx</u>	
		xxx	
Opening work-in-progress	xx		
Closing work-in-progress	(xx)	xxx	
Production cost		xxx	
Mfg profit (mark-up)		<u>xxx</u>	<u>xxx</u>

Format 2

MANUFACTURING, PROFIT & LOSS ACCOUNT

	N	N		N
Opening stock of R.M		xxx	Cost of production b/d	xxx
Add: Purchases of R.M	xx			
add Carriage inward on R.M	<u>xx</u>	xxx		
		xxx		
Less Closing stock on R.M		xxx		
Cost of R.M consumed		xxx		
Add Directwages		xxx		
Royalties		xxx		
Direct exps		xxx		
PRIME COST		xxx		
<u>Factory Overhead:</u>				
Factory power	xx			
Factory rent & rate	xx			
Indirect wages	xx			
Depreciation plant & mach	xx			
Fuel & power	xx			
Foreman salaries	xx			
Lubricants	xx	<u>xxx</u>		
		xxx		
Add Opening work-in-progress		xxx		
Less Closing work-in-prog	(xx)	<u>xxx</u>		
Cost of production		<u>xxx</u>		
Opening stk of fin gds		xxx	Sales	<u>xxx</u>
				xxx

Add cost of production		<u>XXX</u>		
		<u>XXX</u>		
Less closing stk of finished gds		<u>xxx</u>		
		XXX		
Gross profit		<u>XXX</u>		<u>XXX</u>
Expenses			Gross profit b/d	xxx
Selling distribution			Discount received	xxx
Carriage outwards	xx			
Commission on sales	xx			
Salesmen salaries	<u>xx</u>	<u>xxx</u>		
<u>Administration</u>				
Admin. Salaries	xx			
Office rent	xx			
Office insurance	xx			
Office lightning	xx			
Office machinery depr.	Xx	<u>xxx</u>		
Net profit		<u>XXX</u>		<u>XXX</u>

Since the manufacturing account is mainly concerned with expenses, all the items appear on the debit side.

STUDENT'S ACTIVITY: The students respond by writing down all of the above discussion.

STEP 4: APPLICATION

MODE: ENTIRE CLASS

TEACHER'S ACTIVITY: The teacher asks the students on the applicable use of the topic to their business life or that of their friends and family.

EXPECTED RESPONSE: The students express the knowledge acquired from the topic to determine the profit margin between goods purchased for resale and good produced to be sold. Take/prepare proper account to determine production profit and how products are being transferred to trading at market value.

STUDENT'S ACTIVITY: Students respond positively.

STEP 5: EVALUATION

MODE: ENTIRE CLASS

TEACHERS ACTIVITY: The teacher concludes the class by asking the students to

1. Define manufacturing account
2. Explain the terminologies in manufacturing account
3. Explain, what to do with cost of raw materials produced and how finished goods are transfer from manufacturing dept/account to sale/trading account &dept
4. Draw up a format of manufacturing profit and loss account.

STUDENT'S ACTIVITY: The students respond by answering the above questions.

ASSIGNMENT: The teacher asks the students to read extensively on the topic
(manufacturing trading, profit & loss a/c)

REFERENCE:

1. O. A. Longe & R.A Kazeem; 2008; Essential Financial Accounting, by Tonad publishers Ltd.
1. Robert O. Igben, FCA; 2009; Financial Accounting made simple (FAMS); by ROI publisher Ltd.