

**INANDA NEWTOWN COMPREHENSIVE HIGH SCHOOL
ACCOUNTING CLASS GRADE 12**

MANUFACTURING

SHORT FORM INCOME STATEMENT

Name of the manufacturer _____

Income Statement for the period ended _____

Sales		xxx
Less: Cost of Sales (cost of finished goods sold)	6	(xxx)
Gross Profit		xxx
Less: Other Costs		xxx)
Selling and Distribution Costs	4	(xxx)
Administration Costs	5	(xxx)
Net Profit		xxx

This is a shorter form of the Income Statement than what learners are used to.

Under expenses we do not list all the expenses but rather group them into Selling & Distribution Costs and Administration Costs.

4	Selling and Distribution Costs	
	Sales commission	xxx
	Rent: Sales department	xxx
	Depreciation on sales vehicles	xxx
	Sales vehicles expenses	xxx
	Bad debts	xxx
	Selling & Distribution Costs	xxx

5	Administration Costs	
	Salaries and wages	xxx
	Rent: Office	xxx
	Depreciation on office equipment	xxx
	Interest on loans	xxx
	Insurance	xxx
	Sundry expenses	xxx
	Administration Costs	xxx

Selling & Distribution (marketing) and the Administration cost accounts are similar to the Factory Overhead Cost. This summarises all the individual costs relating to these departments

6	Finished Goods (Costs of Sales calculations)	
	Opening Stock of finished goods	xxx
	Cost of finished goods produced during the year	xxx
		xxx
	Closing stock of finished goods	(xxx)
	Cost of finished goods sold (Cost of Sales)	xxx

Finished Goods stock account is the completion of the production process. This account will indicate the following:

- **Goods made last year but not sold (plus)**
 - **All goods that were made in the current year**
- = Amount of goods available to be sold.**

This figure should be compared to the amount of physical stock taking, to determine the Cost of Sales

ACTIVITY 11**FINANCIAL STATEMENTS OF
MANUFACTURING ENTERPRISE****REQUIRED**

Use the information on Noel Manufacturers to prepare the following for the year ended 30 August 2014:

- Production Cost Statement
- Income Statement
- All relevant notes in order to show workings

INFORMATION**Extract from the Balance Sheet on 1 September 2013**

Raw Material stock	180 000
work-in-progress account	80 000
Finished goods on hand	70 000
Consumable stores on hand	14 000
Factory equipment	1 000 000
Accumulated depreciation on factory equipment	240 000

Closing balances on 30 August 2014

Raw material stock	64 000
Work-in-progress account	?
Finished goods on hand	80 000
Consumable stores on hand	6 000

Transactions for the year:

Raw material (credit purchases)	600 000
Raw material (cash purchases)	460 000
Carriage on raw material (incurred on credit)	150 000
Raw material (factory) returned to creditors	24 000
Consumable stores (factory) cash purchases	44 000
Salaries and wages paid (R180 000 of this was for direct labour) (R80 000 was administration expenses) (the balance was indirect labour costs)	360 000

Additional transactions for the year:

- Depreciation on factory equipment must be written off at 12% p.a. on diminishing balance method.
- Depreciation on office equipment amounts to R2 500 and R11 000 sales vehicles.
- Rent amounting to RR500 000 was paid during the year. The factory uses 60% of the floor space, while the office uses 15% and the sales department the rest.
- Other expenses were:
 - Electricity, R344 000 (**factory used R320 000, the office R10 000 and the sales department the rest**)
 - Sales vehicles running costs, R72 000
 - Sundry expenses R90 000, (these are split in the ratio 4:1:1 between the factory, office and sales departments respectively).
- Sales amounted to R3 600. Commission paid to salespersons is 5%

ANSWER

PRODUCTION COST STATEMENT FOR THE YEAR ENDING 30 AUGUST 2014

	Note	Amount
Prime Cost		
Total manufacturing costs		
Cost of production of finished goods		

Income Statement for the year ending 30 August 2014

Sales		
Cost of Finished Goods		
Less: other costs		
Net Profit/Loss		

Notes to the Financial Statements

1. Direct Material Cost	
Raw material opening stock balance	
<i>Less:</i> Raw material - closing stock balance	
Direct Material Cost	

2. Direct Labour Cost	
Direct Labour Costs	

3. Factory Overheads	
Factory Overheads	

4. Selling and Distribution Costs	
Selling and Distribution Costs	

5. Administration Costs	
Administration Costs	

6. Cost of finished goods sold	
Cost of Finished Goods sold (cost of sales)	

