

PRINCIPLES OF ACCOUNTING II
ACC 122

MANUFACTURING

FINANCIAL STATEMENTS FOR A MANUFACTURING COMPANY

Manufacturers use three different types of inventory:

1. Materials Inventory
 - a. Materials that become part of the finished product are called direct materials.
 - b. Materials used in support of the production process are called indirect materials.
2. Work in Process Inventory
 - a. Products in the process of being manufactured, but not yet complete.
 - b. Amount of goods in process is usually an estimate.
3. Finished Goods Inventory
 - a. Completed goods ready for sale.
 - b. Similar to merchandise inventory for merchandising companies.

Manufacturers have unique plant assets such as:

Small tools, factory buildings, factory equipment

Accounts unique to Manufacturers:

- Materials Inventory
- Materials Purchases
- Direct Labor
- Factory Overhead
- Work in Process Inventory
- Finished Goods Inventory
- Manufactory Summary

Period vs Product Costs

1. Costs that are capitalized as inventory are called product costs.
2. Costs that are charged to expense as they are incurred are called period costs.

COST OF GOODS MANUFACTURED

1. Similar in nature to cost of goods purchased for merchandisers since manufacturing involves the conversion of raw materials into finished goods.
2. Details the costs incurred in the manufacturing process:
3. General format:

HEADING		
Beginning Work in Process Inventory		<u>XXXX</u>
Direct Materials:		
Beginning materials inventory	XXX	
<u>+Materials purchased</u>	<u>XXX</u>	
Materials available for use	XXX	
<u>-Ending materials inventory</u>	<u>(XXX)</u>	
Direct materials used		XXXX
Direct Labor		XXXX
Factory Overhead		<u>XXXX</u>
Total manufacturing costs for the period		<u>XXXX</u>
Total manufacturing costs to account for		XXXX
Less: Ending Work in Process Inventory		<u>(XXXX)</u>
COST OF GOODS MANUFACTURED		<u>XXXX</u>