

# O Level Principles of Accounts (7110)

## Unit 7: Manufacturing Accounts

### Recommended Prior Knowledge

Students should have a good understanding of the types of financial statements of various businesses.

### Context

This unit looks at the use of a specific financial statement to measure the expenses of a business which are involved in the activity of manufacturing. This can apply to any of the legal forms of organisation in earlier units – sole trader, partnership or limited company.

### Outline

Manufacturing is undertaken by some organisations which need to compare whether it is better for them to make goods themselves or to buy in goods made by others and sell them (i.e. be trading businesses).

AO	Learning outcomes	Suggested Teaching activities	Learning resources
4.6	Candidates should be able to: <ul style="list-style-type: none"> <li>distinguish between direct and indirect costs</li> <li>identify direct material, direct labour, prime cost and factory overheads</li> </ul>	<p>Cost is a term known to candidates from the valuation of inventory. Explain how the manufacturing account touches on cost and management accounting (as compared with financial accounting) and looks at different types of costs.</p> <p>A manufacturing account is divided into areas depending on the type of cost and these should be illustrated bringing out key aspects such as cost of raw materials used, direct labour, direct expenses, prime cost and factory overheads.</p>	Past question papers available from CIE, e.g. Specimen Paper 1 Q37 Nov 2001 Paper 2 Q1(a)
	<ul style="list-style-type: none"> <li>make adjustments for work-in-progress</li> <li>calculate factory cost of production</li> </ul>		
	<ul style="list-style-type: none"> <li>prepare Manufacturing Account, Income Statement and Balance Sheet of a manufacturing business</li> </ul>	Students should practice sufficiently to ensure they do not make a common mistake in examinations of deducting expenses from prime cost. It is important that they are aware that the manufacturing account accumulates costs.	Jun 2002 Paper 1 Q37, 38

AO	Learning outcomes	Suggested Teaching activities	Learning resources
		Where a business manufactures and trades, the 'cost of manufacture' generally takes the place of 'purchases' within cost of sales.	Past question papers available from CIE, e.g.  Nov 2003 Paper 2 Q4 Specimen Paper 2 Q6