

# **FINANCIAL STATEMENTS FOR A MANUFACTURING COMPANY**

## **Key Topics to Know**

- Cost of good sold statement is prepared from the finished goods inventory account.
- Cost of goods sold statement has the same format as in financial accounting.
- Cost of goods manufactured schedule is prepared from both the raw materials inventory and work in process inventory accounts.
- Cost of goods manufactured schedule has a similar format to two cost of goods sold schedules stacked one on top of the other. In other words, the cost of goods manufactured schedule first analyses the raw materials inventory account and second the work in process inventory account.
- For all three inventory accounts being analyzed, the amount being determined is the outflow or deduction being credited to the inventory account.
- Income statement for a manufacturing company
- Balance sheet for a manufacturing company

## Problems

### Problem #1

<u>Cost of Goods Manufactured</u>	<u>Case 1</u>	<u>Case 2</u>
Direct materials	8,000	6,000
Direct labor	3,000	5,000
Manufacturing overhead	_____	7,000
Total manufacturing costs	32,000	_____
Beginning work in process inventory	_____	2,000
Ending work in process inventory	2,000	_____
Cost of goods manufactured	_____	_____

### Income Statement

Sales	50,000	30,000
Beginning finished goods inventory	9,000	7,000
Cost of goods manufactured	31,500	_____
Goods available for sale	_____	23,000
Ending finished goods inventory	7,000	5,000
Cost of goods sold	_____	_____
Gross margin	_____	12,000
Operating expenses	10,000	_____
Net income	6,500	3,000

Required:            Fill in the missing information given above.

**Problem #2**

The following data were taken from the cost records:

Depreciation, factory	70,000
Indirect labor	110,000
Utilities, factory	50,000
Insurance factory	15,000
Lubricants for machines	10,000
Direct Labor	210,000
Purchases of raw materials	160,000
Depreciation, sales furniture	7,000

Inventories at the beginning and end of the year were as follows:

	<u>January 1</u>	<u>December 31</u>
Raw materials	15,000	25,000
Work in process	30,000	10,000
Finished goods	40,000	60,000

- Required:
- Prepare a Schedule of Cost of Goods Manufactured for the year.
  - Prepare a Schedule of Cost of Goods Sold for the year.

**Problem #3**

H Company has a job-order costing system. The information below has been taken from the cost records of H Company for the past year:

Direct materials used	\$1,250
Total manufacturing costs	6,050
Manufacturing overhead	2,800
Selling expenses	1,000
Direct materials inventory, January 1	130
Direct materials inventory, December 31	80
Work in process, January 1	250
Work in process, December 31	400
Finished goods, January 1	300
Finished goods, December 31	200

- Required:
- Compute the cost of direct materials purchased during the year.
  - Compute the cost of direct labor for the year.
  - Compute the Cost of Goods Manufactured for the year.
  - Compute the Cost of Goods Sold for the year.

## Multiple Choice Questions

1. When units are sold, the cost associated with the units is credited to which account?
  - a) Raw Materials Inventory
  - b) Work in Process Inventory
  - c) Finished Goods Inventory
  - d) Cost of Goods Sold
  
2. When units are manufactured, the cost associated with the units is credited to which account?
  - a) Raw Materials Inventory
  - b) Work in Process Inventory
  - c) Finished Goods Inventory
  - d) Cost of Goods Sold
  
3. F Company has the following information:

	<u>Beginning</u> <u>balance</u>	<u>Ending</u> <u>balance</u>
Raw materials	20,000	30,000
Work in process	15,000	18,000
Finished goods	30,000	20,000

The following additional information is available for the year:

Raw materials purchases	100,000
Direct labor	75,000
Manufacturing overhead applied	80,000
Indirect materials	0

Compute the direct materials used in production.

- a) \$20,000
- b) \$30,000
- c) \$110,000
- d) \$90,000

The next 2 questions refer to the following information:

N Company a local retailer, has provided the following data for March:

Merchandise inventory, beginning balance	\$30,000
Merchandise inventory, ending balance	\$34,000
Sales	\$280,000
Purchases of merchandise inventory	\$146,000
Selling expense	\$27,000
Administrative expense	\$64,000

4. N Company's cost of goods sold for March was:
  - a) \$146,000
  - b) \$150,000
  - c) \$142,000
  - d) \$237,000
  
5. N Company's net operating income for March was:
  - a) \$130,000
  - b) \$134,000
  - c) \$43,000
  - d) \$47,000
  
6. On the Schedule of Cost of Goods Manufactured, the final Cost of Goods Manufactured figure represents:
  - a) the amount of cost charged to Work in Process during the period.
  - b) the amount of cost transferred from Finished Goods to Cost of Goods Sold during the period.
  - c) the amount of cost placed into production during the period
  - d) the amount of cost of goods completed during the current year whether they were started before or during the current year.

7. R Company reported the following financial information for the year:

Sales revenues for the period	\$1,304,000
Operating expenses for the period	\$239,000
Finished Goods Inventory, January 1	36,000
Finished Goods Inventory, December 31	41,000
Cost of goods manufactured for the period	\$540,000

Cost of goods sold was:

- a) \$769,000.
  - b) \$530,000.
  - c) \$535,000.
  - d) \$448,000.
8. A financial report that summarizes the amounts and types of costs that were incurred in the manufacturing process during the period is a:
- a) Schedule of cost of goods manufactured
  - b) Schedule of cost of goods sold
  - c) Materials statement
  - d) Merchandise schedule
9. Which of the following costs is not an indirect cost:
- a) Wages for plant cleanup crews
  - b) Wages for carpenters working for a home builder
  - c) Wages for factory maintenance personnel
  - d) Wages for warehouse personnel
10. Which of the following accounts would appear on a schedule of cost of goods manufactured?
- a) Direct materials, indirect labor, sales salaries.
  - b) Direct labor, delivery equipment, and depreciation on factory equipment.
  - c) Raw materials, work in process, finished goods.
  - d) Raw materials, factory insurance expense, indirect labor.

## Solutions to Problems

### Problem #1

	<u>Case 1</u>	<u>Case 2</u>
Direct materials	8,000	6,000
Direct labor	3,000	5,000
Manufacturing overhead	<b><u>21,000</u></b>	<u>7,000</u>
Total manufacturing costs	32,000	<b>18,000</b>
Add: Beginning work in process inventory	<b>1,500</b>	2,000
Deduct: Ending work in process inventory	<u>2,000</u>	<b><u>4,000</u></b>
Cost of goods manufactured	<b>31,500</b>	<b>16,000</b>
Sales	50,000	30,000
Beginning finished goods inventory	9,000	7,000
Add: Cost of goods manufactured	<u>31,500</u>	<b><u>16,000</u></b>
Goods available for sale	<b>40,500</b>	23,000
Deduct: Ending finished goods inventory	<u>7,000</u>	<u>5,000</u>
Cost of goods sold	<b>33,500</b>	<b>18,000</b>
Gross margin	<b>16,500</b>	12,000
Operating expenses	<u>10,000</u>	<b><u>9,000</u></b>
Net income	6,500	3,000



**Problem #2**

a)

Schedule of Cost of Goods Manufactured

Direct materials:		
Raw materials inventory, January 1	15,000	
Add: Purchases of raw materials	<u>160,000</u>	
Raw materials available for use	175,000	
Deduct: raw materials inventory, Dec. 31	<u>25,000</u>	
Raw materials used in production		150,000
Direct Labor		210,000
Manufacturing overhead:		
Depreciation, factory	70,000	
Indirect labor	110,000	
Utilities, factory	50,000	
Insurance, factory	15,000	
Lubricants for machines	<u>10,000</u>	
Total overhead costs		<u>255,000</u>
Total manufacturing costs		615,000
Add: Work in process inventory, January 1		<u>30,000</u>
		645,000
Deduct: Work in process inventory, Dec. 31		<u>10,000</u>
Cost of Goods Manufactured		635,000

b)

Schedule of Cost of Goods Sold

Finished goods inventory, January 1	40,000
Add: Cost of Goods Manufactured	<u>635,000</u>
Goods available for sale	675,000
Deduct: Finished goods inventory, Dec 1	<u>60,000</u>
Cost of Goods Sold	615,000

**Problem #3**

a)

Direct materials inventory, December 31	80
Direct materials used	1,250
Less: Direct materials inventory, January 1	<u>\$130</u>
Direct materials purchased	\$1,200

b)

Total manufacturing costs	\$6,050
less: Direct materials used	1,250
Manufacturing overhead	<u>2,800</u>
Direct labor cost	\$2,000

c)

Work in process, January 1	\$250
Total manufacturing costs	<u>6,050</u>
	6,300
Work in process, December 31	<u>400</u>
Cost of goods manufactured	\$5,900

d)

Finished goods, January 1	\$300
Cost of goods manufactured	<u>5,900</u>
Goods available for sale	6,200
Finished goods, December 31	200
Cost of goods sold	\$6,000

**Solutions to Multiple Choice Questions**

- 1. C
- 2. B
- 3. D
- 4. C
- 5. D
- 6. D
- 7. C
- 8. A
- 9. B
- 10. D