**Question 25**

**Manufacturing account**

The following information was extracted from the books of Valley Manufacturing plc for the year ended 31 December Year 2.

|  |  |  |
| --- | --- | --- |
|  | | **£000** |
| Inventory – 1 January Year 2: | |  |
|  | Raw materials | 21 |
|  | Work-in-progress | 30 |
|  | Finished Goods | 15 |
| Purchases | |  |
|  | Raw Materials | 155 |
|  | Finished Goods | 70 |
| Purchase Returns — Raw Materials | | 15 |
| Carriage In on Finished Goods | | 2 |
| Wages | |  |
|  | Manufacturing | 95 |
|  | Warehouse | 30 |
| Direct Factory Power | | 10 |
| Factory Repairs | | 12 |
| Factory Rates | | 8 |
| Royalties | | 62 |
| Advertising | | 8 |
| Salaries | | 44 |
| General Expenses | | 12 |
| Lighting and Heating | | 25 |
| Insurance | | 17 |
| Factory Machinery (at cost) | | 100 |
| Vehicles (at cost) | | 50 |
| Provision for Depreciation at 1 January Year 2: | |  |
|  | Factory Machinery | 20 |
|  | Vehicles | 10 |
| Trade Receivables | | 22 |
| Bad Debts | | 5 |
| Sales Revenue from Finished Goods | | 640 |
| Sales Returns of Finished Goods | | 20 |
| Selling Expenses | | 1 |
| Inventory — 31 December Year 2: | |  |
|  | Raw Materials | 19 |
|  | Work-in-progress | 25 |
|  | Finished Goods | 19 |

**Notes at 31 December Year 2**

1. Manufacturing wages payable — £5,000.
2. Lighting and heating and Insurance are to be apportioned between the Factory and   
   the Office in the ratio of 4:1, after taking into account receivable insurance of £2,000.
3. The salaries are to be apportioned between the Factory and the Office in the ratio of   
   3:1.
4. The Factory is to be charged with 75% of the General expenses with the remainder being charged to the Warehouse.
5. Depreciation per annum is to be provided for as follows:

* Factory Machinery — 20% diminishing balance
* Vehicles — 10% on cost (the vehicles are used 80% for distribution and 20% in   
  the factory)

1. Production of finished goods for the year amounted to 100,000 units. These are to   
   be transferred to the warehouse at their market value of £4·50 per unit.

**You are required to:**

1. **Prepare** the **Manufacturing Account** for the year ended 31 December Year 2,   
   clearly labelling: **17**
2. Cost of Raw Materials Consumed
3. Prime Cost of Production
4. Factory Cost of Production
5. **Calculate** the unit cost of production. **1**
6. **Prepare** the **Income Statement** to Gross Profit for the year ended 31 December   
   Year 2.

**6**

**Total marks** **(24)**

**Question 25 — solution**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(a)** |  | **Manufacturing Account of Valley Manufacturing plc for the year ended 31 December Year 2** | | | | | | | | | |
|  |  |  | | | | | | | | | |
|  |  |  |  |  | **£000** |  | **£000** |  |  |  |  |
|  |  | **Raw Materials Cost** |  |  |  |  |  |  |  |  |  |
|  |  | Opening Inventory of Raw Materials |  |  |  |  | 21 |  |  |  |  |
|  | Add | Purchases of Raw Materials |  |  | 155 | **(1)** |  |  |  |  |  |
|  | Less | Purchases Returns Raw Materials |  |  | 15 | **(1)** | 140 | **(1)** |  |  |  |
|  |  |  |  |  |  |  | 161 |  |  |  |  |
|  | Less | Closing Inventory of Raw Materials |  |  |  |  | 19 |  |  |  | **This mark is also for headings** |
|  |  | **Cost of Raw Materials Consumed** | |  |  |  | 142 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Add | **Direct Costs** |  |  |  |  |  |  |  |  |  |
|  |  | Direct Factory Power |  |  | 10 | **(1)** |  |  |  |  |  |
|  |  | Wages (95 + 5) |  |  | 100 | **(1)** |  |  |  |  |  |
|  |  | Royalties |  |  | 62 | **(1)** | 172 |  |  |  |  |
|  |  | **Prime Cost of Production** |  |  |  |  | 314 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | Add | **Factory Overheads** |  |  |  |  |  |  |  |  |  |
|  |  | Factory Repairs |  |  | 12 | **(1)** |  |  |  |  |  |
|  |  | Factory Rates |  |  | 8 |  |  |  |  |  |  |
|  |  | Salaries (75% \* 44) |  |  | 33 | **(1)** |  |  |  |  |  |
|  |  | General Expenses (75% \* £12) |  |  | 9 | **(1)** |  |  |  |  |  |
|  |  | Lighting and Heating (4/5 \* £25) |  |  | 20 | **(1)** |  |  |  |  |  |
|  |  | Insurance (4/5 \* (17 − 2)) |  |  | 12 | **(1)** |  |  |  |  |  |
|  |  | Depreciation: |  |  |  |  |  |  |  |  |  |
|  |  | Factory Machinery (20% \* (100 − 20)) | |  | 16 | **(1)** |  |  |  |  |  |
|  |  | Motor Vehicles (1/5 \* (10% \* 50)) | |  | 1 | **(1)** | 111 |  |  |  |  |
|  |  |  |  |  |  |  | 425 |  |  |  |  |
|  | Add | Work-in-progress 1 Jan Year 2 |  |  |  |  | 30 | **(1)** |  |  |  |
|  |  |  |  |  |  |  | 455 |  |  |  |  |
|  | Less | Work-in-progress 31 Dec Year 2 | | |  |  | 25 | **(1)** |  |  |  |
|  |  | **Factory Cost of Production** |  |  |  |  | 430 |  |  |  |  |
|  |  | Market Price of Finished Goods (100,000 \* £4·50) | | |  |  | 450 | **(1)** |  |  |  |
|  |  | **Factory Profit** |  |  |  |  | 20 | **(1)** |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **17** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(b)** | Cost per unit = £430,000/100,000 | |  |  |  |  | £4·30 |  |  | **1** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(c)** |  | **Income Statement of Valley Manufacturing plc for the year ended 31 December Year 2** | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  | |  |
|  |  |  | £000’s |  | £000’s |  | £000’s |  |  |  | |  |
|  |  | Sales revenue |  |  |  |  | 640 |  |  |  | |  |
|  | Less | Sales returns |  |  |  |  | 20 |  |  |  | |  |
|  |  |  |  |  |  |  | 620 | **(1)** |  |  | |  |
|  | Less | **Cost of sales** |  |  |  |  |  |  |  |  | |  |
|  |  | Opening inventory of finished goods |  |  | 15 |  |  |  |  | **This mark is also for headings** | |  |
|  | Add | Market price of finished goods | 450 | **(1)** |  | **(1)** |  |  |  |  | |  |
|  | Add | Purchases of finished goods | 70 | **(1)** |  |  |  |  |  |  | |  |
|  | Add | Carriage in on finished goods | 2 |  | 522 |  |  |  |  |  | |  |
|  |  |  |  |  | 537 |  |  |  |  |  | |  |
|  | Less | Closing inventory of finished goods |  |  | 19 |  |  |  |  |  | |  |
|  |  | Cost of sales |  |  | 518 |  |  |  |  |  | |  |
|  |  |  |  |  |  |  |  |  |  |  | |  |
|  |  | **Warehouse expenses** |  |  |  |  |  |  |  |  | |  |
|  | Add | Wages | 30 | **(1)** |  |  |  |  |  |  | |  |
|  |  | General expenses (25% \* 12) | 3 | **(1)** | 33 |  |  |  |  |  | |  |
|  |  |  |  |  |  |  | 551 |  |  |  | |  |
|  |  | **Gross profit** |  |  |  |  | 69 |  |  |  | | **6** |
|  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  |  | |  |

**Total marks (24)**