

Aufgabe QR-9.10: Manufacturing Summary Account, Process Costing

(Herstellungskonto)

OAKDALE Ltd. is a production firm. It makes cookies and the production process contains two steps baking and packing. In fiscal year 20X6 OAKDALE Ltd's financial records showed the information below:

- Inventory of raw materials (dough): 40,000.00 EUR
- Inventory of finished goods: 16,000.00 EUR (cookie boxes with cookies inside)
- Purchase (dough) 38,000.00 EUR
- Purchase (empty boxes) 47,000.00 EUR
- Direct labour: 220,000.00 EUR, to be allocated at a ratio 10 : 1 to bakery : packing
- Depreciation on bakery (stove): 25,000.00 EUR
- Depreciation on packing station: 12,000.00 EUR
- Supervisor's salary in bakery department 45,000.00 EUR
- Administration: 78,000.00 EUR
- Depreciation on delivery van: 3,000.00 EUR
- Work in process-baking (item in the MSA account), closing stock: 23,000.00 EUR

At the end of 20X6 OAKDALE Ltd. sold 80% of their finished goods. Sales is 504,000.00 EUR. OAKDALE applies the first-in-first-out method for inventory movements.

Required: Set up a statement of comprehensive income along the cost-of-sales-format. Make use of 2 Manufacturing Summary accounts. Prepare the MSA accounts for bakery and packing.

Lösung: (Solution)

As required the solution is provided by applying the Manufacturing Summary accounts, one for bakery the other one for packing. Bookkeeping entries are related to these accounts, see below:

(1) Use of the raw material inventories (there is no raw material inventory closing stock mentioned):

DR MSA-bakery	40,000.00 EUR
CR Inventory	40,000.00 EUR

(2) Purchase of dough:

DR MSA-bakery	38,000.00 EUR
CR Purchase	38,000.00 EUR

(3) Posting direct labour. $(10/11) \cdot 220,000 = 200,000.00$ EUR.

DR MSA-bakery	200,000.00 EUR
CR Direct labour	200,000.00 EUR

(4) Depreciation on bakery

DR MSA-bakery	25,000.00 EUR
CR Depreciation-bakery	25,000.00 EUR

(5) Posting supervisor's salary in the bakery department

DR MSA-bakery	45,000.00 EUR
CR Supervisor's salary	45,000.00 EUR

At the end of the Accounting period there is a closing stock (23,000.00 EUR) in the MSA bakery account. The balancing figure is to be transferred to the MSA packing. (6):

DR MSA-packing	325,000.00 EUR
CR MSA-bakery	325,000.00 EUR

(7) The boxes purchased are transferred to the packing department.

DR MSA-packing	47,000.00 EUR
CR Purchase	47,000.00 EUR

(8) Direct labour for the packing department:

DR MSA-packing	20,000.00 EUR
CR Direct labour	20,000.00 EUR

(9) Depreciation on the packing department facilities:

DR MSA-packing	12,000.00 EUR
CR Depreciation-packing	12,000.00 EUR

(10) Because of the fact that there is no closing stock in the MSA-packing account all packed boxes are transferred to the FG-Inventory account.

DR FG-Inventory	404,000.00 EUR
CR MSA-packing	404,000.00 EUR

(11) 80% of the goods available for sales got sold. So, $80\% \cdot (16,000 + 404,000) = 336,000.00$ EUR.

DR C.O.S.	336,000.00 EUR
CR FG-Inventory	336,000.00 EUR

(12) Posting sales:

DR Bank	504,000.00 EUR
CR Sales	504,000.00 EUR

See the accounts for getting the full picture. See the P&L account in particular in order to derive the statement of comprehensive income. Real accounts (accounts for the statement of financial position) are not displayed.

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Exhibit 1: Accounts

**Oakdale Ltd's
STATEMENT of COMPREHENSIVE INCOME
for 20X6**

	20X6
	[EUR]
Revenue	504.000,00
Other income	504.000,00
Cost of sales	(336.000,00)
Depreciation non-production related	(3.000,00)
Marketing/distribution/management	(78.000,00)
Finance costs	0,00
Profit before taxation (EBT)	87.000,00
Income tax expenses	(26.100,00)
Deferred tax income/expense	60.900,00
Profit for the period (EAT)	60.900,00

Exhibit 2: Income Statement

In case you want to determine the EBT along the nature of expense method ignore the MSA and consider the expense accounts. The changes in finished goods and WIP is $84,000 - 16,000 + 23,000 = \mathbf{91,000.00 \text{ EUR}}$. Accordingly the pretax profit is: $504,000 + 91,000 - 40,000 - 38,000 - 47,000 - 220,000 - 25,000 - 12,000 - 45,000 - 78,000 - 3,000 = \mathbf{87,000.00 \text{ EUR}}$. This amount is the same as calculated by the cost-of-sales format.