

Chapter 14 – Manufacturing Accounting; Concepts and Principles

Day Two of lecture -- what did we work on last time?

As we noted at the beginning of the semester, ACCT 102 (Managerial Accounting) is MUCH DIFFERENT from ACCT 101 (Financial Accounting.) This chapter is a “**foundational chapter**” meaning that it will lay the groundwork for future chapters.

We have spent a good deal of time talking about “costs” in this chapter. We have defined costs, we have classified costs multiple ways, and we have just started to dive into how the production costs accumulate on the balance sheet. In fact, if you glance at a balance sheet (for example, the one on page 619) you will see many inventory accounts. We saw that ALL production costs go through the Balance Sheet through the **WIP** (Work in Process)

Last time we discussed how all production costs can be broken down into one of three categories:

- DM – Direct Materials
- DL – Direct Labor
- FOH – Factory Overhead

These costs are “capitalized” – which means they go through the Balance Sheet (as opposed to being “expensed” which means they go directly to the Income Statement.) Why are they “capitalized?” Because these costs have future value as they go into the creation of a product that will eventually be sold and generate revenues.

The **Manufacturer’s Income Statement is VERY DIFFERENT** from the one you studied for retailers in ACCT 101. There are huge changes. We spent a good deal of time working on computing the “Cost of Goods Manufactured” component of the Income Statement. See a one-line presentation on page 549 (red account name.) And then we worked on the specific line item presentation – see page 548 or Exhibit 14.16

My approach in explaining this material is to have you visually understand the flow of costs through the t-accounts. If you see how the costs work, then you should be able to create any kind of statement.

Once you understand the “flow of costs,” you can create a formalized “Manufacturing Statement” which details out how the Cost of Goods Manufactured is computed.... In other words, let the WIP t-accounts guide you.

This manufacturing statement is really a summary of the WIP account.

The same approach follows for computing Cost of Goods Sold.

The Cost of Goods Sold really is a summary of the Finished Goods Account.

Today we will spend the entire class period reviewing the flow of costs and computing these major cost components for a typical manufacturing environment. The understanding of this chapter will really help us succeed in the next two chapters which will take cost accounting concepts to a new level.

What will we do today?

PRACTICE

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