



Department of Education, Sabaragamuwa/weekly school

week- 2

Subject-Accounting

Grade-12

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Competency 7.0 – Prepares financial statements of a manufacturing business.

Competency level 7.1 – Calculates cost of production of a manufacturing business.

The necessity to prepare a manufacturing account –

- Calculating the total manufacturing cost
- Controlling manufacturing costs
- Taking manufacturing decisions

Elements of manufacturing costs are,

- Prime costs
- Production overheads

Direct material costs –

This is the cost of materials that can be directly identified with the production unit.

Eg – In a furniture manufacturing entity – timber

In a garment factory – cloth

Direct labour costs –

This is the wages paid to employees who can be clearly identified as directly contributing to the manufacturing process.

Eg – In a furniture manufacturing entity – carpenters' wages

In a garment factory – Wages paid to machine sewing operators

1. Explain manufacturing costs.
2. State the elements of manufacturing costs.
3. State the connection between the manufacturing account and Income statement.