

# Accounting Notes

## Manufacturing Cost Accounting

Terms and Definitions:

Cost Object - anything for which a separate measurement of costs is desired

Direct Cost - a cost that can be specifically (directly) traced to a cost object

Indirect Cost - a cost that can not be specifically traced to a cost object

Period Cost - operating costs that are expensed in the period in which they are incurred

Product Cost - all costs relating to the manufacturing of a product that are regarded first as an asset and later expensed (Direct Materials, Direct Labor, and Manufacturing Overhead)

Direct Materials - materials that become a physical part of a finished product and whose costs are separately and conveniently traceable through the manufacturing process to a finished product.

Direct Labor - the compensation of employees who physically convert materials into the company's products; labor costs that are directly traceable to finished products.

Manufacturing Overhead - all manufacturing costs other than direct materials and direct labor

Prime Costs = Direct Materials + Direct Labor

Conversion Costs = Direct Labor + Manufacturing Overhead

Differences between Product and Period Costs:

Product Costs	Period Costs
initially recorded as an asset and not expensed until the inventory is sold	expensed in the period incurred and are never considered to be an asset
Examples: Purchases, Freight In, Direct materials, Direct Labor, Manufacturing Overhead	Examples: Salaries of management; Utilities, Insurance, and Property Tax on executive headquarters; Advertising Expense; Freight Out

Calculating the Cost of Goods Manufactured:

Schedule of Cost of Goods Manufactured			
Beg. WIP Inventory			\$
Add:			
Direct Materials:			
Beg. Materials Inventory	\$		
Purchases of Direct Materials	\$		
Materials available for use	\$		
End. Materials Inventory	\$		
Direct Materials used		\$	
Direct Labor		\$	
Manufacturing Overhead:			
Indirect Materials	\$		
Indirect Labor	\$		
Depreciation	\$		
Plant Utilities	\$		
Plant Insurance	\$		
Total Manufacturing Overhead Costs		\$	
Total Manufacturing Cost			\$
Total Manufacturing Costs to account for			\$
Less: End WIP Inventory			\$
Cost of Goods Manufactured			\$

Flow of Manufacturing Costs:

