

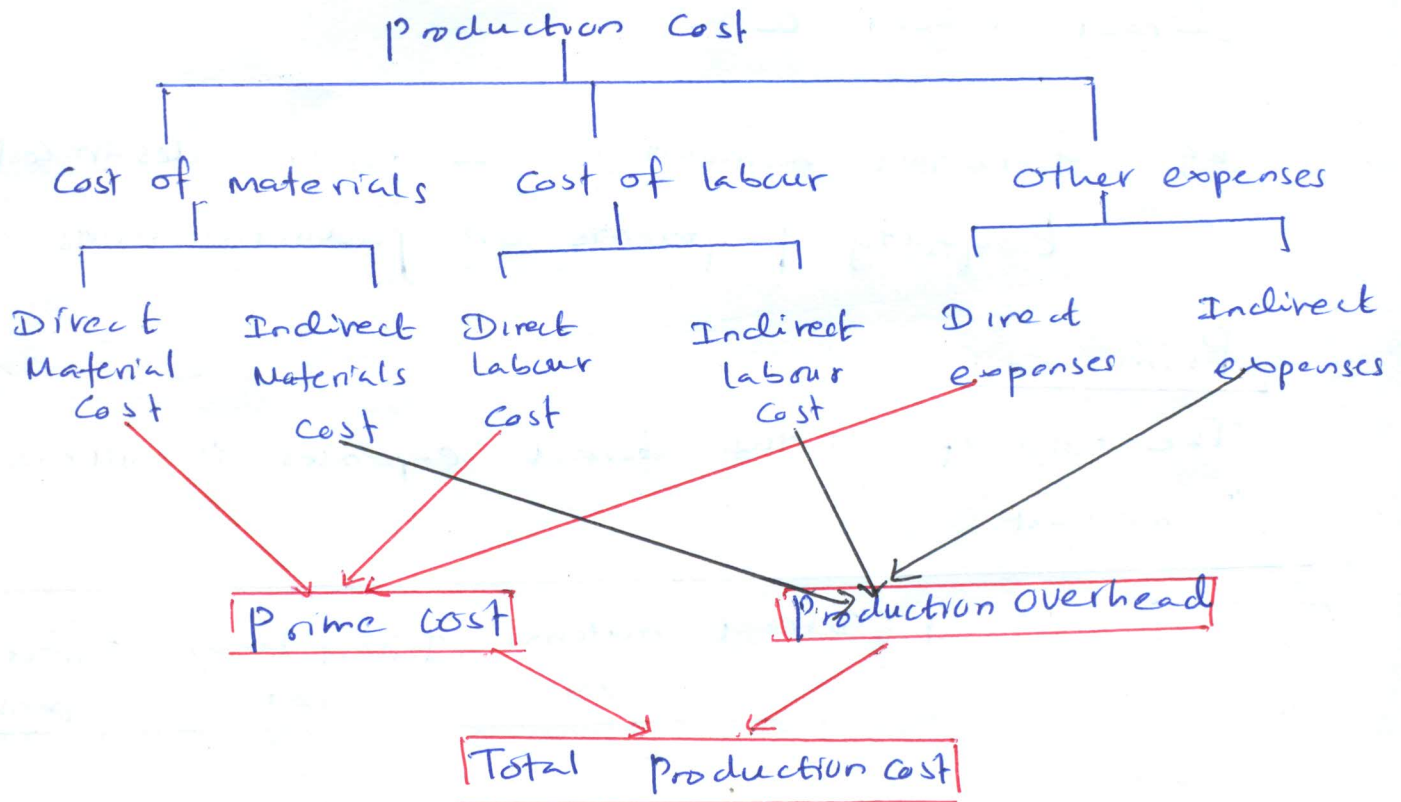
# Financial statements of Manufacturing Business

## Necessity for calculating cost of production.

1. Calculating the total manufacturing cost
2. Controlling manufacturing cost
3. Taking manufacturing decisions.

## Production Cost

The total cost incurred to produce the production is called production cost.



## Direct Materials Cost

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

- Ex:- In a Furniture manufacturing entity - Timber  
 In a garment factory - clothes

## Direct Labour Cost

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

Eg:- Furniture manufacturing - Carpenters' wages  
Garment factory - wages of sewing machine operators.

## Other direct expenses

Expenses that are directly attributable to production but are not directly materials or direct labour cost.

Eg:- Furniture manufacturing - product design cost.  
Royalty payments on production units.

## Prime Cost.

The total of all the direct expenses is called Prime Cost.

$$\text{Prime cost} = \text{Direct material Cost} + \text{Direct labour Cost} + \text{Direct expenses}$$

## Production Overhead Cost.

The total of all the indirect expenses is called production overhead cost. This comprise of indirect material cost, indirect labour cost and indirect expenses cost.

Eg:- Electricity, supervisor salary, depreciation of machinery, rent & rates.

