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Manufacturing enterprise:

A company that makes its own goods.

Only works with expenses.

- * Direct labour: people who make the goods.
- * Direct raw materials: materials that are used to make goods.
- * Manufacturing overheads: any other expense that is not a direct labour or material but is used in the factory.

Direct labour:

- * Variable cost: more goods made = more labour needed = more expense

Direct raw materials:

- * Variable cost: more goods made = more material needed = more expense

Manufacturing overheads:

- * Indirect labour: cost of employees who don't make good. (cleaning staff, factory forman/manager, maintenance man)
- * Indirect material: not part of final product made. (cleaning supplies, paper, pens)
- * Others: factory insurance, depreciation of machines, water, electricity.

Other terms:

- * Prime cost: direct materials + direct labour
- * Fixed costs: they stay the same irrespective of the number of units produced. (examples: rent and insurance)
- * Variable costs: these vary according to the number of units produced. (examples: raw materials, labour, depreciation, electricity)

Production cost statement

Prime cost	C (A+B)
Direct materials	A
Direct labour	B
Factory overheads	D
Total manufacturing cost	E (C+D)
Work in progress at start of year	F
	G (E+F)
Work in progress at end of year	-H
Total cost goods manufactured	I (G-H)
Cost per unit	I ÷ number of units produced

Direct materials note:

Direct materials at start of year	Z
Direct materials purchased	Y
Carriage on direct materials	J
Direct materials available	O (Z+Y+J)
Direct materials at end of year	-Q
Direct materials used during the year	A (O-Q)

Direct Labour Note:

Direct Labour Cost (Gross wage)	+
UIF Contribution	+
Medical AID contribution	+
Any other contributions	+
	B

Factory Overheads:

Deprecation of machinery	+
Indirect Labour	+
Indirect materials	+
Rent expense	+
Water & Electricity	+
Any other expense related to factory	+
	D

Ratio

Breakeven point

Fixed cost x units produced/Selling price – Variable Costs