

INV MANUFACTURING INCLUDES LABOUR COST

I manufacture products. Along with the raw materials I want to include the cost of the labour (sort of like a “manufacturing service charge”) as part of the cost of the manufactured product. What’s the best way to set that up?

For this example you’ll manufacture Precision Pacs[®] and add a flat \$5 labour charge to the product cost, but the same principles would apply to manufacturing any product.

Here are three possible solutions. Which one you choose will depend on your business process, and how you would like to see the values reflected in the general ledger. We recommend going with the option your accountant likes the best.

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Option 1: Accrual account (with extra posting to shift expenses)

The Labour (*non*-inventory product) is setup with an accrual account to record the Sales (it may be the same accrual account used by the manufactured product, or a different one).

Edit Product: PACLAB - Precision Pac Labour

Product Code: PACLAB
 Description: Precision Pac Labour
 Product Type: Services
 Default Project:
 Manufacturer:
 Manuf. Prod. Code:
 This product is active.

Inventory Item?
 Returnable?
 Blendable?
 Manufactured?
 Dangerous Good?
 Sales Account can be changed on Invoice?

GL Accounts
 Sales: 16015 - Chemical Accruals
 COGS:
 Inventory:
 Inv. Accrual:
 Add GL Account

Product Characteristics
 Characteristics:
 >
 Remove Add

When the product is manufactured ...

Manufacture Product

Reference:
 Product: EXPRESSPRO - Express Pro Precision Pack (7.1g/ac)
 Units: AC - Acre
 Quantity: 160 of manufactured product
 Date: Sep 10, 2013
 Location: Dog River
 Comments: for Alex Carter's Home Quarter

post the \$5 labour cost to:
 16015-Chemical Accruals
 (the same accrual account
 the other products use)

Product	Location	Quantity Per Unit	Total Used Quantity	Inventory On Hand	GL Account	Unit Cost
> PACLAB - Precision Pac Labour (EA)	Dog River	0.00625	1.0000		16015 - Chemical Accr	\$5.00
METSULFURON - Metsulfuron Flexibag 10kg	Dog River	1.0100	161.6000	19,838.0		
TRIBENURON - Tribenuron Flexibag 16kg (g)	Dog River	6.0700	971.2000	79,028.8		

Add Raw Product Edit Raw Product Remove Raw Product Remove Multiple

... the value of the non-inventory item gets placed into the value of the finished good and a credit is made to the accrual account.

Journal: J1991	Posted	Nov 21, 2012	Manufacturing: -161.6 gram Metsulfuron Flexibag 10kg (METSULFURON)	
Source: DMAN00004	Entered	Nov 21, 2012		
Account			DR	CR Description
Chemical Accruals (16015)			102.06	
Chemicals (15015)				102.06
Journal: J1992	Posted	Nov 21, 2012	Manufacturing: -971.2 gram Tribenuron Flexibag 16kg (TRIBENURON)	
Source: DMAN00004	Entered	Nov 21, 2012		
Account			DR	CR Description
Chemical Accruals (16015)			588.79	
Chemicals (15015)				588.79
Journal: J1993	Posted	Nov 21, 2012	Manufacturing: 160 Acre Express Pro Precision Pack (7.1g/ac) (EXPRESSPRO)	
Source: DMAN00004	Entered	Nov 21, 2012		
Account			DR	CR Description
Chemicals (15015)			695.85	
Chemical Accruals (16015)				102.06
Chemical Accruals (16015)				588.79
Chemical Accruals (16015)				5.00

manufactured product value includes \$5 of Labour

Later, make a journal entry to clear the \$5 from the accrual account and offset to an expense account (like wages, etc.).

The screenshot shows the 'Add Journal Entry' window with the following details:

- Journal Number: [Empty]
- Posting Date: Nov 21, 2012
- Description: clearing \$5 labour charge from accruals
- Source: General Ledger
- Created By: Debbie Ewing

Account	Debit	Credit	Description	Location	Project	Fixed Asset
64610 - Wages		\$5.00				
16015 - Chemical Accruals	\$5.00					
>						

Totals: Debit \$5.00, Credit \$5.00, Difference: \$0.00

Journal: J1994	Posted	Nov 21, 2012	clearing \$5 labour charge from accruals	
Source:	Entered	Nov 21, 2012		
Account			DR	CR Description
Chemical Accruals (16015)			5.00	
Wages (64610)				5.00

The \$5 wage expense is included in the posting to the COGS account when the finished product is sold.

Journal: J2003	Posted:	Nov 21, 2012
Source: DINV00080	Entered:	Nov 21, 2012
Description: AR Invoice: Lyle Martin		
Account	DR	CR Description
Accounts Receivable (12000)	720.00	
Sales Chemicals (45015)		720.00 Edmonton

Journal: J2002	Posted:	Nov 21, 2012
Source: DINV00080	Entered:	Nov 21, 2012
Description: AR Invoice: -160 Acre Express Pro Precision Pack (7.1g/ac) (EXPRESSPRO)		
Account	DR	CR Description
COGS Chemicals (55015)	695.86	Edmonton
Chemicals (15015)		695.86

The net effect is that you've reduced your wages expense by \$5 and shifted the cost to COGS.

Option 2: Post Directly to Expense Account

Another option is to specify the Sales account as the Expense account.

The screenshot shows a software window titled "Edit Product: PACLAB - Precision Pac Labour". The window has a menu bar with "Save", "Refresh", "Delete", "Prices/Taxes", and "Exit". Below the menu bar are tabs for "Product", "Units", "Inventory", "Notes", "Associated Products", "Blending", "Manufacturing", "Dangerous Goods", and "Regulations". The main area contains several input fields and checkboxes. The "Product Code" is "PACLAB" and the "Description" is "Precision Pac Labour". The "Product Type" is "Services". There are "Add" buttons for "Product Type", "Default Project", and "Manufacturer". The "GL Accounts" section has "Sales" set to "64610 - Wages" and "COGS" set to an empty field. The "Product Characteristics" section has "PrecPac" selected. There are "Remove" and "Add" buttons at the bottom of the "Product Characteristics" section.

When the non-inventory item is used in manufacturing, rather than temporarily going into the accrual account, the value immediately comes out of the wages expense (it is a **credit to wages expense, debit to inventory asset**).

This means there's no need for an manual Journal Entry, but the audit trail may be less clear than a separate posting made to clear out the accrual account as in Option 1.

Option 3: Separate Offsetting Expense Account

You can also create a separate 6 account just for this type of expense (perhaps called something like "Production Labour", or "Labour Used in Manufacturing") if you'd prefer to see just total wages in the regular expense account (i.e. Wages) and want to separately track the labour used to manufacture products.

Specify the offsetting expense account as the revenue account for the labour.

The screenshot shows a software window titled "Edit Product: PACLAB - Precision Pac Labour". The window has a menu bar with "Save", "Refresh", "Delete", "Prices/Taxes", and "Exit". Below the menu bar are several tabs: "Product", "Units", "Inventory", "Notes", "Associated Products", "Blending", "Manufacturing", "Dangerous Goods", and "Regulations". The "Product" tab is active, showing the following fields:

- Product Code: PACLAB
- Description: Precision Pac Labour
- Product Type: Services (dropdown menu)
- UPC Code: (empty)
- Default Project: (empty)
- Manufacturer: (empty)
- Manuf. Prod. Code: (empty)

On the right side of the window, there are several checkboxes:

- Inventory Item?
- Returnable?
- Blendable?
- Manufactured?
- Dangerous Good?
- Sales Account can be changed on Invoice?

Below these fields are two sections:

- GL Accounts:** A dropdown menu for "Sales" is set to "64612 - Production Labour". Other dropdowns for "COGS", "Inventory", and "Inv. Accrual" are empty. An "Add GL Account" button is at the bottom.
- Product Characteristics:** A table with the following content:

Characteristics
> PrecPac
*

Buttons for "Remove" and "Add" are at the bottom.

This way, the total wages are still reflected in the GL under the Wages expense, and the credit expense of Production Labour offsets the value of wages that went into inventory asset.

Summary

Which option you choose will depend on where your accountant wants to see the labour used in production posted. Basically the end result of the three options are the same - the expense (wages, production labour, shop cost, etc.) gets shifted to the value of the manufactured product and is reflected in the COGS when the manufactured product is sold.