

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.

What you’ll find:

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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

Save Refresh Delete Prices/Taxes Exit

Product Units Inventory Notes Associated Products Blending Manufacturing Dangerous Goods Regulations Grower Central

This product is active.

Product Code: PACLAB
Description: Precision Pac Labour
Short Desc:
Alt Product Desc:
Product Type: Services
UPC Code:
Default Project:
Manufacturer:
Manuf. Prod. Code:

☐ Inventory Item?
☐ Blendable?
☐ Manufactured?
☐ Omit From Sales Reports?

☐ Returnable?
☐ Prohibit Purchase?
☐ Exclude From AgCollect?
☐ Overridable Sales Account?
☐ Exclude From Discount Groups?
☐ Lot Number Required?

GL Accounts

Sales: 16015 - Chemical Accruals
COGS:
Inventory:
Inv. Accrual:

Add GL Account

Product Characteristics

Characteristics
PrecPac
>

Remove Add

When the product is manufactured ...

Manufacture Product

Save Start Over Exit

Reference: * ☒ Generate Reference Automatically Date: Sep 10, 2013

Product: EXPRESSPRO - Express Pro Precision Pack (7.1g/ac) Find Add Location: Dog River

Units: AC - Acre

Quantity: 160 of manufactured product

Comments: for Alex Carter's Home Quarter

Retrieve Default Raw Products

Raw Products:

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

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

... 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.).

Add Journal Entry

Save Refresh Exit

Journal Number:

Posting Date: Nov 21, 2012

Description: clearing \$5 labour charge from accruals

Source: General Ledger ☐ Sensitive Posting

Created By: Debbie Ewing

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

Remove Transaction Detail

Totals: \$5.00 \$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 the 'Edit Product: PACLAB - Precision Pac Labour' window. The window has a menu bar with 'Save', 'Refresh', 'Delete', 'Prices/Taxes', and 'Exit'. Below the menu bar is a tabbed interface with tabs for 'Product', 'Units', 'Inventory', 'Notes', 'Associated Products', 'Blending', 'Manufacturing', 'Dangerous Goods', 'Regulations', and 'Grower Central'. The 'Product' tab is active. The main area contains several input fields and checkboxes. A red box highlights the 'Inventory Item?' checkbox, which is unchecked. Another red box highlights the 'Sales' dropdown menu in the 'GL Accounts' section, which is set to '61000 - Wages'. The 'GL Accounts' section also includes 'COGS', 'Inventory', and 'Inv. Accrual' dropdowns, and an 'Add GL Account' button. The 'Product Characteristics' section shows a table with 'Characteristics' and 'PrecPac'.

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 the 'Edit Product: PACLAB - Precision Pac Labour' window. The 'GL Accounts' section on the left has a red box around the 'Sales' dropdown, which is set to '64612 - Production Labour'. The 'Inventory Item?' checkbox in the 'Product Characteristics' section is also highlighted with a red box.

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.