Production cycle essay sample

The production cycle is a set of business activities and data processing operations associated with the manufacturing of products. Louwers (2007) points out that " the production cycle is closely linked to the acquisition cycle in which goods and services are purchased and to the revenue cycle in which the inventory is sold (p. 328). As products cycle through the stages from raw goods all the way through finished goods, the production cycle is concerned with how to account for the goods at each stage. There many areas that in this cycle where goods can be understated or overstated affecting the financial statements of the company. Therefore, there need to be internal controls in place to discourage inaccurate accounting practices and overstatements.

A production plan is the typical start of the production cycle and starts with managers signing off on the use of the raw materials before they are released and moved into production. The manager's approval will help ensure the materials actually being used for its intended purpose and not misused or taken from the company without permission. Production orders should be numbered sequentially and regularly checked for missing documents so they cannot be used by unauthorized individuals. The next step in ensuring the valuation of inventory is correct all the way through the production cycle is to compare the inventory issued with the materials used reports and have the differences reported to the cost accounting supervisor immediately. These discrepancies may be signs of misappropriation of materials.

The cost accounting supervisor should be involved in the reporting of the production cycle at the end each quarter, season, and end of year. The summary entries should be reviewed by the supervisor frequently so entries that look to be incorrect can be traced back to their origin and corrected if needed prior to submitting final numbers to the accounting department. This will help ensure human errors in processing are caught and serves as a double check ensuring the financial statements are as accurate as possible before the numbers are presented or reported.

Reference

Louwers, T. J., Ramsay, R., Sinason, D., & Strawser, J. (2007). Auditing and assurance services: A look beneath the surface (2nd ed.). New York, NY: McGraw-Hill.