SOP SETTING UP COSTING FOR MANUFACTURERS

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TABLE OF CONTENTS

AIM

To set up the basic data required to run costing for manufacturers.

Note: This document does not describe how the costing mechanism works, only how to set up the module.

WORKING ASSUMPTION

Basic production data exist in the system, such that allow the management of work orders and production reports.

PROCEDURE

STAGE ONE: DEFINING BASIC DATA

Aim: To define costing calculation methods, production times and standard costs.

1. Enter the Warehouses form and make sure that the warehouse to be included in costing calculations are flagged in the Transaction Costing and Inventory Valued columns.
2. Enter the Work Cells form and assign each work cell a value in the Inv./Costing Control column, which determines the default costing calculation method for all operations performed in that cell. Choose between the following values:
    - R: Reported for inventory control and costing
    - C: Reported for costing purposes only
    - T: For final operations reported in this type of cell – those that create inventory of the manufactured part – that are either performed in the factory or by a subcontractor.
    - L: For operations in the middle of the production routing that are either performed in the factory or by a subcontractor (costing does not take such operations into account, only T operations).

    Note: An empty column indicates that costing does not take this work cell into account at all.
3. Enter the Operations form and assign each operation a value in the Inv./Costing Control column, as defined above. This value overrides the default value defined for the work cell in which the operation is performed. Leave this column empty to use the work cell default.

STAGE TWO: RECORDING STANDARD PART COSTS

You can record standard costs for Type R parts. The standard cost of a Type P part is calculated from the total standard costs of its child parts, plus any additional recorded costs, such as subcontracting costs, non-standard costs and supply costs.

1. Enter the Parts - Std Costs form, retrieve Type P parts and define their standard costs in the Subcontract Costs, Non-std Costs, and Supply Costs columns.
2. In the same form, retrieve Type R parts and do the following:
   - Make sure a value appears in the Std Cost column.

     Notes:
     - You can run the Update Part Costs program, which automatically copies standard part costs from a variety of sources (e.g., last price, vendor price).
     - Dual-currency users: You can also record the standard cost in the second currency. However, if you do, you are determining the exchange rate for this part with respect to costing. Leave that column empty, and costing will calculate data in the second currency based on the exchange rate in effect on the day costing is run.
   - If the standard cost of a single part unit is too low, you can define a larger Costing Unit.
   - You can define additional costs that will be added to the part's standard cost in the Subcontract Costs, Non-std Costs, and Supply Costs columns.
3. Enter the Financial Parameters for Parts form and retrieve the parts that are usually shipped to you.
4. For each part, click the Shipping Expenses tab and specify the Shipping Cost Type. Define the relevant cost percentage. For example, if you selected Cost Type A, fill in the Air Cost (%) column.

STAGE THREE: STANDARD TIMES AND COSTS FOR WORK CELLS AND OPERATIONS

1. Enter the Work Cells - Std Costs form and retrieve all work cells.
2. Record the Machine Cost/Hour and Labor Cost/Hour.
3. Enter the Operations form and retrieve all the relevant production operations.
4. For each operation, enter the Operation Processing Parameters sub-level form to define the parameters used to calculate the costs of manufactured (Type P) parts. The value T appears automatically in the Parameter column of the first line, indicating that machine and skilled labor time will be calculated for this operation.
5. If, for example, the duration of this operation for all parts is the same, specify C in the Operand (C/M/D) column and the time in minutes in the Coefficient column.
6. For operations for which you want to calculate standard unskilled labor costs, add a line with the parameter E.

Note: When standard costing is calculated, hourly machine cost is multiplied by the value defined for the operation's T parameter, while hourly labor cost is multiplied by the value defined for the operation's E parameter.

STAGE FOUR: STANDARD TIME – PARTS

Note: Only perform this stage if the standard operation time is not identical for all parts.

1. Do one of the following:
   - To define standard times for a specific part, enter the Parts form. For each relevant part, enter the Part Processing Parameters sub-level form. A line is displayed for each operation in the part's production routing for which a variable

was defined. If two parameters were defined for operations (e.g., T and E), two lines will appear for each operation. The variable receives the same code as the operation.
- To record standard times for a list of parts, use the Part Processing Parameters form.

2. In the Value column, record the time (in minutes) required to perform the operation on the part in question, according to the type of work defined by the Parameter. For example: If the parameter is T, the time referred to is the machine time; if E, unskilled labor.
3. When a part routing or operation variables are revised, the list of part processing parameters is automatically updated. To update part processing parameters in a batch, run the Processing Param & Set-up Update program. This program adds processing parameter lines to parts based on their routings and definitions in the Operation Processing Parameters form. Moreover, the check mark is removed from the Valid column for any processing parameters that were removed from operations.

STAGE FIVE: DEFINING THE ACTUAL COSTING METHOD

Costing always calculates according to actual costs. You can define an actual costing method for the desired Type P parts, by which costing takes into account actual production reports.

1. Enter the Parts - Std Costs form and retrieve the desired Type P parts.
2. In the Costing Option column, specify the appropriate value:
   - T: Part cost is calculated by multiplying the standard quantities of child parts by their actual costs, and adding the standard production costs.
   - W: Part cost is calculated on the basis of production reports recorded for closed work orders.

Note: Use the PActCostType logistics constant to define the default costing method assigned to all new Type P parts.

STAGE SIX: INITIALIZING THE COSTING SYSTEM

Aim: To define the required parameters by which costing is run. This stage is only performed once, before the first costing run.

- Run the Set Costing Parameters program.

Note: The results of any costing runs performed before the initialization date will be deleted.