

SOP COST ALLOCATION

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# SOP COST ALLOCATION

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## AIMS

- To create profit and cost centers in a variety of cross sections
- To define bases of cost allocation and link them to cost centers
- To link Profit/Cost centers to inventory and financial transactions
- To define default profit and cost centers on various levels
- To run profit/cost center reports and analyses.

## NOTES

- Profit centers are defined in the system to analyse the company's activities from an administrative viewpoint that is not necessarily financial or logistical (e.g., revenues and expenses from a departmental or regional perspective). All activities based on revenue or expense from one or another such perspective is linked to a corresponding profit center.
- Activities involving indirect costs or revenues that are not related to a specific profit center are linked to a cost center so that sums are distributed among relevant profit centers according to pre-defined cost allocation bases.

## PROCEDURE

### STAGE ONE: CREATING PROFIT CENTERS

1. Enter the Profit Centers form.
2. Record a code for the Profit Center and a Description.
3. Link the profit center to a profit group in the Group column. You can define up to five groups per profit center. NOTE: if you do not intend to define multiple cross-sections, specify Group 1.
4. If you want to group profit centers into larger categories for cost allocation reports, create trees in the Profit/Cost Center Trees form. Then link the profit center to a Tree Code. NOTE: Trees are defined as hierarchies (similar to trial balance codes), which can contain up to three levels. They can also be assigned to cost centers (see below).

### STAGE TWO: CREATING COST CENTERS

1. Enter the Cost Centers form.
2. Record a code for the Cost Center and a Description. NOTE: you cannot assign a code that has already been given to a profit center,
3. Link the cost center to a cost group in the Group Column. You can define up to five groups per cost center, similar to profit centers.
4. Link the cost center to a Tree Code, as needed.

5. Specify the cost center's Allocation Code; Which determines the bases of cost allocation.
6. The system contains ten pre-defined bases of cost allocation, which you can revise as needed. To define additional bases:
  - Enter the Bases of Cost Allocation form.
  - For each new base, record an Allocation Code and Allocation Base.
  - Select the relevant Group (out of the five possible groups).
  - To distribute costs in the same proportion as direct costs, flag either the By Direct Costs.Month or By Direct Costs YTD column. NOTE: if neither column is flagged, cost allocation will be calculated by user defined weighted parameters (see below).
  - Flag the In Use column to put the base into effect.
  - Enter the Cost Allocation Dates sub-level form and specify the Date as of which the cost allocation will be performed. This must be the first date of a fiscal period (i.e., the first of the month).
  - For each date, enter the Allocation per Profit Center sub-level and specify the profit centers among which costs are distributed. If costs are distributed by weighted parameters, specify the proportional Weight of each center. NOTE: if cost allocation is by direct costs (as defined above), it is not mandatory to assign weights; you only need to list the profit centers among which the costs are distributed.

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### STAGE THREE: LINKING PROFIT AND COST CENTERS TO LINE ITEMS IN INVENTORY AND FINANCIAL TRANSACTION DOCUMENTS

The following refers to the sub-level form of any relevant inventory or financial document, where it is itemized:

1. Enter the itemisation sub-level form of the document in question.
2. After recording a part number, quantity and unit price, link any desired line item to the relevant profit or cost center. NOTES:
  - Each line in the document can be related to profit or cost center. If the transaction involves a direct revenue (e.g., sales order, customer invoice) or a direct expense (e.g., purchase order, purchase invoice), the item should be linked to a profit center. IF it involves an indirect revenue or expense, it should be linked to a cost center.
  - The items in an inventory transaction can only be linked to a single profit/cost center, whereas items in financial transactions, you can complete any additional links to profit/cost centers that are required.
3. Use the Entry Item Revisions form to revise the profit and cost centers in posted journal entries.

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### STAGE FOUR: DEFINING DEFAULT PROFIT AND COST CENTERS

FOR A GL ACCOUNT:

1. Enter the Chart of Accounts form, move to the desired account and press F4.
2. Click the Profit/Cost Ctrs tab. You can link the account to up to five different profit or cost centers (one per group). When a journal entry is posted to this account, the relevant centers are copied to the entry items.
3. If desired, assign the account a Profit/Cost Ctr Tree. This requires transactions involving this account cannot be posted until a profit/cost center is assigned to each entry item. NOTE: if the account is linked to a tree but not to a profit/cost center, journal entries for the account cannot be posted until a profit/cost center is assigned to each entry item.

FOR A BRANCH:

1. Enter the Branches form, retrieve the desired branch and specify the desired Profit/Cost Center in the Financial Data tab. All documents recorded for this branch are automatically linked to the profit.Cost center.

FOR AN ACCOUNTING FAMILY:

1. Enter the Accounts for Families form, retrieve the desired Family and specify the Profit/Cost Center in the Income & Purchasing Accounts tab. When a part belonging to this family is recorded in a document, it is automatically linked to this profit/cost center.

FOR A JOURNAL ENTRY CODE:

1. Enter the Journal Entry Codes form and retrieve the desired code.
2. Enter the Entry Patterns sub-level and link each account/pattern to up to five profit/cost centers. NOTE: Default centers defined on this level override any of the other defaults defined above.

FOR A CUSTOMER GROUP:

1. Enter the Accounts for Customer Groups form, retrieve the desired group and select the Profit Center, All items in invoices recorded for a customer belonging to this group are automatically linked to this center. NOTE: this default only applies to income (customer invoices).

FOR A PROJECT

This is not used very often. It requires the purchase of the Project Module.

1. Enter the Accounts for Projects form and retrieve the desired project and select the Profit Center. All items in transaction documents linked to the project are automatically linked to this center.

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#### FOR A WAREHOUSE AND ACCOUNTING FAMILY

This is not used very often.

1. Enter the Accounts for Warehouse form and retrieve the desired warehouse.
2. Enter the Acct's for Families in Warehouse sub-level form and retrieve the desired family.
3. Specify the desired Profit/Cost Center. All items in invoices and journal entries involving movements of parts belonging to this accounting family to or from this warehouse are automatically linked to this center.

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#### STAGE FIVE: RUNNING COST ALLOCATION REPORTS AND ANALYSES

Before running the following reports, run the Allocate Costs program, which distributes indirect costs among the various bases of allocation, as recorded in financial documents.

- Run the P&L Statement per Profit Center report to compare revenues and expenses per profit center, including indirect costs. NOTES:
  - The structure of the report follows the standard structure of the Profit and Loss report in the Financial Statements module.
  - If you need to make corrections as a result of viewing the report, revise the relevant journal entries and rerun the Allocate Costs program, Then rerun the reports.
- Run the Bases of Cost Allocation Report to view the methods by which indirect costs were calculated and distributed by the system.
- Run the Profit Center Analysis (BI) report to analyze profit center data.
- Run the Profit/Cost Ctr Analysis (BI) report to analyze profit and cost center data.
- Run additional reports from the Profit Center Reports and Cost Center Report menus,