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Best Practice
eXensys – Costing



Business Performance Sustained

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Introduction:

This paper describes how you can use eXensys costing as a tool to manage and track costs of inventory to the level you need to run your business. Too much control wastes your time, and too little control doesn't give you the operational information that you need to make good decisions. You must decide where that point is for your organization.

Costing looks at the different types of costs incurred and they can be controlled from functional, manufacturing and process perspective. Cost analysis examines the costs associated with a particular decision and what may be done about those costs in future.

eXensys Costing is an application, the primary users of whose information, will be the managers within the organization. Costing process helps in carrying out the following functions in the area of decision support for control, for the management in an organization

Cost Control and Planning

Operations or Works Accounting

Analysis and Reporting



1 Overview

Costs are materials or resources sacrificed or foregone in order to achieve a specific objective. We shall take that the objective of an organization is to sell value added products to customers and receive revenues against them in a manner that is profitable to the organization.

The whole gamut of organizational activity may be looked upon as a value chain in which every activity carried out in the organization is with a final purpose of value addition to its finished products. There is a flow of materials from the point of receipt from the Supplier to the point that they are shipped to the Customer while some utility is added to the materials

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during every intermediate activity. Each activity has a cost that can be looked upon as the cost of value addition to the end product.

Finally, when the value-added product is sold to the customer, some revenue is received in return. This revenue, when contrasted against the total cost of the product, in terms of the material content and those of the value adding activities, gives the notion of whether the manufacturing and selling of the product is profitable or not. An accurate accounting of costs at every stage will tell us why it is profitable or why it is not, and maybe give an insight into how to make it more profitable.

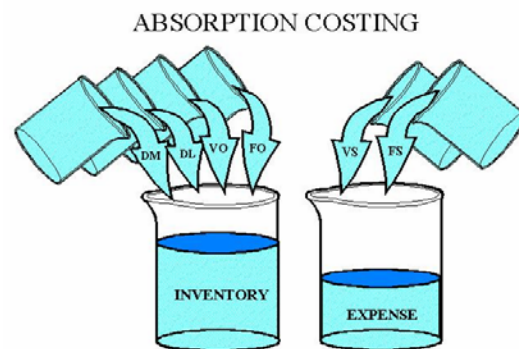
Resources necessarily involve cost because everything (including human beings) eventually wears out. Cost can include:

- Cash Spend of operation
- The maintenance of resource base

The cost of maintaining plant, building, personnel and other assets are often expressed by accounts as depreciation.

Accounting techniques attempt to quantify the costs by including many subjective opinions, such as the base depreciation and / or inventory valuation. Accounting methods are often based on legal or tax office requirements rather than the actual cost of running a business. As well, some costs might be expended as investment for the future and are generally not included in an accounting approach to the cost estimates.

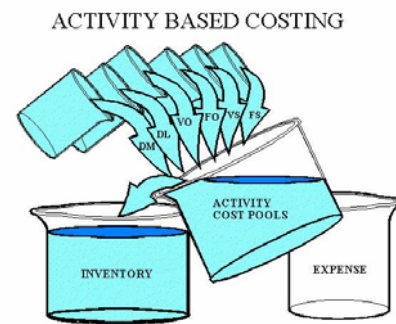
In Absorption costing, costs are in direct or indirect in nature, for example materials direct labour and direct factory overheads are direct in nature where as office and administrative overheads and selling & distribution overheads are indirect in nature. In the past methods adopted for allocating



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other costs, which might include manufacturing, Distribution, Marketing and Administration costs, have created controversy and arguments. eXensys costing application facilitates the user to allocate or apportion the incurred overhead cost to the produced products for the specified period, the overheads apportionment and the type of distribution is at the discretion to the user.

ACTIVITY BASED COSTING attempts to ensure that every cent spent by an organization, including direct and overhead costs, is allocated to the products or services in the most equitable way in order to realistically identify the cost to the organisation of delivering those products or services.



In essence, Activity Based Costing works like this:

The Activity Based Costing method identifies a group of 'cost pools' or 'activities' within your organization through which a product or service must pass before it is delivered to the customer. The total cost of operating each of the 'activities' for a year must be estimated.

The total number of hours that will be spent on each of the 'activities' in a year must be estimated. Based on these two estimates, a 'cost driver' for each of the 'activities' can be calculated.

ABC must be tailored for each organization in the light of its intentions and particular requirements, using a degree of analysis that is affordable and realistic. Once an ABC exercise has been carried out, you should be able to predict the real costs of production, at least quite closely. The problems of planned margins and profit must then be considered. Does the market place dictate your margin or can you apply a selling price that will deliver a planned profit? Should you apply a planned mark-up on ABC costs uniformly across all 'activities' or can some 'activities' provide more profit than others? How does the final selling

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price compare with the ABC costs? By using the ABC costing method, you will be able to see immediately the amount of profit you can reasonably expect to make from any product or service you offer to your customers.

In brief Actual Based Costing implementation is as below mentioned:

1. Define your business objectives
2. Clarify your organizational structure
3. Identify your resources
4. Estimate the utilization of resources
5. Estimate the planned costs of your business overheads
6. Estimate your direct costs
7. Calculate your activity cost drives

2 Benefits

The benefits of absorption and activity based costing are as below mentioned

1. Product costing and establishment of a selling price
2. Evaluation of managerial performance and control
3. Making special decisions
4. For break-even and cost-volume-profit analysis
5. To appraise divisional performance
6. For flexible budgeting
7. To make short-term choice decisions
8. To make transfer pricing decisions



3 Conclusion

eXensys can provide you with a cost management system necessary to support your management's needs for better decisions about product design, pricing, marketing, mix, and to encourage continual operating improvements. In addition, we use quantitative methods in various phases of cost analysis to determine costs and their financial effects, department correlation, and the financial feasibility of adopting alternatives.