

Ostendo[®] _____

4

**Sell Price, Buy Price
and Costing**

Sell Price, Buy Price and Costs

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Sell Price, Buy Price and Costs

Ostendo contains a very flexible and comprehensive pricing and costing structure covering

Sell Prices: The price at which you sell a product or service

Buy Price: The price at which you Purchase a product or service

Cost: The cost of the product or service (This can be Assembly Order Costs or Purchase Buy Price plus other costs)

1. Sell Price Maintenance and Use

The Sell Price structure covers the following areas:

- Inventory Items
- Non-Inventory Items (In Ostendo these are called 'Descriptors')
- Labour Charges
- Kit Sets (Kits of Parts)
- Tasks (Service oriented activities)
- Supplier Catalogues

The following exercises cover the determination and use of the Sell Price, which includes Pricing options such as:

- Basic Sell Price
- Price Matrix including quantity Discount Pricing
- Unit of Measure Pricing
- Special (or Promotional) Pricing
- 'On Sell' Pricing

1.1. Inventory Items

Basic Sell Price

A Base Sell Price is held against each Inventory Item. To add the Base Sell Price go into **Inventory>Items** and select Item **1500-2185** (Green Paint). You will see that it already has a Sell Price in the '**Standard Sell Price**' field. Amend this if required. In the absence of any other Sell Price conditions (defined below) this price will be used. If no Price is entered here then a zero Base Price is assumed.

Sell Price Matrix

A Sell Price matrix can be established against each Item where a Base Sell Price and Quantity Discounts can be defined for user-defined Price Levels. A single Price Level is linked to a Customer record and whenever an Order is raised the Customer's Price Level price is used. Let's see how this works.

- You should first set up Price levels by going into **Pricing>Settings>Price Levels**. Try adding a couple of Price levels such as '**Trade**' or '**Wholesale**'
- The next step is to create the Prices by Price Level. Go into **Pricing>Item Pricing** (or click on the '**Pricing**' button on the Item Screen) and create a Sell price with Quantity Breaks for the Price Levels you have just created.
- Finally, go into the Customer Screen (**Sales>Customers**) and select a Customer. Click on the '**Pricing and Invoicing**' tab and attach one of the above Price Levels to the Customer
- Now create a Sales Order for the Customer by going into **Sales>Sales Orders**. '**Add**' the above Item to the Order Line. You should see the Price-Level price for the Item/Quantity will come through to the Order Line

Unit of Measure Sell Price

If the Inventory Item has multiple Units of Measure then each UOM can offer a Sell Price based on a percentage of the Base Price. For example, if the Items basic UOM is (say)

'Litre' and it is also stocked and sold in 'Carton' and 'Case' then a UOM discount matrix can be set up as follows:-

<u>Sell Unit</u>	<u>Sell Price Discount</u>
Litre	0%
Case	15%

To create these discounts go back to *Inventory>Items* and select Item **1500-2185** (Green Paint). Click on the 'Related' button down the right-hand side of the screen and select 'Item Units'. In the presented screen add the following record

To Unit: Case
Conversion Factor: 10 (i.e. 10 Litres per Case)
Sell Price Discount: 15%

Go back to the above Sales Order and add this Item to the Order Line. Amend the Unit from the base 'Litre' to the new unit 'Case'. You should see the Price-Level price for the Item/Quantity adjusted by the 15%.

Special Pricing

Special Pricing allows for the maintenance of promotional pricing of Items. To create a special price go into *Pricing>Special Pricing* and create a special Price - covering a brief period - for the above Item. Go back to the above Sales Order and add this Item to the Order Line. You should see the Special Price come through to the Order Line if the Date range of the Special Price is effective to the Order Line creation Date

'On Sell' Pricing

'Add-on' Sales cover those additional products or services you wish to promote when certain Items are added to a Sales Order. Example:- If the Customer orders Item **1500-2185** (Green Paint) you may also wish to promote Item **1500-2187** (Blue Paint) at the same time. Each 'Add-on' Item can have a single price specifically linked to this promotion or alternatively can use its standard pricing matrix.

To create an 'On Sell' Price go into *Inventory>Items* and select Item **1500-2185** (Green Paint) and go to the 'Detail' tab. 'Check' the 'Add-On Sales Apply' checkbox then click on the adjacent 'Item Add-On Sales' button. Add the details of **1500-2187** (Blue Paint) into the presented screen and enter a Special Price to be used when this is sold as 'Add-on' Sale Item.

Go back to the above Sales Order and add Item **1500-2185** (Green Paint) to the Order Line. You should see an 'Add-On Sale' button appearing in the 'Line Info' Bar. If you click on this button then the 'Add-On' Sales details will be displayed. You can then offer **1500-2187** (Blue Paint) which, if accepted, will be included in the Sales Order Line with the associated Special Price.

Job Order 'Markup' Price

This type of Sell Price is specific to Job Orders and only applies where the Item in the Job Order Line has been specifically ordered for the Job. In this instance the Purchase Price will be used as a basis for evaluating the Sell Price. This will be covered in detail in the Job Order Training guide. However, you can see the setup options by going into *Inventory>Items* and selecting Item **1500-2185** (Green Paint). You will see two fields;

Checkbox: Calculate Sell Price from Receipt Cost for Jobs'
Field: Markup

1.2. Descriptors

A Base Sell Price is held against each Descriptor. To add the Base Sell Price go into *Inventory>Descriptors* and 'Add' a new Descriptor with the following information

Descriptor Code: Subcontract
Unit: Hours

Description: Sub Contract Labour

Enter a Sell Price into field '**Standard Sell Price**'. In the absence of any other conditions (defined below) this price will be used. If no Price is entered then a zero Base Price is assumed.

Sell Price Matrix

A Sell Price matrix can be established against each Descriptor where a Base Sell Price and Quantity Discounts can be defined for user-defined Price Levels. A single Price Level is linked to a Customer record and whenever an Order is raised the Customer's Price Level price is used.

- You should first set up Price levels by going into **Pricing>Settings>Price Levels**. Try adding a couple of Price levels such as '**Trade**' or '**Wholesale**' if you have not already created from the exercise above
- The next step is to create the Prices by Price Level. Go into **Pricing>Descriptor Pricing** (or click on the '**Pricing**' button on the Descriptor Screen) and create a Sell price with Quantity Breaks for the Price Levels you have just created.
- Finally, go into the Customer Screen (**Sales>Customers**) and select a Customer. Click on the '**Pricing and Invoicing**' tab and attach one of the above Price Levels to the Customer
- Now create a Sales Order for the Customer by going into **Sales>Sales Orders**. Add this Descriptor to the Order Line. You should see the Price-Level price for the Descriptor/Quantity come through to the Order Line

Special Pricing

Special Pricing allows for the maintenance of promotional pricing of Descriptors. To create a special price go into **Pricing>Special Pricing** and create a special Price - covering a brief period - for the above Descriptor. Go back to the above Sales Order and add this Descriptor to the Order Line. You should see the Special Price come through to the Order Line if the Date range of the Special Price is effective to the Order Line creation Date.

Job Order 'Markup' Price

This type of Sell Price is specific to Job Orders and only applies where the Descriptor in the Job Order Line has been specifically ordered for the Job. In this instance the Purchase Price will be used as a basis for evaluating the Sell Price. This will be covered in detail in the Job Order Training guide. However, you can see the setup options by going into **Inventory>Descriptors** and selecting Descriptor Subcontract. On that screen you will see two fields;

Checkbox: 'Calculate Sell Price from Receipt Cost for Jobs'

Field: Markup

1.3. Labour Codes

You can charge Labour at two levels within Ostendo:

- If you only wish to identify and charge Labour to an Assembly Order or Job Order and subsequently enter the actual Labour hours used then it is easier to identify the Labour as a Descriptor and book actual quantities against the Descriptor.
- If you wish to identify the **Labour Code** against an Assembly Order or Job Order and subsequently have a specific **Employee** book time against that Labour Activity then you must use the Labour Code process. In this instance the Labour Code will provide the Planned Charge Rate and the Employee the Actual Charge Rate.

Basic Charge Rate

A Base Charge Rate is held against each **Labour Code**. To add the Base Charge Rate go into **Labour>Labour Codes** and select **LAB-GENERAL**. You will see that a charge rate has already been entered into field '**Standard Rate**'. In the absence of any other conditions

(defined below) this Charge Rate will be used. If no Charge Rate is entered then zero is assumed.

Charge Rate Matrix

A Charge Rate matrix can be established against each Labour Code where different Charge Rates can be defined for user-defined Rate Levels. A single Rate Level is linked to a Customer record and whenever an Order is raised the Customer's Rate Level price is used. To see how this works:

- You should first set up **Rate Levels** by going into **Labour>Settings>Rate Levels**. Add a couple of Rate levels such as **'Trade'** or **'Wholesale'**
- The next step is to create the Charge Rate by Rate Level. Go into **Labour>Rate Levels** and create a **Charge Rate** for the **Rate Level(s)** you have just created.
- Finally, go into the Customer Screen (**Sales>Customers**) and select a Customer. Go to the **'Pricing and Invoicing'** tab then, in the drop-down against field **'Rate Level'** select the level that will apply to this Customer
- Now create a Sales Order for the Customer by going into **Sales>Sales Orders**. **'Add'** this **Labour Code** to the Order Line. You should see the Rate-Level price for the **Labour Code** come through to the Order Line

1.4. Discount Matrix

The above three sections calculate the Sell Price. You can optionally apply a Discount to the calculated price. This provides the following options

- Sell Price Calculation only using the above Sell Price Matrices
- Discount only using the Item, Descriptor or Labour Code's Base Price
- Discount the Calculated Sell Price
- No Sell Price Matrix or Discount - just use the Base Price

To create a Discount go into **Pricing>Discount Matrix** where you will see the Discounting maintenance screen. In this exercise we will give a Discount to Customer **'Jim Gold & Co Ltd'** when they purchase Item Code **1500-2186** (Red Paint). Click on the **'Add'** button to create a new Discount record and enter the following into the respective fields

Discount Level: Customer
Discount Level Name: Jim Gold & Co Ltd
Product Level: Item
Product Level Code: 1500-2186
Discount: 25%

If you now create a Sales Order (**Sales>SalesOrders**) for **Jim Gold & Co Ltd** then, in the **'Lines'** tab add Item **1500-2186** you will see that the **25%** Discount has been applied to the Sell Price

1.5. Kit Set Pricing

A Kitset is a collection of Items and Descriptors that are sold as a 'single entity'. The Kitset itself has its own Sell Price whereas the cost of the Kitset comes from the individual Items and Descriptors issued to the Kit.

Kitset Price

To create a Kitset simply create a **Descriptor** as described in 1.2 and - on the Descriptor's **'Detail'** screen - 'check' the **'The Descriptor is Used as a Kitset Code'** Radio Button. The Sell Price and Sell Price Matrix of the Descriptor (as described in 1.2.) will now define the Sell Price of the Kitset.

Kitset Components

The components used within a Kitset are maintained via **Sales>Kitsets**. Go into that screen and select the Descriptor you have just created. Go into the **'Lines'** tab of the Kitset and add a couple of Items and/or Descriptors to the Kitset.

Kitset Price Maintenance

If you now click on the **'Detail'** tab of the Kitset you will see the Sell Price that comes from the Descriptor record. You can amend this sell price in this screen by 'checking' the appropriate **'Radio Button'** and saving the change. The sell price, therefore, can come from one of three sources:-

- Price as (manually) entered in the Kitset's Descriptor record, or
- Rolled-up from the Base Sell Price of the Kit's Components
- Rolled-up from the Base Cost of the Kit's Components multiplied by a Markup %

It should be noted that, for the last two options, whenever a change is made to any of the Kitset's Item or Descriptor's Base Sell Price (or Cost) then the program will automatically update the Base Kitset Price against the 'Kitset' Descriptor record.

Sales Order Kitset Price

Now create a Sales Order for the Customer by going into **Sales>Sales Orders**. Go into Sales Order **'Lines'** tab and click the **'Add'** button. Select **'Line Type'** of **'Kitset Code'** then select the above Kitset in field **'Code'**. You should see the Price-Level price for the Kitset Code come through to the Order Line

Special Pricing

Special Pricing allows for the maintenance of promotional pricing of Kitsets. To create a special price go into **Pricing>Special Pricing** and create a special Price - covering a brief period - for the above 'Kitset' Descriptor. Go back to the above Sales Order and add this 'Kitset' to the Order Line. You should see the Special Price come through to the Order Line if the Date range of the Special Price is effective to the Order Line creation Date.

1.6. Task Bill Pricing

A Task Bill is a collection of Items, Descriptors and Labour activities that are assembled to perform a defined activity. This activity contains a standard **'Sell Price'** for quoting and planning purposes.

Task Bill Price

To create a Task Bill simply create a Descriptor as described in 1.2 and - on the Descriptor's 'Detail' screen - 'check' the **'The Descriptor is Used as a Task Bill Code'** Radio Button. The Sell Price and Sell Price Matrix of the Descriptor (as described in 1.2.) is used to define the Sell Price of the Task Bill.

Task Bill Content

The content of the Task Bill is maintained via **Jobs>Task Bills**. Go into that screen and select the Descriptor you have just created. Go into the **'Lines'** tab of the Task Bill and add a couple of Items/Descriptors/Labour Codes.

Task Bill Price Maintenance

If you now click on the **'Detail'** tab of the Task Bill you will see the **Sell Price** that comes from the Descriptor record. You can amend this sell price in this screen by 'checking' the appropriate **'Radio Button'** and saving the change. The sell price, therefore, can come from one of three sources:-

- Price as (manually) entered in the Task Bill's Descriptor record, or
- Rolled-up from the Base Sell Price of the Task Bill's Components
- Rolled-up from the Base Cost of the Task Bill's Components multiplied by a Markup %

It should be noted that, for the last two options, whenever a change is made to any of the Task Bill's content then the program will automatically update the Base Task Bill Price against the 'Task Bill' Descriptor record.

Job Order Task Bill Price

Now create a Job Order for a Customer by going into **Jobs>Job Orders** and clicking the **'Add'** button. In the **'Job Order Creation'** panel select a Customer then click on the **'Task Information'** tab at the top of the panel (i.e. Do not generate the Job Order yet). Under field **'How Job Lines are related to this Task'** select **'A Single Task Bill is linked to this Task'**. Then in the field **'Task Bill Code'** select the above Task Bill from the drop-down list. Finally click on the **'Create Order'** button.

If you go into the **'Lines'** tab of the generated Job Order you will see the Price-Level price for the Task Bill Code comes through to the Order Line. This whole Job Order process is covered in detail in the Job Orders Training Guide

Special Pricing

Special Pricing allows for the maintenance of promotional pricing of Task Bills. To create a special price go into **Pricing>Special Pricing** and create a special Price - covering a brief period - for the above 'Task Bill' Descriptor. If you create a Job Order as described in the previous paragraph you will see the Special Price come through to the Order Line if the Date range of the Special Price is effective to the Order Line creation Date.

1.7. Supplier Catalogue Item Pricing

A simple Import Routine allows the user to create and maintain multiple Supplier Catalogues. These catalogues can contain both a Buy Price and a Recommended Sell Price along with a Sell Price Matrix.

If you go to **Purchasing>Supplier Catalogues** you will see that a catalogue already exists for Supplier **'Electrical Power Company'**. If you click on the **'Lines'** tab you will see that each record contains a Buy Price and also the Supplier's Recommended Sell Price.

Catalogue Item Sell Price Matrix

A Sell Price matrix can be established relating to all Items in the Catalogue based on the Supplier's Buy Price or Recommended Sell Price. To do this:

- You should first set up Price levels by going into **Pricing>Settings>Price Levels**. Try adding a couple of Price levels such as **'Trade'** or **'Wholesale'** if you haven't already done so.
- The next step is to create the Prices by Price Level. Go into **Purchasing>Supplier Catalogues** and select the **'Detail'** tab. In the lower part of the screen select the **'Pricing Level'** tab and define the global Sell Price variable that will apply to the Price Level you have just created.
- Finally, go into the Customer Screen (**Sales>Customers**) and select a Customer. Click on the **'Pricing and Invoicing'** tab and attach one of the above Price Levels to the Customer
- Now create a Sales Order for the Customer by going into **Sales>Sales Orders**. Go to the Order **'Lines'** and, on the **'Batch Entry'** bar select the **'Catalogue Items'** button. From there select an Item and you will see that the Sell price is derived from the Base Catalogue Price taking into account the Price Level variable.

1500-2186 1.8. Customer Discounts

In addition to the above pricing you can also offer a discount by Customer that applies to the whole Sales Invoice. The percentage discount is initially stored against the Customer Record

and copied to the Sales Order where it can be amended and made specific to that order. This Discount appears on the Invoice in its own right as a Customer Order Discount.

To create a Customer Discount go into **Sales>Customers** and select a Customer. Click on the **Pricing and Invoicing** tab and enter a Discount percentage into field **Discount%**. To show how this works do the following:

- Go into **Sales>Sales Orders** and generate an Order for the above Customer
- In the **Lines** tab click on the **Descriptors** Button on the **Batch Entry** bar and add **General Time** with (say) **10** Hours.
- Click on the **Picking** button in the **Batch Entry** bar and 'Pick' the Line quantity.
- Click on the **Update Sales Order** button then close out of the screen
- Return to the Sales Order **Detail** tab
- You will see that the discount percentage and calculated discount amount will be displayed in the lower left of that screen

1.9. Price Updates

A simple routine enables you to maintain Item and Descriptor Sell prices. It comprises of selecting a range of Items or Descriptors and applying a % change (plus or minus) based on Standard Sell Price, Standard Buy Price, or Last Cost.

To adjust the prices go into **Pricing>Batch Price Update** and try updating some Items and/or Descriptors

1.10. Price Inquiries

Quite often a Prospect or Customer may wish to know the current sell price. Go into (**Pricing>Price Inquiry**) and enter the following

- Customer Name (I.e. Price Level known) or Price level
- Item or Descriptor identity (select from drop-down list)
- Quantity required (to take advantage of any Quantity Price Breaks)
- Unit of Measure (Base unit defaulted - amend from drop-down) for UOM discounts

Upon entering this information a display panel shows the Sell Price and all the applied discounts that enabled the price to be calculated

2. Buy Price maintenance and use

Ostendo contains a comprehensive Supplier Buy pricing structure covering

- Inventory Items
- Non-Inventory Items (In Ostendo these are called 'Descriptors')
- Supplier Catalogues

This document covers the processing and use of Buy Pricing options such as:

- Standard Buy Price
- Supplier Specific Pricing
- Quantity Discounts
- Supplier Unit of Measure Pricing

These exercises take you through the way Buy prices are created and maintained. It should be noted that a Buy Price differs from a Cost in that the Cost could be the Buy Price PLUS additional charges such as Freight, Postage, etc.

2.1. Item Buy Price

Standard Buy Price

A Base Buy Price is held against each Inventory Item. To add the Base Buy Price go into **Inventory>Items** and select Item **100-2000** (Washer-Mild Steel-8mm). You will see that it already has a Buy Price in the **'Standard Buy Price'** field. Amend this if required. In the absence of any other Buy Price conditions (defined below) this price will be used. If no Price is entered then a Base Buy Price of zero is assumed.

Supplier-based Buy Price

Against each Item facility is provided to add Supplier-specific Buy prices. This price is used when ordering the Item from that Supplier. To create the Supplier Specific 'Buy Price' go into **Inventory>Items** and select Item **100-2000** (Washer-Mild Steel-8mm). In the **'Detail'** screen click on the **'Pricing'** Button (Alternatively you can go into **Pricing>Item Pricing** to go to the same record). In the Pricing screen click on the **'Buy Prices'** tab half way down the screen. Click the **'Add'** button and enter a new line as follows:

Supplier: Select the Supplier to which this Buy Price will apply.

Unit: This is prefilled with the base Unit of measure for the Item but can be amended to reflect the specific Unit of Measure of the Item from this Supplier.

Supplier Item Code: You can (optionally) identify the Supplier's Item Number if it is different the above Item Number. Both numbers will appear on the Purchase Order.

Unit Price: Enter the Buy Price relative to the Supplier's Unit entered in this line.

Quantity Breaks: You can enter up to 5 Quantity Breaks

Now let's see how this works:

- Go into **Purchasing>Purchase Orders** and click the **'Add'** button. In the drop-down list in field **'Supplier'** select the above Supplier and click the **'Create'** button
- Go into the **'Lines'** tab and select **'Item Code'** in the drop-down under **'Line Type'** and then select Item **100-2000** from the drop-down under **'Code'**. You will see that the displayed price is that defined against this specific Supplier.
- Go back to the **'Detail'** tab and click on the **'Print'** button. You will see both your Item Number and the Supplier's Item number in the Purchase Order.

One point to note is that you can enter a Supplier's Item Number when creating a Purchase Order Line. Let's see how this is done:

- Go to **File>System Configuration>System Settings** and make sure that the **'Advanced Searching'** checkbox is 'checked'
- Go back to the above Purchase Order **'Line'** screen and **'Add'** a new line. Click on the drop-down icon against field **'Code'** and - in the displayed panel - enter the Supplier's Item Number (or even a partial number) in the **'Search'** field at the bottom of the screen. This should show you the Supplier's Item Number being linked to your own Item Number

Restrict to defined Suppliers

If you go into **Pricing>Item Pricing** for **100-2000** and click on the **'Buy Prices'** tab you will see a checkbox that can be set to restrict purchases from Suppliers in the Buy Price List. Any attempt to purchase this Item from other Suppliers will be rejected.

Primary Supplier

Against any Item you can identify a Primary Supplier. This is used during automatic ordering via the Replenishment run and prefills the Purchase Order's Supplier with this Primary (or preferred) Supplier. Go into **Inventory>Items** and select **100-2000**. On the **'Detail'** screen select the primary (or preferred) Supplier from the drop-down against field **'Primary Supplier'**

2.2. Descriptor Buy Price

Standard Buy Price

A Base Buy Price is held against individual Descriptors. To add a Base Buy Price go into *Inventory>Descriptors* and select Descriptor '**SubContract**' (the one that you created above). Add a Buy Price in field '**Standard Buy Price**'. In the absence of any other Buy Price conditions (defined below) this price will be used. If no Price is entered then a Base Buy Price of zero is assumed.

Supplier-based Buy Price

Against each Descriptor facility is provided to add Supplier-specific Buy prices. This price is used when ordering the Descriptor from that Supplier. To create the Supplier Specific 'Buy Price' go into *Inventory>Descriptors* and select Descriptor '**SubContract**'. In the '**Detail**' screen click on the '**Pricing**' Button (Alternatively you can go into *Pricing>Descriptor Pricing* to go to the same record). In the Pricing screen click on the '**Buy Prices**' tab across the centre of the screen. Click the '**Add**' button and enter a new line as follows:

Supplier: Select the Supplier to which this Buy Price will apply.

Unit: This is prefilled with the base Unit of measure for the Descriptor but can be amended to reflect the specific Unit of Measure from this Supplier.

Supplier Code: You can (optionally) identify the Supplier's equivalent Code if it is different to the above Descriptor Code. Both numbers will appear on the Purchase Order.

Unit Price: Enter the Buy Price relating to the above Supplier's Unit of Measure.

Quantity Breaks: You can enter up to 5 Quantity Breaks

Now let's see how this works:

- Go into *Purchasing>Purchase Orders* and click the '**Add**' button. In the drop-down list in field '**Supplier**' select the above Supplier and click the '**Create**' button
- Go into the '**Lines**' tab and select '**Descriptor Code**' in the drop-down under '**Line Type**' and select Descriptor '**SubContract**' from the drop-down under '**Code**'. You will see that the price is that defined against this specific Supplier.
- Go back to the '**Detail**' tab and click on the '**Print**' button. You will see both your Descriptor Code and the Supplier's equivalent Code in the Purchase Order.

One point to note is that you can enter a Supplier's Equivalent Code when creating a Purchase Order Line. Let's see how this is done:

- Go to *File>System Configuration>System Settings* and make sure that the '**Advanced Searching**' checkbox is 'checked'
- Go back to the above Purchase Order '**Line**' screen and '**Add**' a new line. Click on the drop-down icon against field '**Code**' and - in the displayed panel - enter the Supplier's Equivalent Code (or even a partial code) in the '**Search**' field. This should show you the Supplier's Code being linked to your own Descriptor Code.

Restrict to defined Suppliers

If you go into *Pricing>Descriptor Pricing* for '**SubContract**' and click on the '**Buy Prices**' tab you will see a checkbox that can be set to restrict purchase from Suppliers in the Buy Price List. Any attempt to purchase this Descriptor from other Suppliers will be rejected.

Primary Supplier

Against any Descriptor you can identify a Primary Supplier. This is used during automatic ordering via the 'Create Required Orders' routine and prefills the Purchase Order's supplier with this Primary (or preferred) Supplier. Go into *Inventory>Descriptor* and select **SubContract**. On the '**Detail**' screen select the primary (or preferred) Supplier from the drop-down against field '**Primary Supplier**'

2.3. Buy Price Updates

Two routines enable you to maintain Item and Descriptor Buy prices.

2.3.1. Batch Buy Price Update

This comprises of selecting a range of Items or Descriptors and applying a % change based on Standard Sell Price, Standard Buy Price, or Last Cost. To carry out the Buy Price Update go into **Pricing>Batch Price Update**. You can update either Items or Descriptors. Try updating the Buy Price against the Item or Descriptor you created above

2.3.2. Price Update from File

This function allows you to maintain standard Buy Prices or Sell Prices in some other database or spreadsheet and import these into Ostendo. This feature requires that the other database is capable of exporting to .csv or .xls format. The Price Update process uses a standard Ostendo routine to carry out this process and comprises the following Steps

- Create a Price Update Batch and define the update criteria
- Point the import function to the .csv or .xls file
- Match the import file to the fields in the .csv or .xls file
- Run the import function to a temporary file
- View the results and re-run if necessary
- Update the prices

To go through this process go to **Pricing>Price Update from File** and look at what is available. If you are going to go through this routine please refer to the User Reference Guide.

3. Costing

Before you create or maintain Cost information it is necessary to understand what is meant by 'Costing'.

3.1. Introduction

3.1.1. What are Costs?

Costs are used in two main areas:

Planned Cost: Where the cost is used to derive the projected Cost of the Sale, Job or Project. These are used for Planning (or Estimating) purposes to determine the expected profit Margin when compared against the projected Sell Price.

Actual Cost: Where the costs recorded are the true Cost of the Sale, Job or Project. This is used to:

- Compare against the Planned Cost to focus on what and why there are differences
- Compare against the Sell Price to determine actual Profit Margins

3.1.2. Cost Methods

The type of activity carried out within a Business generally governs the cost method(s) used. Here are brief descriptions of the types of Cost Methods and the environments where they are used

Standard Costs

Mainly used in Manufacturing Industries where, when receiving manufactured goods into stock, the Actual cost is not known. This may be due, for example, to the Labour cost only being available at the end of the week when the Employee's 'Weekly' Timesheet is entered. A Standard Cost is a pre-defined fixed cost covering a period of time and can be used against Items, Descriptors and Labour Codes

Average Costs

Only used with Inventoried Items. It is commonly used by Sales, Distribution, and Small Businesses and provides a more accurate assessment of Inventory valuation by using the 'Actual' receipt Cost as it's basis. In these environments restocking is almost always from Purchases and therefore the Actual Cost of the receipt is generally known at the time of receipt. Average Costs are maintained on an ongoing basis by adjusting the Inventory Average each time a Stock receipt is made. It uses the following formula

$$\text{Item Average Cost} = \frac{(\text{Current Ave} * \text{Current Qty}) + (\text{Received Qty} * \text{Received Cost})}{(\text{Current Qty} + \text{Received Qty})}$$

Whenever an Item is issued then the current Average Cost is used

Actual Costs

Primarily used by those businesses that calculate the Sell Price based upon the Cost (using a Markup or Margin percentage). Quite often used in the Service and Construction Industry. The Actual Cost can come from Items or Descriptors purchased specifically for the Job

Last Cost

Where a Purchase price can fluctuate (Example: commodities) then some businesses use the Last Purchase Cost as the basis for creating an Estimate or Quote.

Buy Price

Many computer systems assume that the Purchase Buy Price is also the Cost. This is not the case in Ostendo as it takes into account extra costs over and above the Buy Price (Example: Duty, Transportation, Shipping, etc) to arrive at a true Cost. However, some users still prefer to use the Buy Price as the Cost and provision to use this option is available in Ostendo.

Calculated

Some businesses sell a variable Product or Service that is not stocked but is made 'to-order' and the cost of that Product or Service is based upon the cost of ingredients and/or activities to make it. The Product/Service can be specific to each order and therefore its cost can be dynamically generated

3.2. Where and How Costs are Used

You can see from above that 'Costs' can be used in many ways depending upon a User's requirements. The following steps show you how to set up the various options. It is not the objective of this exercise to go through ALL costing scenarios but simply to show all the available options. You can then select the option that applies to you and address the derived costs in the Sales, Assembly, Job and Purchase Order processes.

3.2.1. Sales Order Costing

Sales Order Lines can include

- Item Codes
- Descriptor Codes
- Kitset Codes
- Catalogue Codes
- Custom Products (i.e. A product designed to a Customer's specific requirement)

For each of these you would determine Planned and Actual Costs from the following sources.

Planned Costs

Items: When an Item is added to a Sales Order the system-wide Costing Method defined for Inventory is used. Go into *File>System Configuration>System Settings* and select the method in field 'Inventory Costing Method'.

Descriptors: When a Descriptor is added to a Sales Order the system-wide Costing Method defined for Descriptors is used. Go into *File>System Configuration>System Settings* and select the method in field 'Descriptor Costing Method'.

Kitset: A Kitset is an accumulation of components (Items and Descriptors). The Planned Cost comes from the sum of the costs of the Kitset Components. Those Components use the Costing Methods you identified above. Have a look at a Kitset via *Sales>Kitsets*.

Catalogue Code: The Cost of Catalogue Code items is the 'Buy Price' as held against the Catalogue record. You can see these by going into *Purchasing>Supplier Catalogues* and clicking on the 'Lines' tab

Custom Product: The Cost of Custom Product is derived from functions within the Custom Product script. If the costing function in the script is not used then the Item/Descriptor/Catalogue Code costs described above will be used

Actual Costs

Items: An Item is always issued to a Sales Order from stock. Therefore the cost of the Item is determined by the 'Inventory Costing Method' as defined in *File>System Configuration>System Settings*. However,

- If the Item (*Inventory>Items*) is Serial Numbered controlled and is flagged as 'Actual Costing is Used' then the Actual Cost held against the issued Serial Numbered Item will be used.
- If the Item (*Inventory>Items*) is Batch Controlled and is flagged as 'Actual Costing is Used' then the 'Batch Average' Cost held against the Item's Batch Number will be used.

Descriptors: The cost that will be applied will be related to the 'Descriptor Costing Method' as defined in *File>System Configuration>System Settings*.

Kitset: The Actual Cost of the Kitset is derived from the individual Kit Components that were actually issued to the Sales Order. As the components can be both Items and Descriptors then the above 'Actual' Cost methods will be used

Catalogue Code: The 'Actual' Cost of Catalogue Code items is the 'Buy Price' as held against the Catalogue record

Custom Product: A Custom Product is always issued from stock (having previously been received from an Assembly Order). As a Custom Product is always Serial Numbered one of two costs will accompany the issued Item

- If the Custom Product Item record is flagged as 'Actual Costing is Used' then, because the Custom Product is Serial Numbered, the cost will be the Actual Cost of the Assembly Order.
- If the Item record is not flagged as 'Actual Costing will be used' then the Inventory Costing method will be used

3.2.2. Assembly Orders - Issues Costing

Assembly Order Issues can include

- Item Codes

- Descriptor Codes
- Labour Codes (for Planned Costs)
- Employee Bookings (for Actual Costs)

For each of these you would determine Planned and Actual Costs from the following sources.

Planned Costs

Items: When an Item is added to an Assembly Order the Costing Method used is that defined in the Assembly Rules (*Assembly>Settings>Assembly Rules*).

Descriptors: When a Descriptor is added to an Assembly Order the Costing Method used is that defined in the Assembly Rules (*Assembly>Settings>Assembly Rules*).

Labour Code: When a Labour Code is added to an Assembly Order the Planned Cost will always be the **Standard Cost** from the Labour Code record (*Labour>Labour Codes*).

Actual Costs

Items: An Assembly Order Line can have its 'Line Source' of

- Supply from Stock, or
- Source on Demand (linked to an Assembly or Purchase Order)

And this affects the Actual Cost that will be applied

Supply From Stock: The cost of the Item is determined by the '**Inventory Costing Method**' as defined in *File>System Configuration>System Settings*. However,

- If the Item (*Inventory>Items*) is Serial Numbered controlled and is flagged as '**Actual Costing is Used**' then the Actual Cost held against the issued Serial Numbered Item will be used.
- If the Item (*Inventory>Items*) is Batch Controlled and is flagged as '**Actual Costing is Used**' then the 'Batch Average' Cost held against the Item's Batch Number will be used.

Source on Demand: The Item can be supplied directly from a linked Assembly Order or Purchase Order.

Purchase Order. The Actual Receipt Cost (as entered into *Purchasing>Purchase Receipts*) will be used.

Assembly Order. The Actual Receipt Cost (as defined in the section below (Assembly Order - Receipts) will be used.

Descriptors: A 'Descriptor' Assembly Order Line can be '**Sourced By**'

- Internal, or
- Purchased (linked Purchase Order)

And this affects the Actual Cost that will be applied

Internal: The cost that will be applied will be related to the '**Descriptor Costing Method**' as defined in *File>System Configuration>System Settings*. The options are Last, Standard, or Buy Price

Purchased: The Descriptor can be supplied directly from a linked Purchase Order in which case the Actual Receipt Cost (as maintained in *Purchasing>Purchase Receipts*) will be used.

Labour: An 'Employee' must book time against 'Labour' Activities for the cost to be applied. Go into the Employee record (*Labour>Employees*) and click on the '**Labour Codes**' tab. In that screen you will see that it contains an 'actual' cost value for each 'Labour Code'. When the Employee books time against a specific Labour Code the linked Cost as entered in this screen will be used. If the Employee record

does not contain a cross reference to the Labour Code then the 'Unit Cost' held against the Employee record will be used

3.2.3. Assembly Orders - Receipts Costing

In an Assembly Order the Receipt can include

- Main Product
- Co-Products
- Bi-Products

The program will first find out how you are going to Cost the Receipt. If you go to **File>System Configuration>System Settings** you will see field 'Inventory Costing Method'.

If this is set to 'Standard' then the Standard Cost as held against the Item, Co-Product, or By-Product will always be used irrespective of the percentage split in the BOM.

If this is set to 'Average' then the 'Actual' Cost of the Receipt will be used. The Actual Cost of the receipt is determined by the setting in Assembly Rules'.

Go to **Assembly>Settings>Assembly Rules** and refer to field 'Default Receipt Cost Method'. Two options are available

Planned Costs

The 'Planned Cost' of an Assembly Order is derived from the 'Planned' Costs of all the lines in the Assembly Order. This is divided by the Order quantity to arrive at a 'Unit Cost'. The Planned Costs of each line Type is described above

Actual Costs

The 'Unit Cost' is the 'Actual' cost of the components that have been issued at the time of the receipt divided by the Order Quantity.

The derived 'Unit Cost' is further adjusted as follows:

Main Product: If the Assembly Order contains Co-Products then the Receipt Cost will be the above 'Unit Cost' multiplied by

$$(100 - \text{sum of Co-Product percentages}) / 100$$

Co-Product: The Receipt Cost will be the above 'Unit Cost' multiplied by the percentage contribution made by the Co-Product

By-Product: The Receipt Cost will be the above 'Unit Cost' multiplied by the percentage contribution made by the By-Product

3.2.4. Job Order Costing

In a Job Order Lines you can include

- Item Codes
- Descriptor Codes
- Labour Codes
- Kitset Codes
- Catalogue Codes
- Custom Products (i.e. A product designed to a Customer's specific requirement)
- Task Bills

For each of these you would determine Planned and Actual Costs from the following sources.

Planned Costs

Item Codes: If you go into **Inventory>Items** then go to the 'Detail' tab then click on the 'Costing' Button you will be taken to the Item Costing screen. (This can also be

accessed via **Pricing>Item Costing**). Each Item contains 3 costs (**Standard, Average, Last**).

When an Item is added to a Job Order the Costing Method defined as the Planned Item Cost Method (as selected in **Job>Settings>Job Rules**) is used. This can be the Item's **Last Cost, Average Cost, Standard Cost, or Buy Price**. Note: The Buy Price is the price currently in the '**Std Buy Price**' field on the Item's Detail screen

Descriptors: If you go into **Inventory>Descriptors** then go to the '**Detail**' tab then click on the '**Costing**' Button you will be taken to the Descriptor Costing screen. (This can also be accessed via **Pricing>Descriptor Costing**). Each Descriptor contains 2 types of cost (**Standard and Last**).

When a Descriptor is added to a Job Order the Costing Method defined as the Planned Item Cost Method (as selected in **Job>Settings>Job Rules**) is used. This can be the Descriptor's **Last Cost, Standard Cost, or Buy Price**. Note: The Buy Price is the price currently in the '**Std Buy Price**' field on the Descriptor's Detail screen

Labour Code: If you go into **Labour>Labour Codes** and then go to the '**Detail**' tab you will see that the Labour Code contains a '**Standard Cost**'. You can manually enter the Cost here or, if you click on the '**Standard Cost Breakdown**' button to the right of that field, you will see that you can (optionally) define that Standard Cost as being comprised of **Direct Labour, Fixed and Variable Overheads**. When a Labour Code is added to a Job Order the Costing Method defined as the Planned Item Cost Method (as selected in **Job>Settings>Job Rules**) is used. This can be the Labour Code's **Last Cost, or Standard Cost**.

Kitset: A Kitset is an accumulation of components (Items and Descriptors). When a Kitset is added to a Job Order the Costing Method defined as the '**Planned Kitset Cost Method**' (as selected in **Job>Settings>Job Rules**) is used. This can be the Kitset Header's (I.e. Descriptor's) **Last Cost, Standard Cost, Buy Price**, or it can be **Calculated** (Derived from the sum of the costs of the Kitset Components. These Components use the Costing Methods given above)

Catalogue Code: The Planned issue Cost of Catalogue Code items is the '**Buy Price**' as held against the Catalogue record

Custom Product: The Cost of Custom Product is derived from functions within the Custom Product script. If the costing function in the script is not used then the Item/Descriptor/Catalogue Code costs described above will be used

Task Bill: A Task Bill is an accumulation of components (Items, Descriptors, and Labour Codes). When a Task Bill is added to a Job Order the Costing Method defined as the Planned Task Bill Cost Method (as selected in **Job>Settings>Job Rules**) is used. This can be the Task Bill Header's (I.e. Descriptor's) **Last Cost, Standard Cost, Buy Price**, or it can be **Calculated** (Derived from the sum of the costs of the Task Bill Components. These Components use the Costing Methods given above)

Actual Costs

Items: A Job Order Line can have its '**Line Source**' of

- **Supply from Stock**, or
- **Source on Demand** (linked to an Assembly or Purchase Order)

And this affects the Actual Cost that will be applied

Supply From Stock: the cost that will apply will be in the following order of priority:

- If the Item (*Inventory>Items*) is Serial Numbered controlled and is flagged as '**Actual Costing is Used**' then the Actual Cost held against the issued Serial Numbered Item will be used.
- If the Item (*Inventory>Items*) is Batch Controlled and is flagged as '**Actual Costing is Used**' then the 'Batch Average' Cost held against the Item's Batch Number will be used.
- The '**Inventory Costing Method**' as defined in *File>System Configuration>System Settings* will be used. The options are **Average** or **Standard**

Source on Demand: The Item can be supplied directly from a linked Purchase or Assembly Order.

Purchase Order. The Actual Receipt Cost (as entered into *Purchasing>Purchase Receipts* will be used.

Assembly Order. The Actual Receipt Cost (as defined in section above (Assembly Order - Receipts0 will be used.

Descriptors: A 'Descriptor' Job Order Line can be '**Sourced By**'

- Internal, or
- Purchased (linked Purchase Order)

And this affects the Actual Cost that will be applied

Internal: The cost that will be applied will be related to the '**Descriptor Costing Method**' as defined in *File>System Configuration>System Settings*.

The options are Last, Standard, or Buy Price

Purchased: The Descriptor can be supplied directly from a linked Purchase Order in which case the Actual Receipt Cost (as maintained in *Purchasing>Purchase Receipts* will be used.

Labour: An 'Employee' must book time against 'Labour' Activities for the cost to be applied. Go into the Employee record (*Labour>Employees*) and click on the '**Labour Codes**' tab. In that screen you will see that it contains an 'actual' cost value for each 'Labour Code'. When the Employee books time against a specific Labour Code the linked Cost as entered in this screen will be used. If the Employee record does not contain a cross reference to the Labour Code then the '**Unit Cost**' held against the Employee record will be used

Kitset: The cost of the Kitset is derived from sum of the individual costs of the components in the Kitset that were actually issued to the Job Order. As the components can be Items or Descriptors then the above 'Actual' Cost methods will be used

Catalogue Code: The Actual Receipt Cost (as entered into *Purchasing>Purchase Receipts*) will be used.

Task Bill: The Actual cost of the Task Bill is derived from the individual costs of the Task Bill components that were actually issued to the Job Order. As the components can be Items, Descriptors, or Labour Codes then the 'Actual' Cost methods described above will be used.

Custom Product: A Custom Product is always issued from stock (having previously been received from an Assembly Order). Because it is always Serial Numbered one of two costs will accompany the issued Item

- If the Custom Product Item record is flagged as '**Actual Costing is Used**' then, because the Custom Product is Serial Numbered, the cost will be the Actual Cost of the Assembly Order
- If the Item record is not flagged as '**Actual Costing will be used**' then the Inventory Costing method will be used

3.2.5. Purchase Order Costs

In a Purchase Order Lines you can include

- Item Codes
- Descriptor Codes
- Catalogue Codes

Ostendo does not address the anticipated Costs but simply focuses on the Buy Price as the basis for creating a Purchase Order. The Actual Costs are only known at the Receipt/Invoice time where additional costs such as Duty, Packaging, Transportation, etc can be identified.

Buy Prices

Items: A Buy Price matrix can be set up that has the following:

- A Base Buy Price
- A Supplier Price with quantity discounts

Descriptors: A Buy Price matrix can be set up that has the following:

- A Base Buy Price
- A Supplier Price with quantity discounts

Catalogue Item: A Buy Price from the Supplier with quantity discounts applied

Actual Costs

Order Receipt: During Purchase Order receipt the Receipt Cost is prefilled with the **Buy Price**. Option is provided to amend this if required. Additional costs can be added relative to the **Shipment Costs** that accompanied the Receipt. This can be apportioned across all lines in a Receipt or allocated to specific lines. This results in each Receipt Line having an accurate 'Actual Cost', which is used as follows:

Item Codes: Two scenarios can arise here:

- If the Item is NOT linked to a Job Order then it will be received into Stock. When receiving into stock the following options are used:
 - If the Inventory Costing Method is '**Average**' then the receipt Cost will be applied to the Receipt.
 - If the Inventory Costing Method is '**Standard**' then the Standard Cost will be applied to the Receipt and any difference posted to a Receipt Variance.
- If the Item is linked to a Job Order then the receipt Cost will be posted to the Job. However:
 - If the Job is NOT '**Closed**' then the cost will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the cost posted to the Job Order Line

Descriptors: Two scenarios can arise here:

- If the Descriptor is NOT linked to a Job Order then the cost will be posted to the Cost Centre held against the Purchase order Line ('Line Allocations' tab). Note: This Cost Centre will be:
 - The Cost Centre held against the Descriptor Record or,
 - Cost Centre '**DESCRIPTOR EXPENSES**'.
- If the Descriptor is linked to a Job Order then the receipt Cost will be posted to the Job. However:
 - If the Job is NOT '**Closed**' then the cost will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the cost posted to the Job Order Line

Catalogue Code: Two scenarios can arise here:

- If the Catalogue Code is NOT linked to a Job Order then the cost will be posted to the Cost Centre held against the Purchase order Line ('Line Allocations' tab). Note: This Cost Centre will be:
 - The Cost Centre held against the Catalogue's Header Record or, if one has not been defined against the Descriptor record
 - Cost Centre '**CATALOGUE EXPENSES**'.
- If the Catalogue Code is linked to a Job Order then the receipt Cost will be posted to the Job. However:
 - If the Job is NOT '**Closed**' then the cost will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the cost posted to the Job Order Line

Supplier Invoice Receipt: If the Invoice Value is at variance to the Receipt Cost then the following actions will be carried out.

Item Codes: Two scenarios can arise here:

- If the Item is NOT linked to a Job Order then the difference between the Receipt Cost and Invoice Value will be posted to a Purchase Price Variance Account
- If the Item is linked to a Job Order then:
 - If the Job is NOT '**Closed**' then the difference will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the difference posted to the Job Order Line

Descriptors: Two scenarios can arise here:

- If the Descriptor is NOT linked to a Job Order then the difference between the Receipt Cost and the Invoice Cost will be posted to the Cost Centre held against the Purchase order Line ('Line Allocations' tab). Note: This Cost Centre will be:
 - The Cost Centre held against the Descriptor Record or, if one has not been defined against the Descriptor record
 - Cost Centre '**DESCRIPTOR EXPENSES**'.
- If the Descriptor is linked to a Job Order then:
 - If the Job is NOT '**Closed**' then the difference between the Receipt Cost and the Invoice Cost will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the difference posted to the Job Order Line

Catalogue Code: Two scenarios can arise here:

- If the Catalogue Code is NOT linked to a Job Order then the difference between the Receipt Cost and the Invoice Cost will be posted to the Cost Centre held against the Purchase order Line ('Line Allocations' tab). Note: This Cost Centre will be:
 - The Cost Centre held against the Catalogue's Header Record or, if one has not been defined against the Descriptor record
 - Cost Centre '**CATALOGUE EXPENSES**'.
- If the Catalogue Item is linked to a Job Order then:
 - If the Job is NOT '**Closed**' then the difference between the Receipt Cost and the Invoice Cost will be posted to the Job Order Line
 - If the Job is '**Closed**' then the Job will be re-opened and the difference posted to the Job Order Line

3.3. Inventory Costing

Three cost types are always maintained against all Items. These are:

- **Standard Cost:** As held against the Item Master's Cost record
- **Average Cost:** Adjusted by Stock Movements (see below)
- **Last Cost:** Adjusted by last Stock Receipt transaction

Additionally a fourth Cost Type is maintained against selected Items

- **Actual Cost:** Issues and Receipts at Batch/Serial Number level

3.3.1. Standard Cost

Whenever a stock movement is carried out (Issue or Receipt) then the Item's Standard Cost will be applied to the Item.

3.3.2. Average Cost

Whenever an Item is Received then the Average Cost is adjusted using the following formula

$$\text{Item Average Cost} = \frac{(\text{Current Ave} * \text{Current Qty}) + (\text{Received Qty} * \text{Received Cost})}{(\text{Current Qty} + \text{Received Qty})}$$

Whenever an Item is issued then the Item's Average Cost is used

However, the following should also be noted.

- If an Item is being issued that forces the current stock into negative then the current Average Cost will still apply
- If a Receipt is being made and the current stock is negative then the following costs will be applied.
 - If the Receipt Quantity results in the finished stock balance remaining negative then the current Average Cost will be applied to the full receipt quantity. However, the difference between the Receipt's Actual Cost and the Inventory Average Cost will be posted to a Stock variance.
 - If the Receipt Quantity results in the finished stock balance being positive then the quantity to bring the current stock to zero will be received at the current Average and the balance received at the receipts Actual. However, the difference between the Receipt's Actual Cost and the evaluated Receipt Cost will be posted to a Stock variance.
- Where a (new) Item is being issued but no prior receipt transaction has been made and the Average Cost is zero then a message will be returned to warn that the Issue Cost will be zero unless action is taken to update the Average Cost field. This can be done manually against the Item Master record. Subsequent Inventory Cost adjustments will be made as outlined in (b) above

3.3.3. Last Cost

Whenever a stock receipt is carried out then the Last Cost field against the Item will be updated.

3.3.4. Actual Cost

A pre-condition of Actual Cost is that the Item must be Batch or Serial Controlled. Whenever a stock receipt is carried out then a record of the Batch/Serial Number is created and the Actual Cost is attached to this record. Upon Issuing the Item a Batch Number/Serial Number is required and hence the Actual Cost is carried along with the issue

Note: A Batch can contain more than one receipt, each having different Actual Cost. In this instance a 'Batch Average' will be used.

3.3.5. Cost Revision History

All changes to Standard, Average, and Last Cost will be maintained within Ostendo giving a complete history of Type of Change (Standard, Average, Last) along with date of change plus before and after costs.

3.4. BOM Costing

Bills Of Material are used in Assembly Jobs to make standard products for stock. BOM Costing allows the user to carry out a multi-level Cost Roll-up using the Standard Cost for Items, Descriptors and Labour plus Fixed and Variable Overheads related to Labour.

The Cost Roll up program goes through the following steps:-

- Sort all parent Items in the BOM table into Low-Level Code descending sequence
- Commencing with the first parent calculate the following from its components

Set Up Cost

Items	- Standard Cost * Usage Quantity / Setup Batch Size
Descriptors	- Standard Cost * Usage Quantity / Setup Batch Size
Labour	- Labour Code * Labour Cost * Hours / Setup Batch Size
FOH	- Labour Code * FOH Cost * Hours / Setup Batch Size
VOH	- Above Labour calculation * VOH recovery Rate

Process Cost

Items	- Standard Cost * Usage Quantity
Descriptors	- Standard Cost * Usage Quantity
Labour	- Labour Code * Labour Cost * Hours
FOH	- Labour Code * FOH Cost * Hours
VOH	- Above Labour calculation * VOH recovery Rate

- Progressively repeat for all parent Items in the BOM
- Select Items whose Standard Cost is to be updated

Note: The Labour Cost (Labour, FOH, & VOH) for an activity comes from a Labour Code rather than a specific Employee.

If the BOM contains Co-Products then the percentage allocated to the Co-Products is deducted from the Costs of the BOM lines to arrive at the BOM's Parent Item Cost

3.5. Employee Costing

A Labour Code is used in BOMs, Jobs Orders, Assembly Orders, Custom Product Orders, etc. to derive a Planned Cost of the Labour activities. The Actual Labour Cost comes from the Employee who carried out the task. Let's look at this in more detail.

Each Employee record has a cross-relationship whereby when the Employee carries out work against a Planned Labour Code then a defined Actual Cost rate is applied. For example let us assume that two Labour Codes have been created:

Labour Code LAB001 uses Std Cost \$20.00, Fixed OH of \$25.00 and Variable OH of 150%
Labour Code LAB002 uses Std Cost \$22.00, Fixed OH of \$33.00 and Variable OH of 140%

These Costs are used for Planned Costs during BOM Roll-up, etc.

Employee EMP011 could have the following information held against it.

If working in LAB0001 then Std Cost \$24.00, Fixed OH of \$28.00 and Variable OH of 100%
If working in LAB0002 then Std Cost \$26.00, Fixed OH of \$28.00 and Variable OH of 150%

Therefore if Employee EMP011 booked time against an activity planned for Labour Code LAB001 then each hour booked would incur an Actual Cost of

Labour Charge	\$24
Fixed Overhead	\$28
Variable Overhead	\$24

However, if Employee EMP011 booked time against an activity planned for Labour Code LAB002 then each hour booked would incur an Actual Cost of

Labour Charge	\$26
Fixed Overhead	\$28
Variable Overhead	\$39