

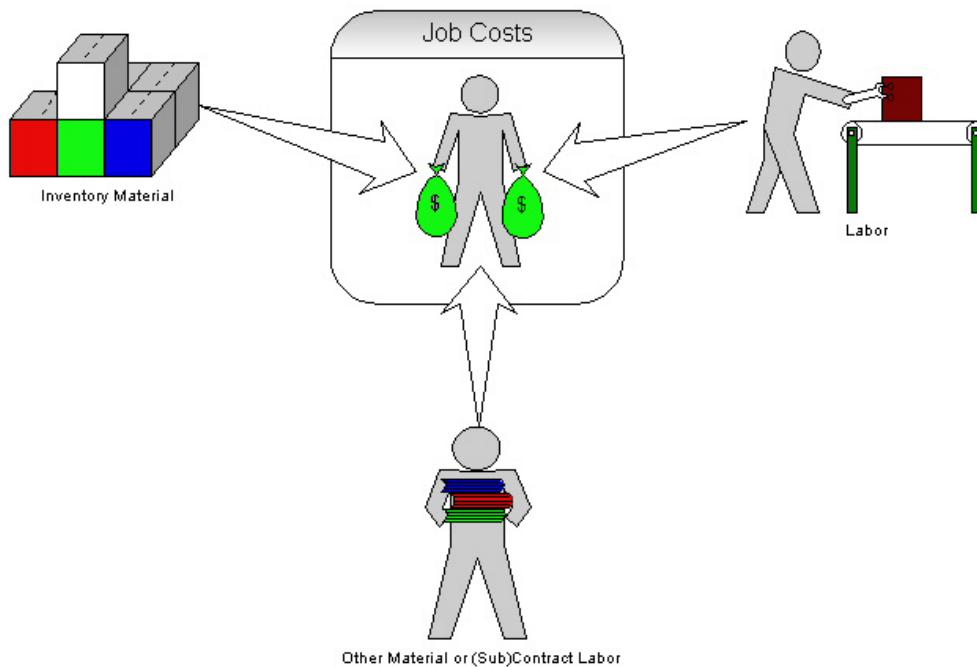
How Actual Costs Get to the Job

Before you can understand how **ACTIVITY** gets the actual costs into the job, it is important to understand the definition of Cost.

Your cost is the money you pay vendors and employees to produce a finished item.

Don't confuse **cost** with **price**. **Cost** is what you pay your employees or vendors. **Price** is what your customers pay you.

Costs come from three sources



Explanation of Terms

Average Cost – How inventory material cost is calculated. The total dollar amount of items purchased, divided by the total quantity of items purchased. For example:

- + You buy 10 of product #45 for \$20
 - o $\$20 / 10 = \2.00 each is the average cost
- + You buy 20 more for \$50. Now you have
 - o $\$20 + \$50 = \$70$
 - o $10 \text{ units} + 20 \text{ units} = 30 \text{ units}$
 - o $\$70 / 30 = \2.33 each is the new average cost
- + You use 16 on a job
 - o Average cost $\$2.33 \times 16 \text{ units} = \37.28 is the material job cost
- + You buy 20 more for \$50. Now you have
 - o $\$70 \text{ on hand} - \$37.28 \text{ used} + \$50 \text{ purchased} = \$82.72 \text{ total purchased}$
 - o $30 \text{ units} - 16 \text{ used units} + 20 \text{ purchased units} = 34 \text{ units on hand}$
 - o $\$82.72 / 34 = \2.43 each is the new average cost

Inventory costs are added to the total inventory amount when you pay the vendor's bill. When you completely use up the inventory of an item, the cost is reset to zero.

Contract Labor (or sub-contracted labor) – labor you are billed for by a vendor. Not your employees and is for a specific job

Inventory Material - Materials that will be used to make the finished item, but are not yet part of a work in process, for which you would like to track usage and cost. It might include:

- + products
- + assemblies
- + materials used in production or for the finished item

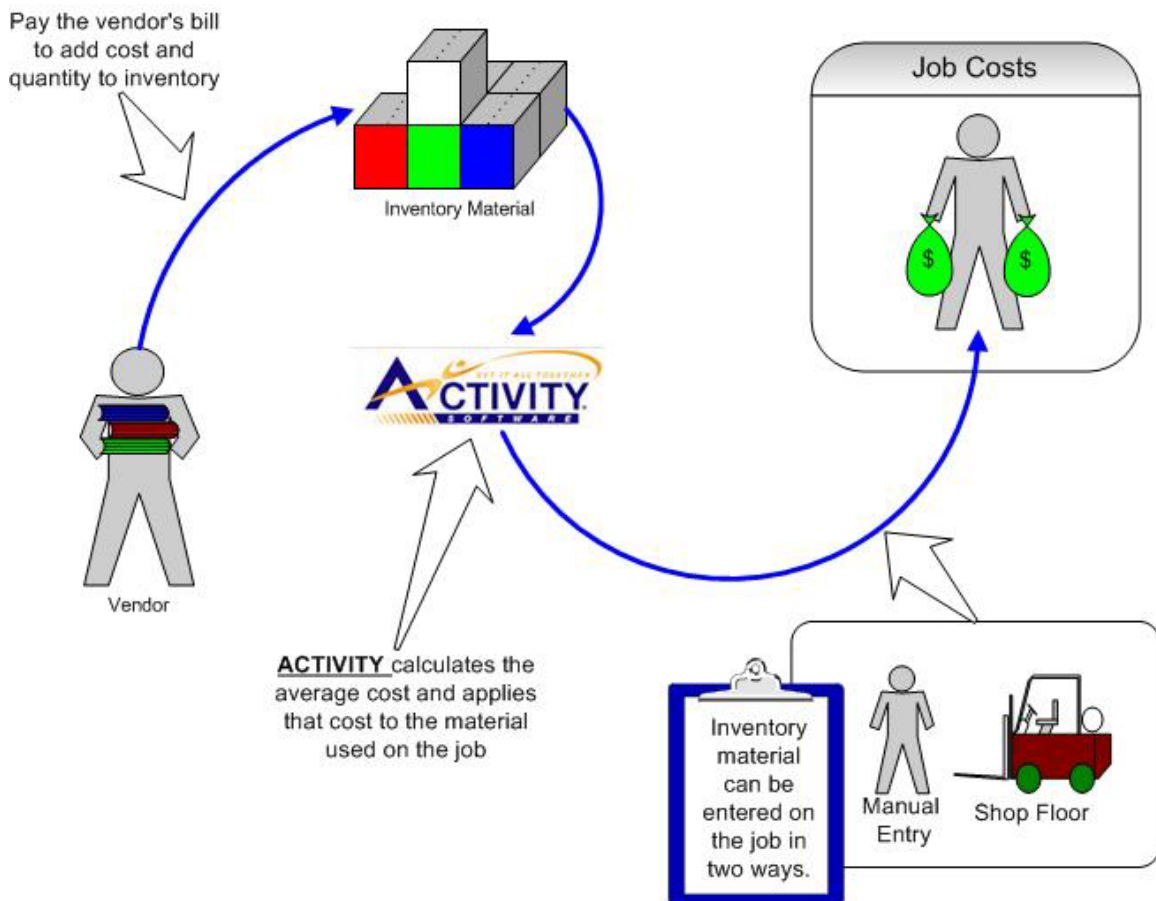
Labor – Your employees; payroll; can be either

- + employee's labor rate
- + department rate
- + labor cost is the labor rate multiplied by the number of hours worked on the job

Other Materials – Materials you are billed for by a vendor for the job; not inventory material, and for a specific job

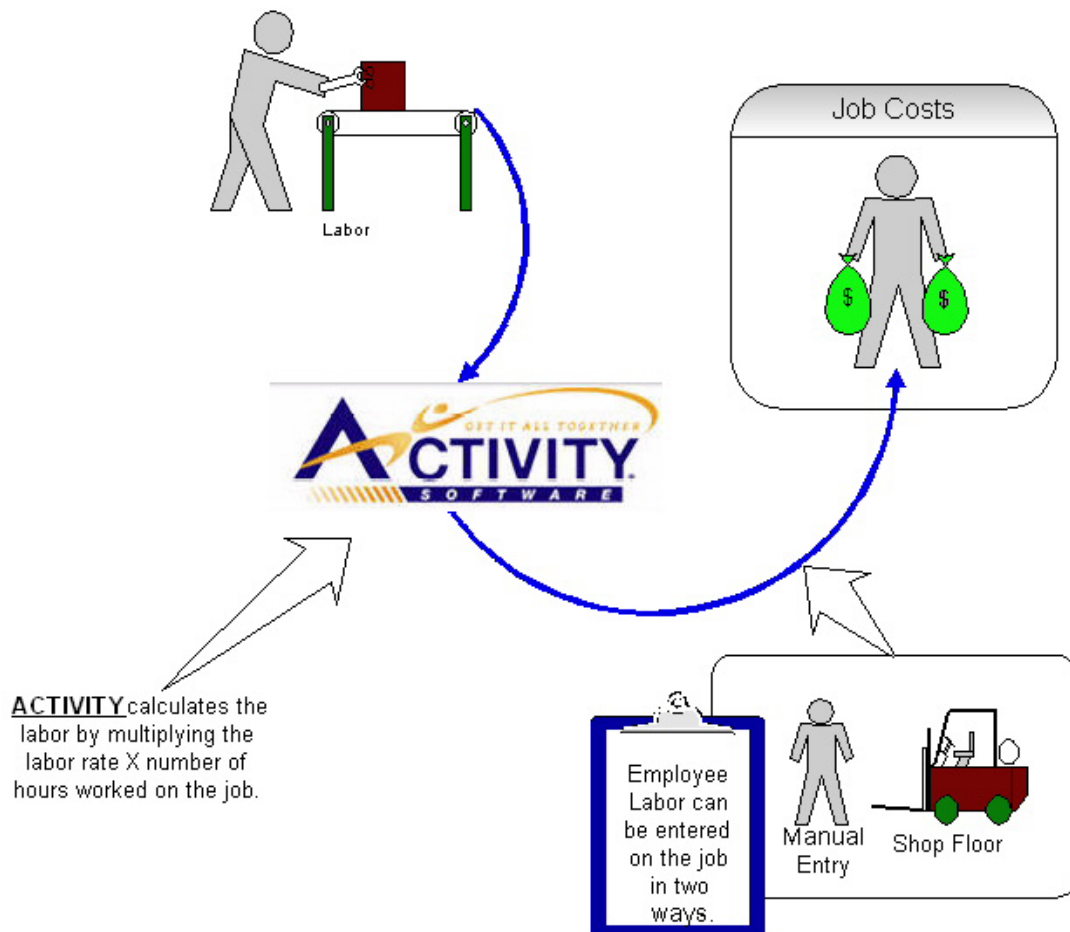
Inventory Material

- ✚ Job costs for inventory material are calculated at the average cost
- ✚ Can be entered either of two ways:
 - manually
 - Shop Floor
 - Bar Code
 - No Bar Code



Labor

- ✦ Job costs for employee labor are calculated using either the employee's labor rate, or the department labor rate
- ✦ Can be entered either of two ways:
 - manually
 - Shop Floor
 - Bar Code
 - No Bar Code



Other Materials or (Sub)Contracted Labor

- ✦ Purchased from vendors for the job
 - Labor that is not employee labor
 - Material that is not inventory material
- ✦ From the vendor's bill
 - Purchase order
 - No purchase

