

Implementation of Costing System

Storyline...

The client group is primarily in the business of design, development and fabrication of special purpose process machinery and automation systems for diverse customer needs. The customers are spread across industries such as nuclear power, space, consumer electronics, healthcare and others. The client who has a number of units in South India also undertakes exports.

MaGC® (formerly NCRCL®) team studied the business and came up with a costing system for the entire group. The costing system implemented was a significant step in improving the ERP readiness of the company.

Once upon a time...

The client's business was characterized by a number of products and services. In addition to this, the client also undertook specific one time jobs in its competence areas which were undertaken by its different units.

The company was following costing practices which were not scientific. As a result, it was difficult to ascertain the profitability of individual products/services/jobs. Given the circumstances, decision making was difficult for the management. Hence MaGC was called upon for implementation of a costing system.

Moving on...

The team began with a preliminary visit to all the units to understand the exact nature of operations. With the background knowledge of the client business, the team brainstormed on the costing system suited for each unit and type of business. What emerged was a mix of Job Order costing, Contract costing, Operations costing, Process costing and Activity Based costing methods.

The next step was to define the nuts and bolts in terms of specifying the inputs, the calculations and the outputs of the costing system. With these in place, a separate team got down to the job of developing a spreadsheet based solution for running the costing system.

The main challenge was to design a costing system taking into account the diverse nature of products and solutions the client offered. The costing system was implemented.

The new costing system produced a set of homogenous output for easy analysis. The spreadsheet based solution provided most of the functionalities of a complete software for a fraction of the cost of such a solution.

Once the costing solution was in place, users were trained in operating the system, generating the outputs and analysing them. MaGC also provided handholding support and undertook audits of the system in the first few months of operation.

Finally...

The client was able to implement a complete solution at a very reasonable budget. The management now had information on exactly how much each product/service/job was adding to the bottom line. The costing system produced a range of reports providing the management complete information for decision making. The cost sheets produced for different units or products was uniform thus aiding comparability. After the initial support period, the client staff were able to operate and use the system independently.

Sl No.	Particulars	Total	1	2
A Raw Materials				
1	Components - H House	83,038	-	-
2	Components - Bought Out Indiposon	7,259,207	253,220	120
3	Components - Bought Out Imported	268,535	-	-
4	Components - Our Sourced	-	-	-
	Sub-Total A	7,599,779	253,220	120
B Pre Manufacturing Cost				
1	Planning Charges	-	-	-
2	Consumables Charges	-	-	-
3	Design & Drawing	267,581	8,583	4
	Sub-Total B	267,581	8,583	4
C Manufacturing Costs Fabrication				
1	Material	108,014	13,820	6
	Total	7,875,374	275,623	126

