

DYNAMICS CON PRESENTATION

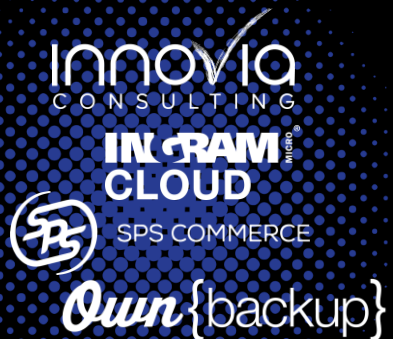
DYNAMICS CON LIVE



**SEPTEMBER 14-16,
2022**

Objectives

- Why calculate costs at all?
- What are my choices of how I come up with a number?
- Which one is best for me, when?
- And how does D365 help me?
 - Standard Cost vs. flavors of Actual Cost
 - Materials
 - Labor
 - Overhead



Not Landed Cost
Not Lean accounting

A logo for 'DYNAMICS CON LIVE' in yellow and blue text, set against a blue and white splatter background. A small 'DUG' logo is visible to the right.

Why?

- Analyze profitability
- Value inventory
- Set Sales Prices
- Reduce Costs
- Make vs. Buy
- New/Discontinue Product?
- Other business decisions? (improvement opportunities, trends)



Can't I do all that in my GL?

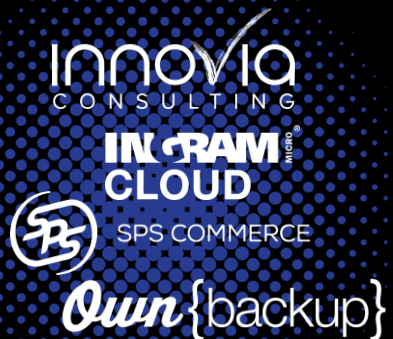


So, we need an item cost . . .

- So, what IS the cost of an item?
- **Composition/Calculation:**
 - Material Cost (Procurement)
 - Incidental Costs (e.g. Freight, Royalty)
 - Labor/Machine Conversion Costs (Manufacturing)
 - Overheads

Purchase Costs

- Whatever was on the PO?
- PO Price or Invoice Price?
- What about ordering and one-time costs?



Labor Costs

- Setup, Run, and Quantity
- Expected or Actual – and what is Actual?
- Crew size and Machine Tending impacts?
- Setup vs. Run

Machine Costs

- Setup, Run, and Quantity
- What is the cost of using a machine?
- . . . Or what are the cost^S of using a machine?
- What are the costs of NOT using a machine?
- Overhead or Direct?
- Expected or Actual – and what is Actual?

Subcontract Costs

- Vendor type BOM Line
- PO created for Stocked Service Item upon Estimation
- **ONE PO PER PRODUCTION ORDER-VENDOR**
- Optional Vendor type Route Operation (important for timing if more than one operation is outsourced)
- BOM Line can be tied to the relevant Route Operation number

Operation can be auto completed by PO
Receipt for services

Costs per Order and Costs per Unit

- Purchase
- Manufacturing
- Transfer



D365 Actual Cost

Valuing what's left after some Ins and Outs

- Weighted Average Date (Classic)
- Weighted Average (Period Average)
- **Moving Average** (Perpetual financial=physical, Invoice vs. PO variances hit a dedicated GL account, no automatic closing adjustments)
- FIFO
- LIFO

Negative On Hand?

Optional scope: Warehouse, Batch, Serial

D365 Standard Cost

- Fixed for some time frame
- Differences between Standard and Actual dealt with as P&L Variances and Inventory always valued at Standard
- Standard cost revisions generate immediate on-hand revalue GL entries
- But WHEN to revise/update?

Negative On Hand?

Standard vs. Actual

- Actual clearly reflects margin
- Standard separates supply variances (so not clear)
- BUT
 - Is margin contraction due to acquisition cost or sales price
 - Clearer with Standard Cost!
 - How does this help decisions?
 - How does this help accountability (demand vs. supply)

e.g. Continue/Discontinue Product, Outsource, etc.

Physical vs. Financial *Transaction and On-hand Values*

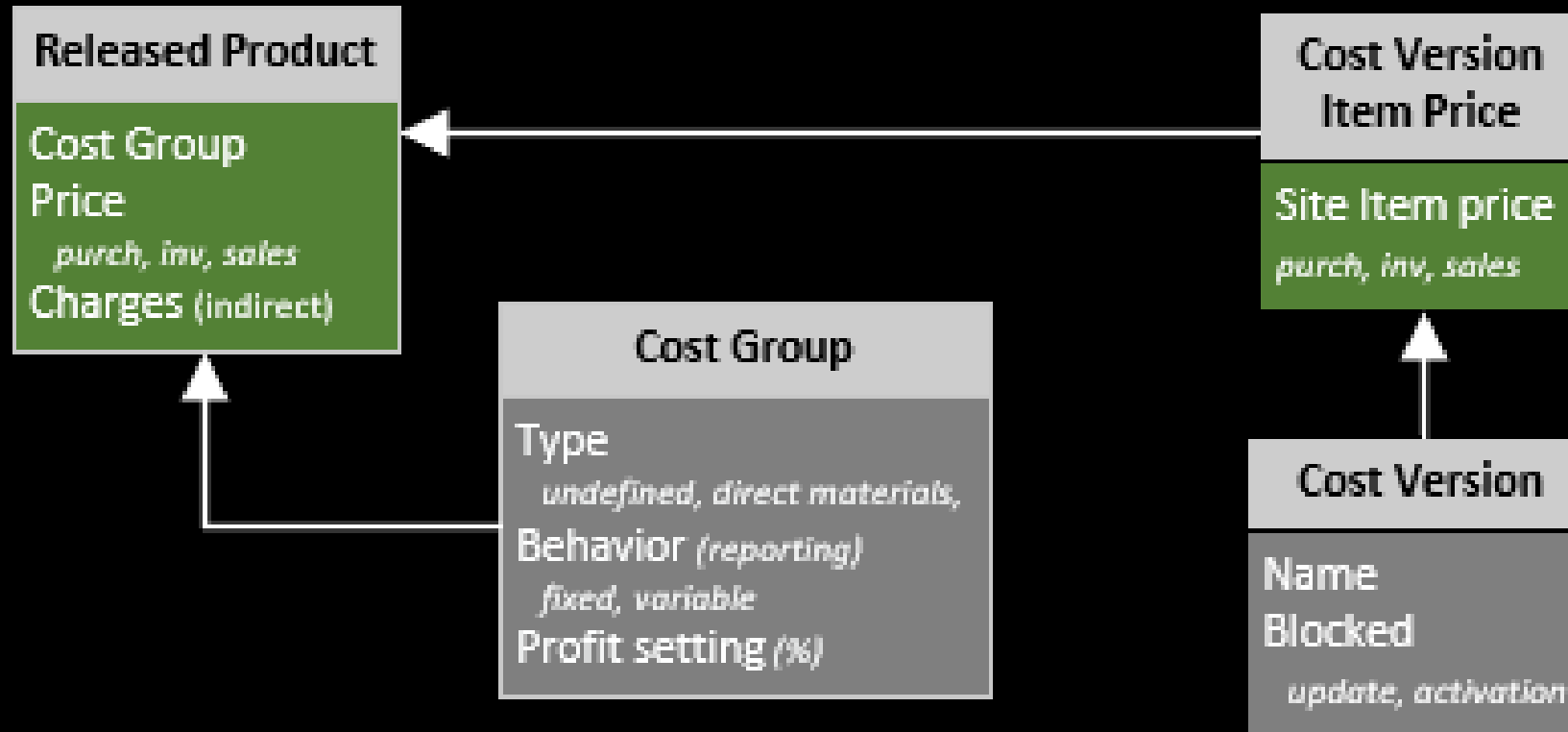
- **Only Financial when:**
 - SO shipments are Invoiced
 - PO receipts are Invoiced
 - Productions are Ended
- **Transactions that skip Physical**
 - Transfer orders (and journals) are shipped/received
 - Count journals posted
 - WMS adjustments made
 - Project Item Journals posted

Cost Versions (Reference Costs)

- Think of these as Processing “buckets”
- For What-If and Activated Costs
- Copy capability (e.g. copy plus percentage)
- Calculation Capability for:
 - Materials
 - Machine
 - Labor
 - Subcontract
 - Overheads (Costing Sheet)
- **Inventory Value and Cost of Goods Sold**
 - Essential for Standard Costing
 - Useful but optional for Actual Costs

Often users opt for a Cost Version per Year

D365 Purchase Costs (Material Cost)



D365 Manufacturing Costs (Material) Typically CALCULATED

Production control parameters

General

General

Journals

Automatic update

Standard update

Status

PRODUCTION RECALCULATION

Number of production orders per bun...

1

Defer updates of cost calculation un...

☐ No

PARAMETER USAGE

Parameter usage

PRODUCTION CREATION

Profit-setting

Standard

Reservation

Estimation

Ledger posting

Item and category

Ledger posting

Item and category

Item and resource

Item and category

Production groups

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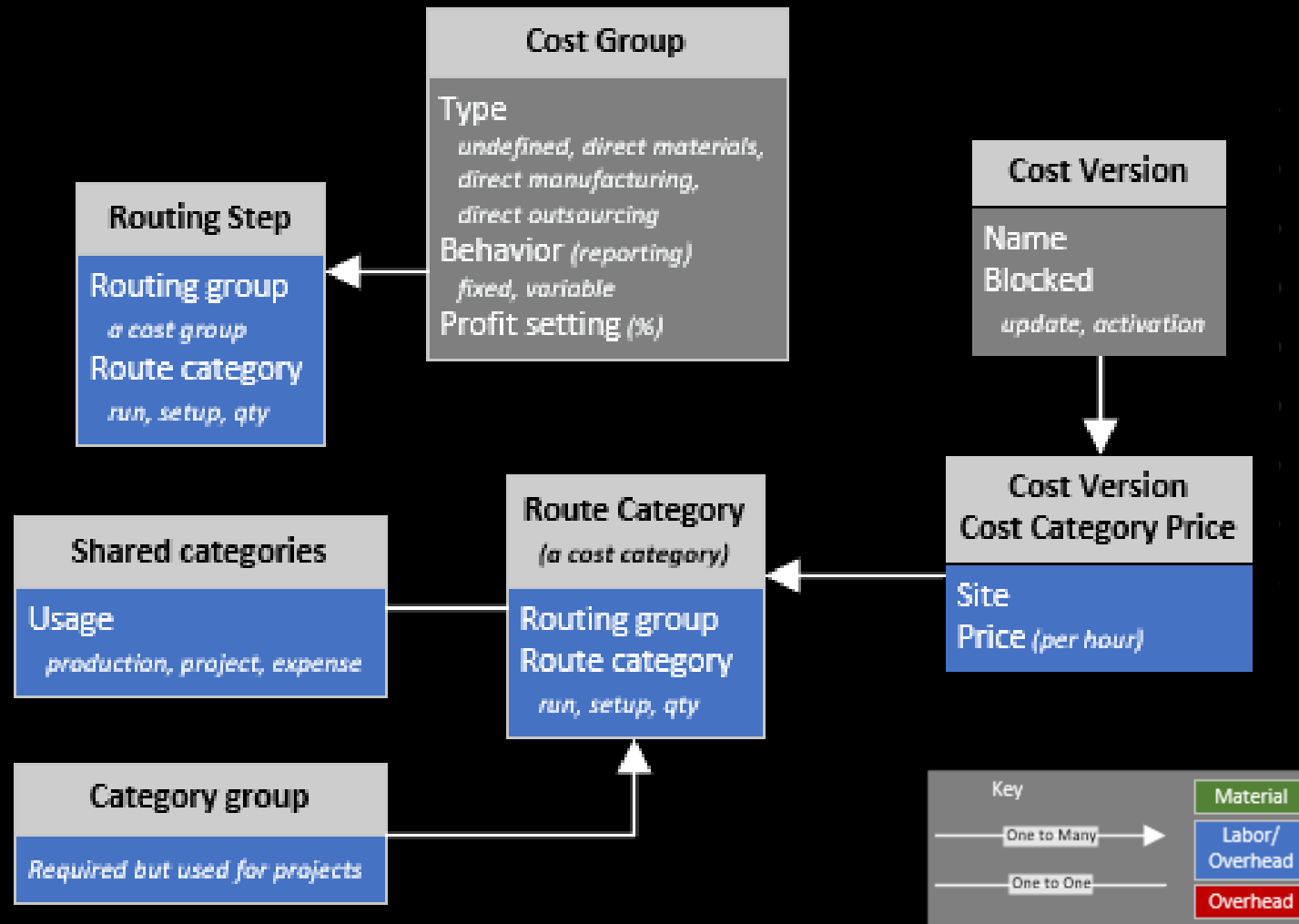
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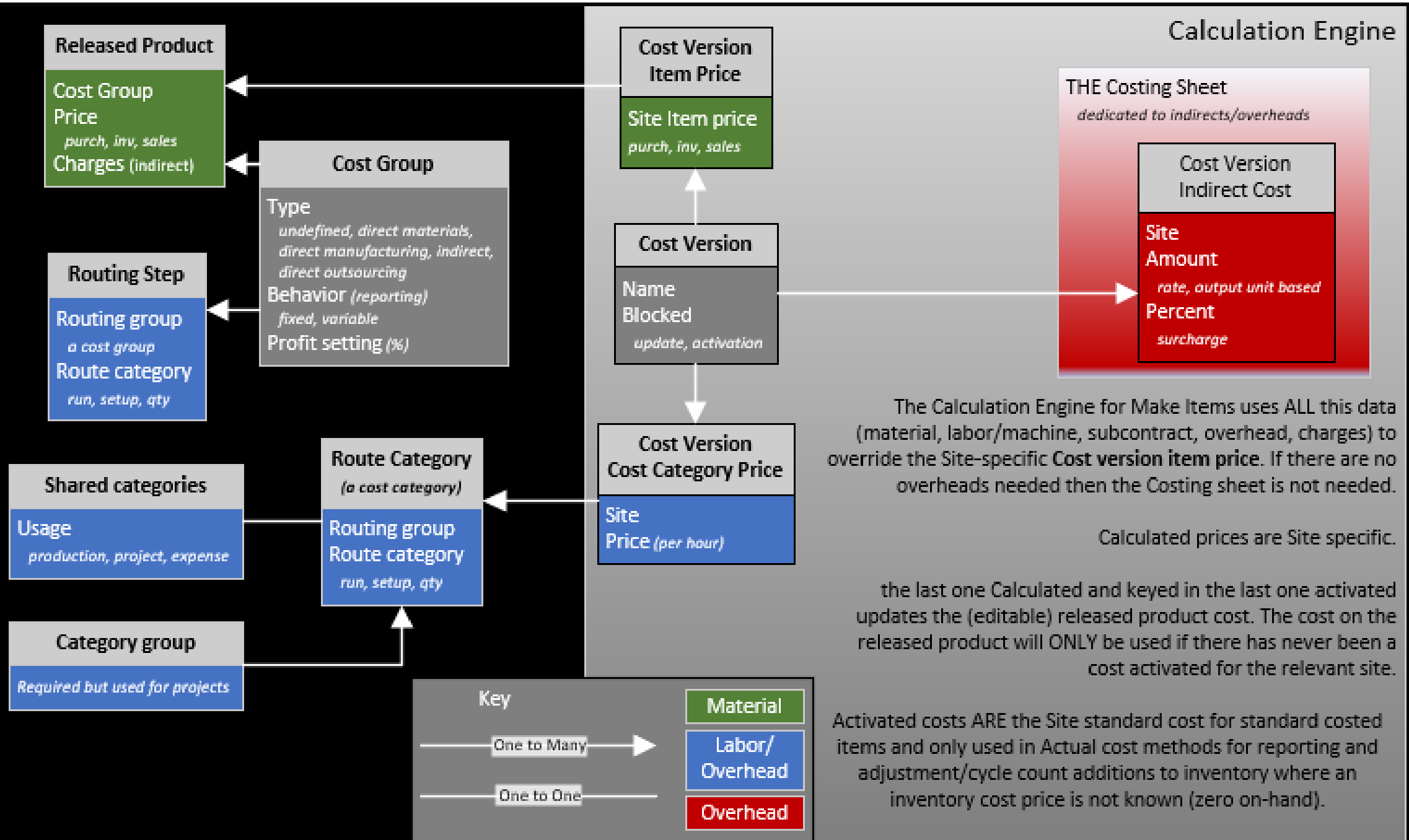
SPS COMMERCE

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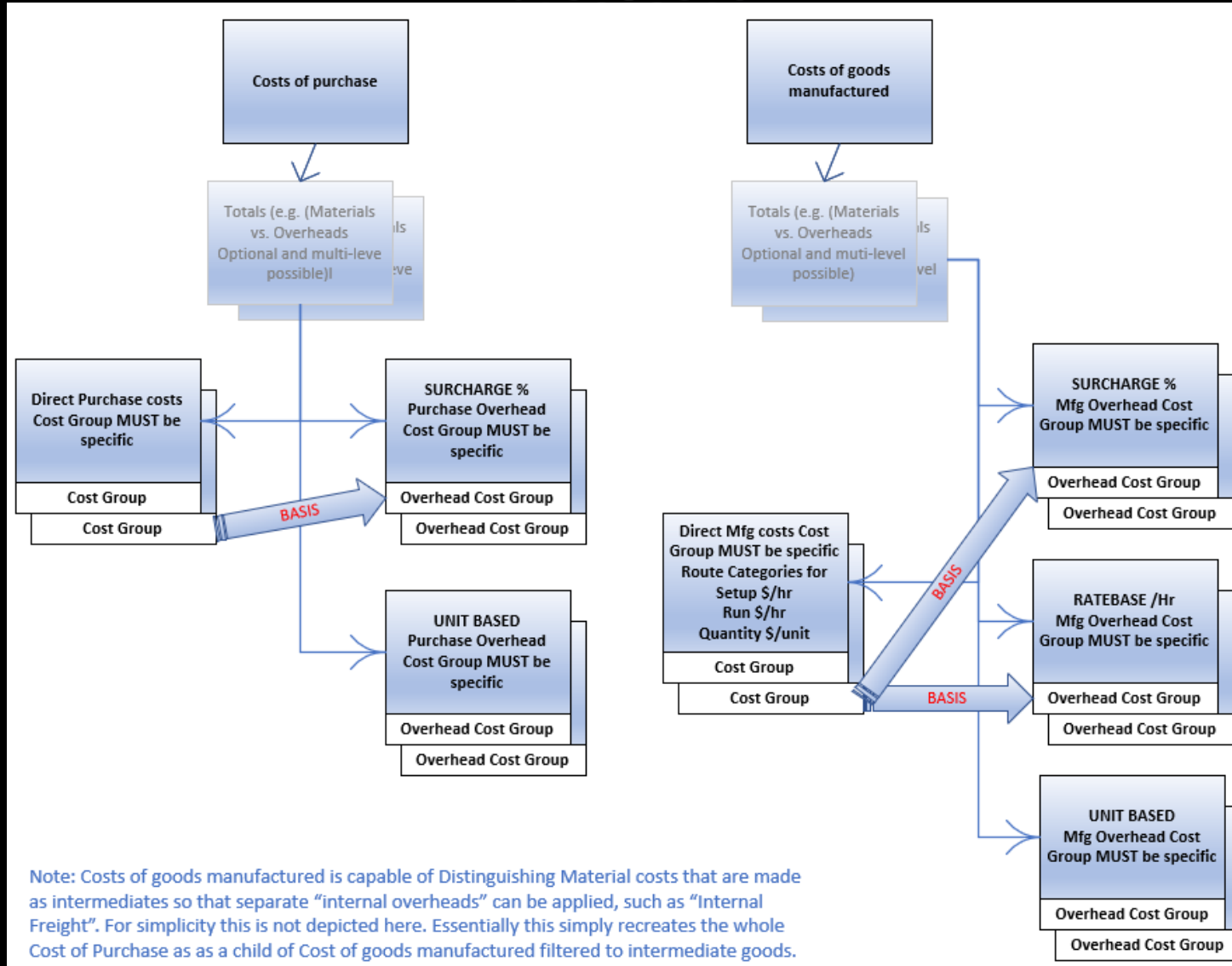
D365 Manufacturing Costs (Material) Typically CALCULATED

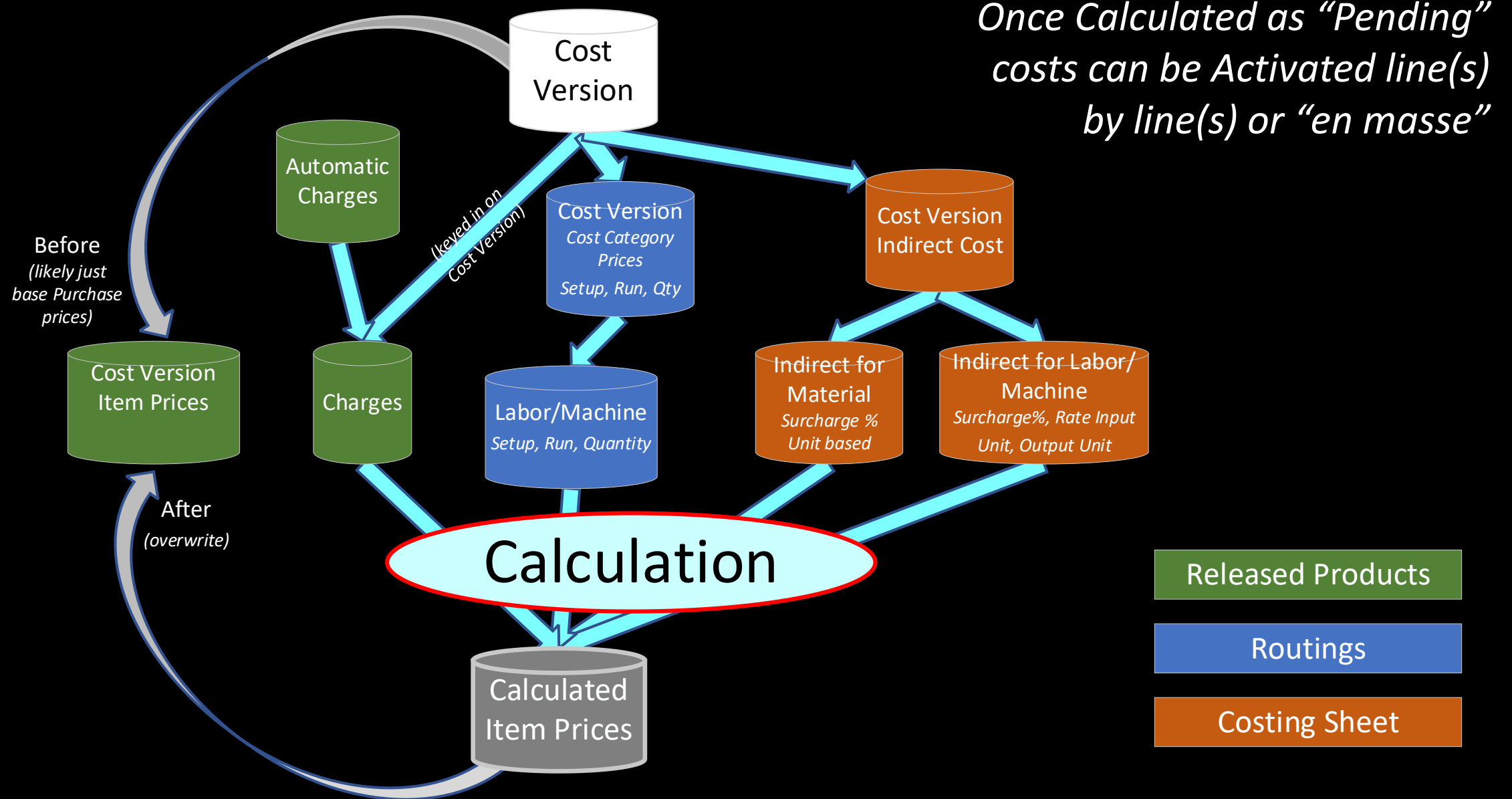




D365 Overheads - aka Indirects

THE Costing Sheet





Standard vs. Actual Overheads

- **Actual:** Uses the overhead calculation for every Physical and Financial receipt
- **Standard:** Uses the Calculation when setting standards and uses overhead calculation for every Financial receipt to post Variances

Inventory Cost Calculation, ReCalc, Adjust and Close *(often period end)*

- For Standard Cost: Actual, Transactions and Inventory are valued at Standard. Physical and Financial Variances against Actual are posted to dedicated GL Accounts. *No Recalc needed.*
- For Moving average Actual; Transactions and Inventory are valued at average Physical. Financial differences post to a dedicated GL Account. *No Recalc needed.*
- For all other actual cost models Transactions are costed at Date Weighted Average and only reset to Weighted average, FIFO and LIFO at Recalc.
- Transactions are only fully closed at Close when also **FINANCIALLY CLOSED.**
Can lead to prior period adjustments in a prior period, or in current period if prior period has been closed

Manufacturing WIP Value

- The book value of WIP
- Report As Finished vs. End
 - When Actual Costing?
 - When Standard Costing?

Physical vs. Financial Negative on-hand

- Best to not allow for Standard Cost
- Even more important to not allow for All Actual Cost models
- Note that WMS permits selective negative on-hand, by location

Beware

Once in inventory all cost is aggregated as a Material Cost

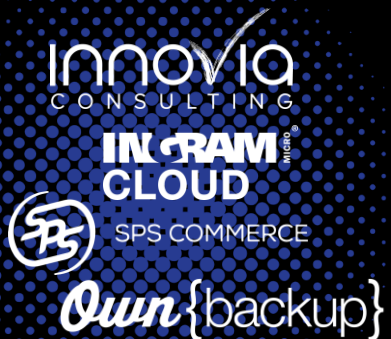
There is no This-level/Lower-level cost break-out

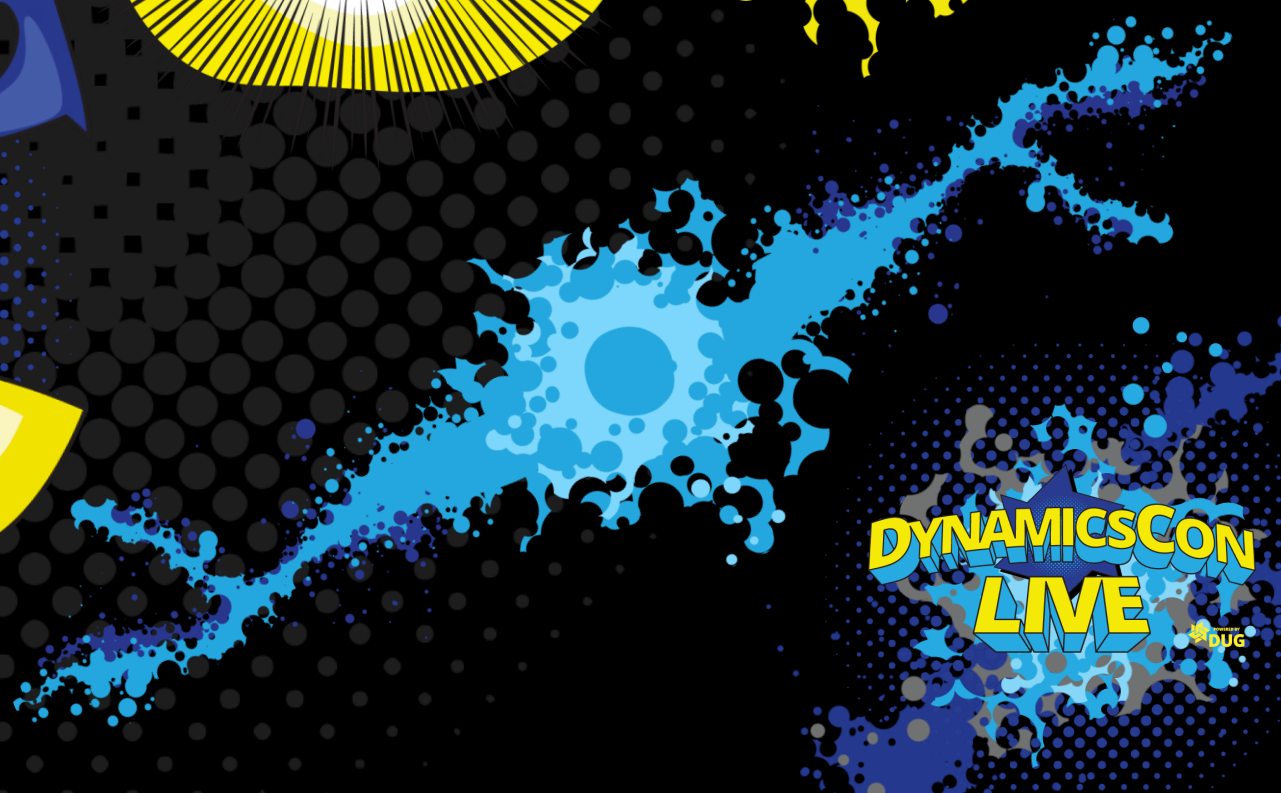
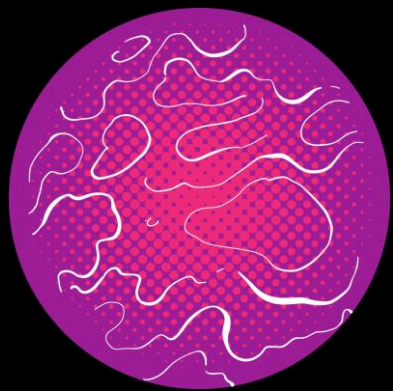
For example: there is no total labor content for a finished product in inventory

Best Practices – My Opinion

. . . other things being equal . . .

- Very dependent on Business
- Understand there is no such thing as an accurate item cost
- By all means use Actual or Standard to value inventory (including allocated overheads)
- Err to Standard unless there is a good reason for Actual
- If Actual, leave the choice of type to Finance and C-Suite
it's about the books
- Never make a business decision based solely on published burdened item cost
analyze direct and indirect effects separately
- Watch out for unit costs and order costs. Work to reduce both and then reduce lot sizes.
- Emphasize reduction of overheads for cost reduction
to compensate for previous neglect!





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by