ACHIEVING REALISTIC COGS

How to improve the accuracy and meaning of Cost of Goods Sold through realistic manufacturing transaction costs.

1 Make sure all PO lines have a realistic supplier price

- Maintain a Supplier Price for each item.
- PO Receipt—not PO Invoice—establishes inventory value.
- Avoid zero-price POs unless deliberate.

2 Update P item estimated costs on a regular basis

- Use Estimated Purchase Costs to mass update P item costs from Default Supplier Price.
- Follow MRP PO price updates with Estimated Purchase Costs and Cost Rollup so NEW jobs stay current.

3 Use Standard Hours completions for labor

- Use routing standard hours for job costing instead of collecting actual labor hours.
- Report labor completions as sequences finish for timely costing and better queue management.

4 Maintain realistic cycle times

- Keep routing cycle times realistic.
- Do not leave a sequence without a cycle time unless there is a deliberate reason. Refine cycle times continually to improve labor and overhead accuracy.

5 Maintain accurate bills of material

- Correct BOM component specifications whenever actual job usage differs from planned quantities.
- Accurate BOMs improve cost rollups and future job accuracy.

6 Update shop rates on a periodic basis

- Use Shop Rates to update hourly labor and manufacturing overhead rates on a regular schedule, such as quarterly.

7 Run the cost rollup on a regular basis

- Run Cost Rollup weekly or whenever routing details, shop rates, or purchased item estimated costs change.
- It updates costing without affecting inventory value or other accounting numbers.

8 Review Estimated Job Cost prior to Job Release

- In the Job Release screen, make sure Estimated Job Costs are reasonable and within your expectations.

9 Enter job transactions in real time

- Enter job issues, labor, subcontracting, and job receipts as activities occur.
- Real-time entry reduces errors and helps ensure all job costs are captured at receipt.

10 Receive finished items at a realistic cost with all status indicators Green

- When status indicators are Green, Suggested Cost is usually reliable.
- If important input costs are missing or clearly wrong, correct them and receive at a realistic cost.

11 Never reopen jobs to make cost adjustments

- Do not reopen closed jobs just to adjust costs.
- Post-close cost issues wash out through actual cost variances as inventory flows through COGS.

12 Make sure your chart of accounts is structured properly

- Place Indirect Costs and Absorbed Costs in the Cost of Sales section.
- Position actual direct labor and manufacturing overhead accounts in the proper sequence.

Best Practice: Realistic COGS depends on realistic transaction costs. Strong purchasing, routing, BOM, rate, and job transaction practices produce more meaningful inventory costs and cost of sales.