

# Introduction to Manufacturing Accounting

**WE1** *Editor's Note: You don't need to be a manufacturing accountant to understand and benefit from this article. The introduction and detailed example which follow can be understood by the typical Financial, Distribution, or Manufacturing user or consultant. Understanding the components of a manufactured item's cost will help you better understand your company's bottom line.*

## The Importance of Manufacturing Accounting

Why spend time reading about it, let alone implementing manufacturing accounting? The simple answer is: survival in an increasingly competitive global market requires it. If a company does not have a good understanding of its cost structure, then how does it know where improvements should and can be made, or know the profitability of each product it makes? By correctly setting up and using the JD Edwards™ Manufacturing Accounting functionality, it is possible to make significant improvements in a company's costs. Given people, resources, and effort it is possible to:

- Measure the expected cost to actual cost by activity.
- Differentiate the cost by individual product number, rather than averaging over product lines.
- Recognize areas of needed cost improvement and determine how to make the improvement.
- Accurately measure the results of cost cutting efforts

Unfortunately, few companies properly implement Manufacturing Accounting. One reason is that JDE provides such a high degree of flexibility that the cost accountant can become overwhelmed. Another reason is that upper management does not recognize its importance, and therefore does not place the attention and resources needed to properly implement it. JDE's solution is particularly comprehensive, translating into employee time to learn it and properly implement it. Many companies, especially those coming from a less sophisticated software package, do not currently have the personnel in place to address the challenge. Fortunately, after implementing the general accounting functions, the efficiencies realized should free up staff that can then be put to work in Manufacturing Accounting.

Yes, it is complex, sometimes confusing, and time consuming to setup, but the results are worth the effort. Now let's take a closer look at this module on the next page in order to help demystify it and make your implementation easier and more productive.

## Variety of Approaches

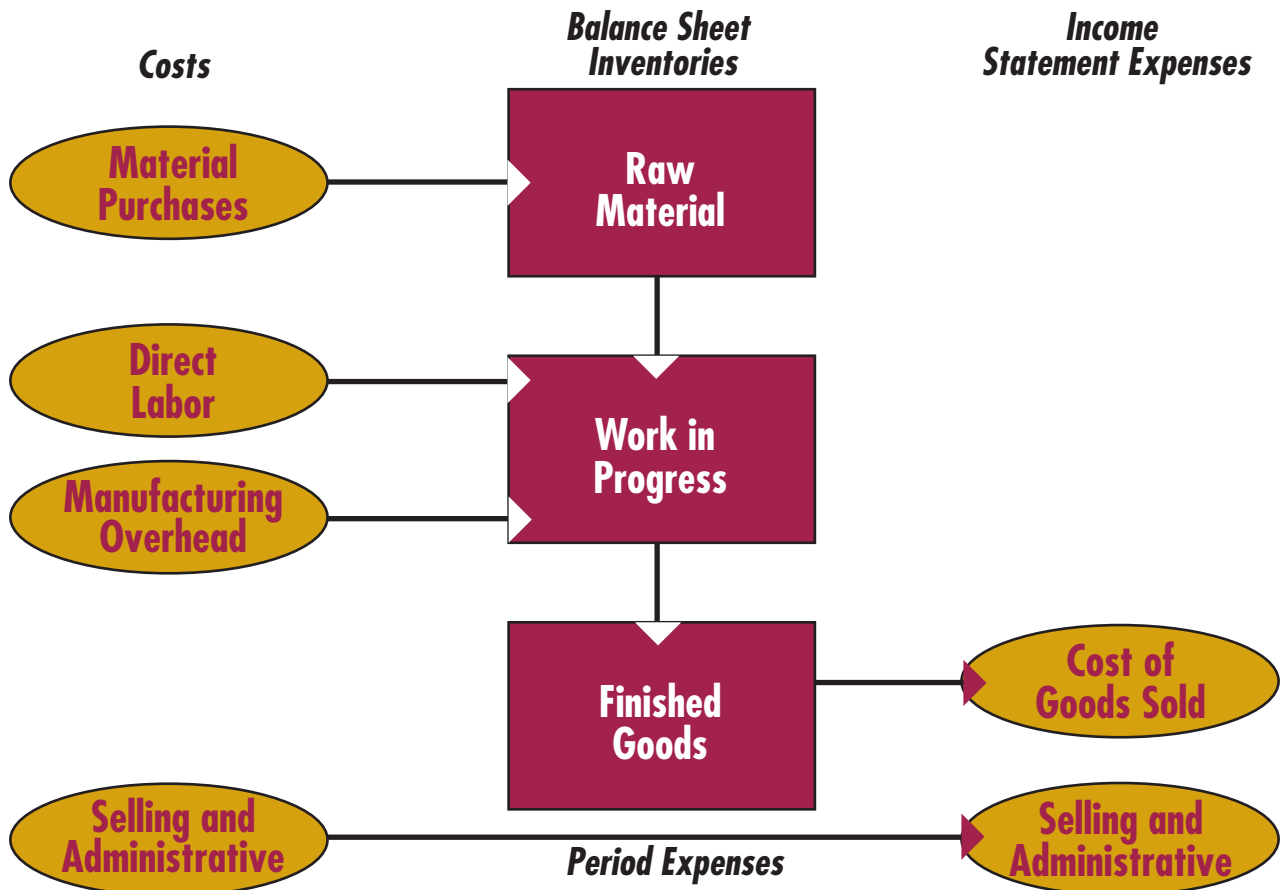
Will JDE's Manufacturing Accounting module work in your manufacturing operation? A wide variety of companies have implemented it, including manufacturers of slot machines, trucks, boats, computers, aerospace and defense products, pharmaceuticals, and food, just to name a few. This means that make to stock, make to order (including configured products), engineer to order, repetitive, and process companies are all using Manufacturing Accounting.

Many of the discrete manufacturers of industrial and consumer products use the traditional approach of issuing material to work orders from a stocking area, reporting actual labor hours, and creating journal entries (including variances) for all activities at standard cost.

Another type of company may have a disproportionately much larger material cost than labor, so they choose to ignore labor reporting and variances by simply back flushing (automatically reporting what should have been reported according to the quantity produced) labor and ignoring labor variances.

The process manufacturer that mixes ingredients to create several end products plus by-products, can also use Manufacturing Accounting by assigning percentages of total costs to each product. Often, this type of operation will back flush material

## Manufacturing Cost Flows



from large storage containers, taking variances into account after a periodic inventory.

The configured item company will not know what the products, parts list, or manufacturing operations will be until the sales order is taken. It has the option of having the sales order dynamically calculate the standard cost of the labor and materials for the related work orders. Variances are then unique to the work order, rather than to a company product number standard.

Federal Drug Administration requirements mandate that food and pharmaceutical companies

track material content to the lot and require that they maintain detailed manufacturing operations record keeping. This also fits nicely into JDE's Manufacturing Accounting functionality without any modification.

It is common for aerospace support manufacturers to have the requirement of providing actual costs by project. These companies can use the newer JDE actual cost capabilities.

In summary, if your company is a manufacturer, JDE's manufacturing accounting is probably a good fit.

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