

C1.7 Cost allocation method explanation

Cost of production

Raw materials

Raw material costs are taken from SAP product standard costings, they represent the expected cost and usage of materials for each PCN.

Direct labour

Direct labour costs are taken from SAP product standard costings, they represent the expected cost and labour time required for each PCN.

Manufacturing overheads

The following cost types are recorded against a specific cost centre relating to the site that produces the like goods; indirect labour, maintenance & repairs, energy costs, other, subcontractors & depreciation. Quality control costs are captured in a cost centre for the business as a whole and then a proportion allocated to the site that produces the like goods based on sales value.

These costs have then been allocated to each PCN based on a proportion of direct labour, this allocation method has been chosen as it is a “halfway” between using volume or cost of direct materials. It is also logical given direct labour costs will correlate with machine running times and most of these costs relate to machine operations.

Administration, selling & general costs

All costs, allocated to the specific site based on a percentage of sales value and then allocated to each PCN based on volume produced.