

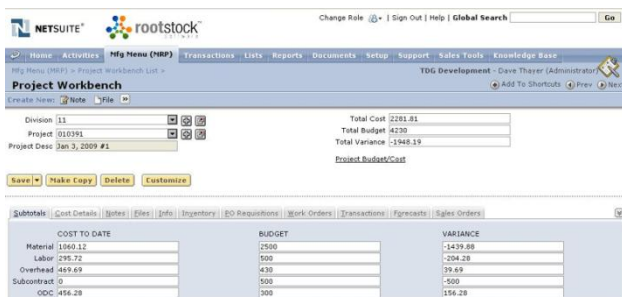
Rootstock Software®

Manufacturing Cost Control



Rootstock Software® provides the breadth and depth of solutions that today's discrete manufacturers need to operate and grow their business. Whether a small operation with five users, or a large organization with many sites and hundreds of users, Rootstock offers a solution for all sizes and types of discrete manufacturers and supports the manufacturing system requirements of Build to Order, Build to Stock and even Engineer to Order Manufacturers – whether standard or actual cost in both a single and multi plant environment.

Rootstock Manufacturing Cost Control complements and expands NetSuite item cost capabilities in many ways. Rootstock not only maintains the single NetSuite element of cost but also provides the ability to track this single total cost unit with as many as eight sub components of cost.



COST TO DATE		BUDGET	VARIANCE
Material	1860.12	2500	-639.88
Labor	288.22	500	-211.78
Overhead	465.69	430	35.69
Subcontract	0	500	-500
OOC	456.28	300	156.28

These cost elements can be maintained using either a standard cost method or an average actual cost method. This method is set at the 'division level'

which means that in a multi division installation, a company could have 'standard costs' in one division and 'average actual costs' in another division. Another item of note is that in a standard cost system these costs are maintained at an item level and in an weighted average cost system these costs are 'averaged' at an item-project level.

Cost Elements

Up to eight cost elements can be tracked in inventory, work in process and finished goods. These cost elements are as follows:

- Material Cost:** This is the purchased cost. In a standard cost environment, this is set as the standard material unit cost on the cost master file. In an average cost situation, this is a rolling weighted average whereby the purchase receipt's purchase price will be 'averaged' with the inventory's current material cost.
- Material Overhead Cost:** This is the material burden which is calculated using a "Material Overhead Rate" designated at the division level and applied to the material cost (or subcontract material cost) at the time of purchase order receipt. This rate is used in either a standard or actual cost environment.
- Direct Labor Cost:** In an actual cost environment, this is the labor cost associated with the hours charged multiplied by a labor grade rate

associated with the employee that is booking the labor at a work order operation. In a standard cost environment, this is derived in a 'standard cost' calculation accumulating all of the item's routing operations' hour standards multiplied by a standard rate for the labor grade expected to perform the operation.

- **Direct Labor Overhead Cost:** There is a Direct Labor Overhead Rate associated with each Department and the Department is noted on each operation of the routing. In an actual cost environment, Direct Labor Costs extended by the Direct Labor Overhead Rate provides this Direct Labor Overhead cost. In a standard cost environment, when calculating the cost standard using the standard routing, this same rate is applied to the standard direct labor cost at each operation.
- **Fringe Labor Overhead Cost:** Similar to a Direct Labor Overhead Rate associated with each Department there is also a Fringe Labor Overhead Rate. Given the rising cost of Fringe (Medical and taxes for example) it is often desirable to separate this cost out from Direct Labor Overhead. This is calculated in the same manner as the Direct Labor Overhead.
- **Machine Overhead Cost:** There is a Machine Overhead Rate associated with each machine and the machine can be specified on each operation of the routing where appropriate. In an actual cost environment, actual machine hours are extended by the Machine Overhead Rate providing this Machine Overhead Cost. In a standard cost environment, when calculating the cost standard using the standard routing, this same rate is applied to the standard machine hours at each operation.
- **Subcontract Material Cost:** This is the value added cost of the vendor for their manufacturing/assembly work associated with a subcontract purchase order. In a standard cost environment, this is set as the standard subcontract material unit cost on the cost master file. In an average cost situation, this is a rolling weighted average whereby the purchase receipt's purchase price will be 'averaged' with the inventory's current subcontract material cost.
- **Subcontract Labor Cost:** This is the value added cost of the vendor for their manufacturing/assembly work associated with an 'outside operation' of a work order. In a standard cost environment, this is set as the standard subcontract labor unit cost on the cost master file.

In an average cost situation, this is a rolling weighted average whereby the purchase receipt's purchase price will be 'averaged' with the work orders' subcontract labor cost.

Cost Rollups and Standards Revaluation in a Standard Cost Environment

Standard costs for purchased and subcontract items are maintained by the user on the item standard cost master file. The standard costs for Labor and overhead are calculated by Rootstock using the bill of materials and routing for each item using the cost rollup process.

Variance Calculations in a Standard Cost Environment

In a standard cost environment, the costs on the item (or item-project) master files are maintained at standard. Standard cost variance calculations are done as follows on the following transactions:

- **Purchase Receipt:** The difference between the purchase order price and the standard material cost (or subcontract material cost) will be calculated (and extended by the quantity) and will debit/credit a PPV (purchase price variance) account.
- **Work Order Close:** The sum of actual component material charges (as determined at work order issuance) and the sum of all labor and associated overhead, machine overhead, and subcontract labor – at actual are maintained on the work order. At work order close the difference between the work order receipts and scrap – at standard are compared to these actual costs and there will be a debit/credit to a Work Order Variance WIP account as appropriate.
- **Standards Redefinition:** Whenever an item standard is redefined all stock inventory and all WIP (work order) inventory is revalued at the new standard and a 'standards variance recalculation' account is appropriately debited/credited.

Rootstock's Manufacturing Accounts are a sub ledger of NetSuite General Ledger Accounts

Rootstock Manufacturing Cost Control maintains its own chart of manufacturing accounts which are then individually mapped to the NetSuite General Ledger account. This permits the user to capture costs at one level of detail in manufacturing (e.g. multiple variance accounts), and then post these accounts to

the same general ledger account. The format of the costs to be posted to General Ledger is in the cumulative cost format and the eight cost components (whether in a standard or actual cost environment) are 'unitized' as one cost for General Ledger purposes.

About Rootstock Software®

Rootstock Software® is the leading Software as a Service (SaaS) provider of manufacturing enterprise software serving discrete manufacturers in the mid-market. Rootstock Software® was launched in 2008 in response to the growing need for a SaaS solution for mid-market manufacturers to cut costs, improve processes, and drive revenues. Rootstock is a premier partner with NetSuite Inc, a leading vendor of on-demand, integrated business management software suites for the mid-market enterprise and divisions of large companies. Rootstock and NetSuite deliver these critical manufacturing capabilities to the underserved mid-market with minimal IT infrastructure investment. For more information, please visit <http://www.rootstocksoftware.com>.