Production Cost Allocation

Module Guide: Production Cost Allocation

Module Location

PPIC > Production Cost Allocation

Module Objective

The **Production Cost Allocation** module is a **cost accounting** tool used to charge or allocate **indirect costs** or **overhead costs** to the value of **Work-in-Process (WIP)** inventory. This process is crucial to ensure that the total **Cost of Goods Manufactured (COGM)** of a product includes all relevant costs, not just direct material costs.

1. Main View (Allocation List)

The main page of this module displays a list of all production cost allocation documents that have been created.

View Explanation

- **View**: This page is a history of all cost allocation documents. You can see the **Production Cost Allocation Code**, the **Month** and **Year** of the allocation period, as well as the document's **Status** and **Approval**.
- **Filters**: You can search for a specific document by **Allocation Code**, a date range, or **Item/Service Category** (generally set to WIP).
- **Action Buttons**:

- **[New]** (Not visible, but is the primary button): To create a new cost allocation document.
- **[Print Document]**: To print the details of a selected allocation document.

2. Steps to Perform a Cost Allocation (Conceptual)

1. **Create a New Document**: From the Main View, click the **[New]** button to open the allocation form.
2. **Define Period and Allocation Basis**: On the form that appears, define the allocation period (month/year). You will then define the **allocation basis** (e.g., machine hours, labor hours, or material cost) and the total overhead cost to be distributed.
3. **Run the Process**: The system will calculate and distribute the total overhead cost to every active WIP item during that period, based on the defined allocation basis.
4. **Confirm**: After reviewing the allocation results, you will confirm the document to process its journal.

Workflow & Integrated Business Process

- **Accounting Impact**: After being confirmed and approved, this module will create a journal entry to **increase the WIP inventory value (Debit: Work in Process)** and credit the relevant overhead cost accounts.

- **Importance of Allocation**: This process ensures that costs such as factory electricity, machine depreciation, and factory supervisor salaries are fairly charged to the cost of each product manufactured.

Tips & Important Notes

- This is one of the key processes in manufacturing cost accounting and is usually performed at **month-end** as part of the book-closing process.

- The accuracy of the cost allocation directly impacts the accuracy of inventory valuation and the **Cost of Goods Sold (COGS)** calculation.

- This module is a crucial work tool for the **Cost Accountant** and **Controller**.

Revision #1
Created 18 October 2025 15:50:08 by Sayu
Updated 18 October 2025 15:53:11 by Sayu