

### Design and Implementation of Cost Accounting System

#### Storyline...

The client is a leading Indian precision components manufacturing company. The company manufactures and supplies automotive components to domestic as well as global markets. It also provides manufacturing services. The company has annual revenues of more than US\$ 150 mn, has 40 different profit centres, and more than 3,000 employees

MaGC was engaged by the client to design a Cost Accounting System and implement a spreadsheet based tool for the same.

#### Once upon a time...

The client's business had grown rapidly in the past decade and the momentum was expected to continue into the future as well. The business had diversified into new manufacturing services and increased its range of products as well. While the overall business continued to perform well, the Management had very little information on business line and/or product level profitability. This was due to the lack of a robust cost accounting system. The client requested MaGC to conceptualize a scientific cost accounting system and build a spreadsheet based tool for it. The objective was to ultimately migrate the system onto Oracle Financials, the client's ERP.

#### Moving on...

The complexity of the client's business and the large number of product/service variants made the task challenging for the MaGC team. The assignment required the team to understand the different manufacturing processes, the associated cost elements, and the underlying cost drivers. The team visited more than 20 manufacturing and service divisions. The study involved structured interviews and discussions with key persons. Important documents, reports, and checklists were collected and analyzed.

Based on the study, MaGC conceptualized a Cost Accounting System for the client based on the principles of Process Costing. Principles of Activity Based Costing were also applied where relevant. With the design in place, a spreadsheet based tool was developed which automated key tasks of the Cost Accounting System and provided cost reports.

The Cost Accounting System was piloted using live data for three manufacturing divisions. Product Cost Sheets as well as Product Pricing reports were generated from the Cost Accounting System. The outputs were validated with the business heads and finance personnel as a proof of concept. A sensitization program on the concepts and usage of the spreadsheet was conducted for all division heads and users. A simple user guide was developed to enable end-users to use the spreadsheet based system.

#### Finally...

The Cost Accounting System became the single source of cost information used by all the manufacturing units. It served as the combined cost computing engine for products as well as services. It provided the client Management with required information to analyse profitability at the level of individual product, service, unit, and division and to make decisions such as buy/outsource, price negotiations and so on. The spreadsheet based pilot provided valuable learnings for ultimately migrating the Cost Accounting System onto the Oracle Financials ERP.