LBSi Applied Labor & Overhead

SAP® Business One

User Guide
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Overview

SAP Business One can be utilized to apply labor and overhead throughout the production process giving customers the ability to track the full cost of product including material, labor and overhead. Also customers can view their applied labor and overhead costs as compared to actual production related expenses incurred.

Features:

Applied Labor and Overhead utilization consists of these key areas:

1. Item Groups
   - Add new *Item Groups* to item master for Applied Labor and Applied Overhead
   - The Item Groups will map the G/L accounts to be hit when applying labor and overhead transactions.

2. Item Master
   - Add new *Item Codes* to Item Master for Applied Labor and Applied Overhead

3. Bill of Materials
   - Add the *Item Codes* for Applied Labor and Applied Overhead to the applicable Bills of Materials

4. Production Orders
   - Process production orders in the normal manner
Applied Labor & Overhead: Define Item Groups

Create Item Group(s) to be used for mapping of G/L Account(s) for applied labor and overhead transactions.

Note: You need to create an Item Group for each separate G/L account that you wish to apply labor and/or overhead charges to.

Characteristics of Item Groups for applied labor and overhead.

1. Items of these Item Groups will use the Default Valuation Method = Standard
2. When they are transacted against Production Orders they will:
   a. Debit WIP Inventory Account and credit Expense Account (generally Cost of Sales)

How to Access: Main Menu > Setup > Inventory > Item Groups

To add a new Item Group, click on the icon. Enter data into the fields and then click Add to save the Item Group.

General Tab

Field Information:
Item Group Name: Enter name of item group, i.e. Applied Labor, Direct Labor, etc…
Planning Method: Not Applicable, Default value OK
**LBSi Applied Labor & Overhead**

**Procurement Method:** Not Applicable, Default value OK  
**Order Interval:** Not Applicable, Default value or Blank OK  
**Order Multiple:** Not Applicable, Default value or Blank OK  
**Minimum Order Qty:** Not Applicable, Default value or Blank OK  
**Lead Time:** Not Applicable, Default value or Blank OK  
**Cycle Group:** Not Applicable, Default value or Blank OK  
**Default Valuation Method:** Select *Standard*

### Accounting Tab

![Image of Accounting Tab]

**Field Information:**  
**Expense Account:** enter the appropriate *Cost of Sales or Expense* account to be credited  
**WIP Inventory Account:** Enter the WIP account to be debited

**Note:** Remaining Fields on this tab are not applicable and the Default value is OK for those fields.
Applied Labor & Overhead: Define Item Codes

Create *Item Master – Item(s)* for applied labor and overhead transactions.

**Note:** You need to create an Item(s) for each Item Group (G/L account) that you created.

Characteristics of *Items* for applied labor and overhead.

1. Items will be *Sales Item only* and not move in and out of inventory.
2. Items will be *Item Type = Labor* which maps the transactions to the Expense and WIP Inventory Accounts in the Item Group.
3. Items will *Set G/L Accounts by Item Group* regardless of the default system setting.
4. Items will use the *Default Valuation Method = Standard*
5. Items will reference the appropriate *Labor or Overhead Item Group*.

**How to Access:** *Main Menu > Inventory > Item Master*

To add a new Item, click on the *icon. Enter data into the fields and then click *Add* to save the Item.*
Field Information:

*Header:*
- **Item Number:** Enter Item Code
- **Description:** Enter description of item
- **Item Type:** Select *Labor*
- **Item Group:** Select appropriate labor or overhead item group
- **Price List:** Not Applicable, Default value OK
- **Unit Price:** Not Applicable, Default value or Blank OK
- **Check Boxes:** Select only the *Sales Item* box

*General Tab:*
- **Issue Method:** Will be automatically set to *Backflush*

*Note:* Remaining Fields on this tab are not applicable and the Default value is OK for those fields.

*Purchasing Data Tab:*
Since this item is not a *Purchased Item* nothing applies on this tab

*Sales Data Tab:*
If this item is used only for Labor and Overhead application, nothing applies on this tab.

If labor is sold to customers, you will want to enter the *Sales UoM* and the *Items per Sales Unit*

*Inventory Data Tab:*
- **Set G/L Accounts by:** Select *Item Group*
- **Inventory UoM:** Enter unit of measure that labor and overhead will be applied, i.e. Hour
- **Valuation Method:** Select *Standard*
- **Item Cost:** Enter your Standard Cost per UoM

*Note:* Remaining Fields on this tab are not applicable and the Default value is OK for those fields.

*Planning Data Tab:*
Fields on this tab are not applicable and the Default value is OK for those fields.

*Note:* If you receive the following System Message when adding your Items, answer *Yes* to save item cost to all warehouses.
Applied Labor & Overhead: Bill of Materials

Add the Item(s) for Applied Labor and Applied Overhead to the applicable Bills of Materials

**How to Access:** Main Menu > Production > Bill of Materials and find the appropriate BOM

**Field Information:**

- **Item No.:** Enter item code for applied labor and applied overhead items
- **Item Description:** Default description from item master
- **Quantity:** Enter quantity per unit to be applied to Bill of Material
- **UoM:** Default unit of measure from item master Inventory Data Tab
- **Issue Method:** Default from item master. Will be Backflush.
- **Price List:** Reference your Default BOM price list
- **Unit Price:** Enter your Standard Cost from Item Master > Inventory Data Tab
- **Total:** System display of the Unit Price * Quantity
- **Whse:** Warehouse for items to be issued from
Create and process Production Orders in the usual manner.

**How to Access:** Main Menu > Production > Production Order and find the appropriate Production Order to create transactions against

**Note:** The Production Order must be in a *Released* status for transactions to be preformed against it.

**Issue Components:** (Issue Method = Manual only)
Right click on the Header area of the Production Order and select *Issue Components*
Confirm Quantity to be issued for Item(s) – Inventory material and click *Add*.

The system will issue the items and quantity from Inventory to WIP creating the following G/L system transaction.
Confirmation of this transaction can also be viewed on the Production Order *Components Tab* and *Summary Tab*.
**Report Completion:**
This process will backflush any remaining material (inventory flagged as backflush), labor or overhead items to the Production Order and receive the Parent Item into Inventory at the total cost of Material, Labor, and Overhead issued to the Production Order.

Right click on the Header area of the Production Order and select *Report Completion*.

The system will receive the items (product made) and quantity to Inventory creating the following G/L system transaction.
Receipt from Production Transaction:
Rows 1 – 4 are the backflushing of the applied labor and overhead.
Rows 5 – 6 are the total cost of the product: material, labor and overhead being received to inventory as finished goods product.

Confirmation of this transaction can also be viewed on the Production Order Components Tab and Summary Tab.
**Actual Additional Cost:** equals the total of the labor and overhead applied.

**Actual Product Cost:** equals the total material, labor and overhead of the product.

**Completed Quantity:** one (1) completed product is received to inventory.
The Production Order Status can be flagged as **Closed**.

No variances were incurred during the Production Order process and therefore no further amounts were recorded in the G/L.

**Note:** The following page gives an overview of the process in T-Account format.