High Performance Enterprises
Policy: Standard Cost Accounting

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I. Policy objectives

▷ To ensure that High Performance Enterprises (HPE) inventory valuation and cost of sales measurement comply with GAAP (Generally Accepted Accounting Procedures). The results reported on HPE balance sheets and profit & loss statements shall be in full compliance with Sarbanes-Oxley principles.

▷ To ensure that product standard costs are accurate and developed consistently so as to enable reliable profit-by-product reporting and well-informed decisions about product pricing.

▷ To ensure that standard cost variance measurements are accurate, reliable, timely, and actionable so that senior managers will have high quality information to fine-tune manufacturing operations.

▷ To establish a reasonable balance between the burden of transaction reporting and the value delivered by high-quality financial information and careful observance of internal control disciplines.

▷ To ensure that cost accounting practices are in harmony with best usage practices for BPCS software.

▷ To suggest guidelines for related business processes which shall be in harmony with the objectives stated in this policy. Related business process/practices include: BOM structure development, inventory management, transaction reporting, purchasing, and accounts payable processing.

II. Scope and extent of policy

This policy shall apply to all HPE manufacturing facilities. Exceptions to this policy must be approved in writing by the HPE Division Controller.

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III. Standard cost accounting principles

The following standard cost accounting principles will be adopted.

1. Standard costs will be calculated and approved as part of the annual budget preparation process.

2. Costs for purchased raw materials shall be provided by the purchasing department based upon an analysis of historical trends ˹   ˼odity classification. Each Facility Plant Controller will establish th˹   ˼urchased raw materials. Purchases sensitive to the e˹   ˼USDollar and a foreign currency shall use a FX rate ˹   ˼r.

3. HPE bill of material (BOM) structu˹   ˼e expectations explained in Appendix A.

4. Future year labor rates used as the ˹   ˼ion shall be approved by the HPE Human Resou˹   ˼

5. Fixed asset additions for the budget ye˹   ˼approved capital expenditures plan.

6. Manufacturing responsibility center expense budgets used as the basis for budgeted standard cost generation shall be approved first by each site's manufacturing manager and then also by HPE's Division Management. The following operational costs will be excluded from inventory capitalization:
    ✧ outbound freight for customer shipments
    ✧ interplant freight between facilities
    ✧ inbound freight
    ✧ scrapped materials

    It is understood tha˹   ˼cord a "period 13" journal entry to ˹   ˼of these concepts and then enter a r˹   ˼ccounting year.

7. Factory uni˹   ˼etermined by employin˹   ˼or the budget year MPS˹   ˼within the constrai˹   ˼een approved by the D˹   ˼

8. Work cer˹   ˼ppendix B.

9. For budge˹   ˼anufacturing work cente˹   ˼product.

10. BPCS Bill of M˹   ˼anufacturing process in terms of the co˹   ˼g time required at each operation and work ˹   ˼

III. Standard cost accounting principles, *continued ...*

11. Standard costs will be changed one time per year. In general, our policy will be to avoid standard cost changes ~~~~~~~~~~~~~ the calendar year because it is recognized that each su~~~~~~~~~~~~~~~~~~~~ variance results. (Price increase analyses ca~~~~~~~~~~~~~~~~~~~~~~ tion" cost set without changing any star~

    For existing pr~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ cost change shall include t~

    a) the ch~

    b) the c~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ the cost of our finish~

    c) the c~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ y spike which could ~

    d) the per~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ ice from the pertinent ~

    When an approve~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ will be posted to the G/L Inventory accoun~~~~~~~~~~~~~~~~~~~~~ with the offsetting credit posted to a balance shee~~~~~~~~~~~~~~~~~~~ ~t. The credit value in the Inventory Revaluation account w~~~~~~~~~~~~~ against actual cost of sales results over a period of time which is consistent with inventory coverage.

    If an approved standard cost *decrease* is executed, then the entry to the Inventory Revaluation account will have a debit value instead of a credit value.

    Unvouchered purchase order receipts will also be revalued as defined above. The general ledger accounts used for this change in standard cost value will be Accrued Liability and Inventory Revaluation.

12. The following BPCS cost sets will be used by HPE:

    ✧ Current Standard (used for valuing transactions)

    ✧ Budget Sta~~~~~~~~~~~~~~ ~ld be the same as "Current Standard" except for produ~~~~~~~~~~~~~~~~~~ ~ear or for costs that were changed during the~

    ✧ ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ ~l planning episodes)

    ✧ ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ as the budget)

    ✧ ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ ~ference data)

    ✧ ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ new products or changes to existing ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~ ns of changes and adjustments).

III. Standard cost accounting principles, *continued ...*

13. The following cost buckets will be defined for standard costing purposes:
    - ❑ Primary materials
    - ❑ Packaging mat
    - ❑ Conversio
    - ❑ Deprec
    - ❑
    - ❑ Oth
    - ❑

14. At the   any goods-in-transit
    invent   ce sheet inventory
    valuatic

IV. Determination of rates and times

15. Work center rates for ⌐   Overhead Standard Costs will be
    established based⌐   r Run Hours as appropriate
    for each work ⌐   ⌐ations of other work
    center rates ⌐

16. The time r⌐   ⌐ng to the
    engineerir⌐   = Pieces per Hours
    (i.e. LBS p⌐   ⌐tuation dictates in
    order to pr⌐

17. Routings will⌐

18. Standards will be⌐   ⌐ter. Alternate Routers will
    have no effect upon ⌐   ⌐t.

V. General accounting and accounts payable practices

19. BPCS inventory transaction definitions will be maintained by the HPE Cost Analyst.

20. BPCS inventory transactions will be posted to the BPCS general ledger frequently,
    every week at a minimum.

21. Accounts payable transacti⌐   ⌐ases shall employ BPCS' 3-way
    match functionality. T⌐   ⌐ion entry will support
    purchase price var⌐   ⌐will be posted into the
    general ledger b⌐   ⌐st be included in the
    general ledger⌐

22. Foreign exch⌐   ⌐l payables
    denominat⌐   ⌐count reported on
    the P+L be⌐

23. Invoices fc⌐   ⌐fees, rentals,
    supplies, p⌐   ⌐pertinent Support
    Responsibil⌐

    At the end o⌐   ⌐each Support
    Responsibility⌐   ⌐nent Manufacturing
    Responsibility ⌐   ⌐ion methodology
    employed for the ⌐   ⌐t number 9). The
    offsetting credit to ea⌐   ⌐account will be booked to an
    allocation expense type s⌐   ⌐story by specific expense types
    will be preserved.

24. Over/under absorption of overhead in any given month will be expensed directly to
    the P+L instead of being included on the balance sheet.

25. Scrap usage will be reported against the individual shop orders that incurred the
    scrap usage.

VII. Variance analysis and management reporting

26. To ensure the accuracy of component usage reports by shop order, will be handled as a sin͟ ͟ ͟ ͟ion against the shop number.

27. Back-flushi͟ ͟ ͟ ͟nly if specific usage cannot eas͟ ͟ ͟ures must be used to reconcile a͟ ͟ ͟terials inventory gains/losses w͟ ͟ ͟.

28. Appendix D presents a͟ ͟ ͟͟at will be used to report monthly actual cost of sales and variance results to HPE management.

VIII. Key reports delivering BPCS database contents

A variety of custom queries must be designed and built to obtain the information pertinent to end-of-month financial analysis and cost recognition.

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IX. Policy authorization

This standard cost accounting policy has been reviewed and formally approved by:

_____   _____

Mustafa Elhawagy   Date
HPE Division Controller

Appendix A
Bill of Material Structure Requirements

We will make our bill of material structure as simple as we can. Specifically, if there is no authentic Material Requirement Planning or Cost Accounting value derived from permitting complexity in a BOM structure ''   ity will be removed, including from any existing BOMs.

Phantom Items (i.e   ngineering structure or BOM maintenance onl   ory. Phantom items can also be used for   urations or kit components.

Scrap and yi   ly, except in cases where items   hese cases, the BOM component   l scrap amount based on historical   naterial requirements of the compo

BPCS item nun   ent according to the requirements de

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Appendix B
Criteria for Defining Manufacturing Work Centers

Work centers will be defined according to each plant's manufacturing configuration of machines and work areas.

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Appendix C
Standards for Creation & Maintenance of BPCS Items

HPE will create and maintain item code numbers for all items used or produced in the manufacturing process. These items include finished goods, work-in-process (WIP), raw materials, and purchased compone

Each WIP stage in the manuf   BPCS item number
and each WIP item will ha   ns will be managed
using shop orders.

WIP item numbers wi'

If there are any dist   ems, then we
shall have a unique

If the same produce   nts, then it
shall be assigned th

Nothing about the fu   y other
business system or rep   e delivered by
the form or content of

Consider adding other HF

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Appendix D
High Performance Enterprises "Dream" P+L Template

Sales at ...his lin			$ 11,800.00
Gross Sales			$ 10,400.00
Less: Sales Returns			$ (250.00)
Discounts and allowances			$ (150.00)
Other ?			$ -
Net Sales			$ 10,000.00
Less: Costs			
Raw	$5,000.00		
Add	250.00		
Imp	250.00		
Plant-	250.00		
Convers...-spec	250.00		
Depreciation	250.00		
d			$ (6,250.00)
Less: Variances from standard costs			
Purch...BPCe for ?? (category	$100.00		
...?? (category B Iter...	9.00		
...components	5.00		
		$114.00	
...under absorption	($50.00)		
...nder absorption	110.00		
...under absorption		$60.00	
		(16.00)	
...ther componer			
...LX BPCe varia		?	
			$ (158.00)
Less: expenses which ...e same			
Quality insp			
Inventory		..0	
Interplant		..00	
...d internal		16.00	
...als or finished b...		10.00	
...stomers		17.00	
...ing and banding		19.00	
...crap		15.00	
Total non-capitalized expenses			$ (77.00)
Gross Profit			$ 3,515.00
Less: other direct expenses			
Pro	$5.00		
A	3.00		
	15.00		
	1.00		
Total other direct expenses			($24.00)
Less: fu... ...penses			
Aa... ...gement	$60.00		
Sales fo...	55.00		
Marketing	15.00		
Finance	55.00		
Research & development	2.00		
Service fees	222.00		
Total functional expenses			$ (409.00)
Operating Profit			$ 3,082.00
Less: other income and expenses			
...come			$
...se			
...ns, etc.			
...ins/(losses)			
...here -- etc.			
...owance			(1...
Profit before taxes			$ 2,971.00
Income tax provision			(1,188.40)
Net Profit			$ 1,782.60