Cost Center Accounting
Objectives

- To gain understanding of key business processes of SAP Overhead Cost Management (OCM)
- Understand the Organizational unit in Controlling
- Determine the origin of posting in Cost center Accounting
SAP Overview

SAP Overhead Cost Management
Overhead Cost Management

- The Overhead Cost Controlling component (CO-OM) helps you to plan, allocate, control, and monitor overhead in your organization.
- By planning in overhead areas, you can develop standards, that allow you to control costs and valuate internal activities.
  - Cost Centre Accounting
    - Cost Center Accounting analyzes where overhead occurs within the organization.
    - Costs are assigned to the sub-areas of the organization where they originated.
    - SAP offers a wide variety of methods for allocating posted amounts and quantities.
  - Internal Order Accounting
    - Internal Orders collect and analyze costs based on individual internal jobs.
    - SAP can monitor and automatically check budgets assigned to each job.
OCM Processes

SAP Overhead Cost Management
OCM Process Overview

Controlling

Cost Centre Accounting

Master Data

Planning

Actual Posting

Period End Closing

Reporting
**OCM Processes**

- **Master Data**
  - Cost Element
  - Cost Centre
  - Activity Type
  - Resource
  - Statistical Key Figures
  - Internal order Groups

- **Planning**
  - Planning preparation
  - Cost Centre Planning
  - Internal Order Planning
  - Plan cost distribution
  - Plan cost assessment
  - Plan indirect activity allocation
  - Plan settlement of overhead cost orders

- **Actual Posting**
  - Manual entries
  - SKF entry
  - Direct activity allocation
  - Indirect activity allocation
  - Order budget

- **Period End Closing**
  - Reposting
  - Actual Cost distribution
  - Actual Cost Assessment
  - Cost Splitting
  - Calculate Actual Activity Prices
  - Settlement of Overhead Orders
  - Manual Cost Allocation
  - FICO Reconciliation

- **Reporting**
Master Data

SAP Overhead Cost Management
Cost Element

Description

- A cost element classifies the organization's valuated consumption of production factors within a controlling area

- **Primary Element** - costs that originate outside the company; relate directly to the income statement in FI and must be included in the FI Chart of Accounts

- **Secondary Element** - costs that result from internal allocation activities; NO relation to G/L accounts in FI. These accounts are exclusively for cost accounting and are only maintained in CO
Cost Element vs GL Account

- Financial Accounting
  - General Ledger
  - Accounts Payable
  - Accounts Receivable
  - Fixed Assets
  - Treasury

- Controlling
  - Cost Centre Accounting
  - Internal Orders
  - Product Costing
  - Profitability Analysis

Chart of Accounts

- Balance Sheet Accounts
- Adjustment Accounts
- Income Statement Accounts
- Primary Cost Elements
- Secondary Cost Elements

No Balance Sheet Accounts in Controlling

All primary cost elements linked to Income Statement Accounts

No Secondary Cost Elements in Financial Accounting
Cost Centre

Description

- Organizational unit within a controlling area that represents a defined location of cost incurrence. The definition can be based on:
  - Functional requirements
  - Allocation criteria
  - Physical location
  - Responsibility for costs

- Defines the smallest area of responsibility within the company that causes and influences costs; the lowest level to which you can meaningfully assign direct and indirect costs
Activity Type

Description

- Unit in a controlling area that classifies the activities performed in a cost centre, e.g. maintenance hours for a maintenance cost centre
- Used in activity allocation process
**Statistical Key Figure**

**Description**
- Used to track quantities and values for various operating activities
- Designed to be used in reporting and analysis
- Used to assist in the allocation of costs throughout the OCM environment
Internal Order

Description

- Used to plan, collect and settle the costs of internal jobs and tasks.
- Internal orders are categorized as either:
  - Orders used purely to monitor objects within Cost Accounting (such as advertising, training, or trade fair orders) and
  - Productive orders that are value-added, that is, orders that can be capitalized (such as in-house construction of an assembly line).
Groups

Description
OCM master data can be grouped together, for example
✓ Cost Centre Groups
✓ Cost Element Groups
✓ Activity Type Groups
✓ Statistical Key Figure groups
✓ Internal Order Groups

➢ Master data groups are used in reporting, planning, allocation, etc.
➢ You can divide complex groups into manageable sections by separating them into sub-groups
➢ You can create and maintain sub-groups separately and then combine them in larger groups
Planning

SAP Overhead Cost Management
## Planning preparation

### Change View "Settings by fiscal year": Details

<table>
<thead>
<tr>
<th>Dialog Structure</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO area</td>
<td>9180</td>
</tr>
<tr>
<td>Version</td>
<td>8</td>
</tr>
<tr>
<td>Fiscal year</td>
<td>2005</td>
</tr>
</tbody>
</table>

**Planning**

- General indicators:
  - Version locked
  - Integrated planning
  - Copying allowed

- Currency translation:
  - Exchange rate type: P
  - Standard translation for cost planning
  - Value date: 01.01.2005

- Orders/projects:
  - Integrated planning with cost centers/business processes

- Resource planning:
  - Val. variant

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*Image of a software interface showing details of fiscal year settings and planning options.*
Cost center planning

Enter planned cost on the cost center
<table>
<thead>
<tr>
<th>Category</th>
<th>Materials</th>
<th>Staff Salaries</th>
<th>Rent &amp; Rates</th>
<th>Light &amp; Heating</th>
<th>Vehicles</th>
<th>Repairs</th>
<th>Travelling</th>
<th>Hotels</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company General</strong></td>
<td>100</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td>60</td>
<td>120</td>
<td>120</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>210</td>
</tr>
<tr>
<td><strong>Production Support</strong></td>
<td>40</td>
<td>80</td>
<td>80</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>140</td>
</tr>
</tbody>
</table>

**Allocation through original cost element**
Plan Cost Assessment

Company General
- Materials: 100
- Staff Salaries: 200
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling: 20
- Hotels: 30
- Company General Costs: -350
- Total: 0

Administration
- Materials
- Staff Salaries
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling
- Hotels
- Company General Costs: 210
- Total: 210

Production Support
- Materials
- Staff Salaries
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling
- Hotels
- Company General Costs: 140
- Total: 140

Allocation through secondary cost element
Actual Posting

SAP Overhead Cost Management
Manual Entries

Description

- Actual cost entry enables you to monitor and trace costs incurred by your company as they arise. This allows you to identify variances quickly and take appropriate action to deal with them.

- Actual cost entry involves transferring the **primary costs** recorded in Financial Accounting (FI) to the Controlling (CO) application component. In the CO component, this transfer occurs real-time from the components FI, MM, and AM, whereby a cost accounting object is recorded during account assignment.

Process

- Incorporated into other processes, e.g. FI Journal Entry, Goods Issue, etc.
Manual Entries

- Primary postings include the following transactions
  - Payroll
  - Material Usage
  - Travel
  - Goods Receipt / Invoice
  - Journal entry
  - Depreciation
Statistical Key Figure Entry

- Statistical Key Figures required for reporting and allocations may be entered into the system during the month or at month-end.
- They are recorded with a Controlling document number.
- Statistical Key Figures may also be transferred from Logistics Information System (LIS).
Direct Activity Allocation

Description

- Direct activity allocation involves the measuring, recording, and allocating of business services performed
- Activity types are used as the cost drivers
- Activity allocation occurs, for example, when business transactions are confirmed or when posting activity quantities to accounts, eg Plant Maintenance Hour, Production Hours, Utilities, etc
- The system multiplies the activity produced by the price of the activity type.
- Activity types are planned using prices set manually or using SAP’s price calculation
Indirect Activity Allocation

Description

- Indirect Activity Allocation is a method of allocating actual and plan costs using activity quantities as the basis. It is extremely beneficial when calculating the activity quantities on the sender involves too much time or expense. The value can be calculated inversely based on the activity quantities actually consumed or planned on the receivers.
Internal Order Budgets

Description
- The budget is the approved cost limit for an internal order
- The budget is the limit set by management for internal order costs over a certain period of time
- Budgets have the following components
  - Original Budget
  - Supplements
  - Returns
  - Transfers
Period End Closing

SAP Overhead Cost Management
Reposting

- You can repost primary costs manually using transaction-based reposting, whereby the original cost element is always retained. This function is designed mainly to adjust posting errors.
- You should always adjust posting errors in the application component where they occurred. This ensures that FI and CO are always reconciled.
- You can only adjust posting errors involving one cost accounting object (a cost center or internal order for example) using a transaction-based reposting in Controlling (CO).
Allocations - Description

Two types of allocations:

- **Distribution**
  - The following information is passed on to the receivers:
    - ✓ The original, primary, cost element is retained.
    - ✓ Sender and receiver information is documented with line items in the CO document

- **Assessment**
  - The following information is passed on to the receivers:
    - ✓ The original cost elements are grouped together into assessment cost elements (secondary cost elements). The original cost elements are not displayed on the receivers.
    - ✓ Sender and receiver information is displayed in the CO document
Distribution

Company General
- Materials: 100
- Staff Salaries: 200
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling: 20
- Hotels: 30
- Total: 0

Administration
- Materials: 60
- Staff Salaries: 120
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling: 12
- Hotels: 18
- Total: 210

Production Support
- Materials: 40
- Staff Salaries: 80
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling: 8
- Hotels: 12
- Total: 140

Allocation through original cost element
Assessment

Company General

- Materials: 100
- Staff Salaries: 200
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling: 20
- Hotels: 30
- Company General Costs: -350

Total: 0

Administration

- Materials
- Staff Salaries
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling
- Hotels
- Company General Costs: 210

Total: 210

Production Support

- Materials
- Staff Salaries
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling
- Hotels
- Company General Costs: 140

Total: 140

Allocation through secondary cost element
Cost Splitting

- Actual cost splitting makes it possible to divide costs into fixed and variable portions.
- The actual costs are split in two stages:
  - In the first splitting step, the system distributes actual costs by cost element to the activity types based on the target costs or target quantities.
  - In the second splitting step, the actual costs are distributed on the activity types according to splitting rules. If you have not defined any splitting rules for a cost center, the system splits actual costs based on the equivalence numbers for the activity types.
- It is only in this way that you can compare the actual costs with the target costs of the activity types and display the variances by activity type.
Calculate Actual Activity Prices

- During actual price calculation, the system calculates iterative prices for activity types or business processes based on actual costs and actual activities. The calculation takes into account all activity exchanges between cost centres or business processes.

- Price calculation, which you can carry out during planning, is based on planned costs and activity. The resulting prices are used to valuate actual activity.

- After running actual price calculation, you can choose to revalue actual activity at actual prices. This revaluates the activity using the difference between plan and actual prices. By revaluing the actual activity with actual prices, you can fully balance sender cost centres and sender business processes.
Settlement of Overhead Cost Orders

- Some or all of the plan and actual costs incurred on an object are allocated to one or more receivers.
- System automatically generates offsetting entries to credit the sender object. The debit postings assigned to a sender object remain in place even after settlement to a receiver.

Two types:
- Periodic – Every period
- Full – After completion

Two methods:
- Individual
  - By individual sender object
  - Allows to analyze in greater detail
- Collective
  - Processes a large number of sender objects
  - Used during period-end closing activities
Settlement of Overhead Cost Orders

Overhead Cost Order

- Materials 100
- Staff Salaries 200
- Rent & Rates
- Vehicles
- Repairs
- Travelling 20
- Hotels 30
- Company General Costs -150
- Capitalisation -200
- Total 0

Cost Object B

- Materials
- Staff Salaries
- Rent & Rates
- Light & Heating
- Vehicles
- Repairs
- Travelling
- Hotels
- Company General Costs 150
- Total 150

Allocation through original cost account or settlement cost element
Manual Cost Allocation

- Manual cost allocation involves posting secondary costs manually. The system credits a sender object (for example, a cost center) and debits a receiver object (for example, an order).
- You can use manual allocation to:
  - Avoid the need for complicated Customizing settings for simple allocations
  - Manually transfer external data
  - Make simple adjustments to incorrect secondary postings.
The reconciliation ledger is a tool used to portray transaction figures in Controlling in a summarized form. It provides reports with which you can monitor the CO/FI reconciliation for each account. It can determine and display value flows that were posted in CO across company codes and functional areas. Each company code in FI represents an independent accounting unit for which a balance sheet must be created. Data flows between company codes must be posted separately so that no information is lost. These boundaries are not relevant for Controlling (CO). You can use reconciliation postings to transfer cross-company code, or cross-functional area postings made in CO that are relevant to FI, and to automatically create reconciliation postings there.
Month/Year end Closing - Process Map (1/2)

1. Send the monthly Schedule manager Logistics
2. Acknowledge Schedule manager
3. Review & correct billing errors
4. Ensure payroll are posted GL Inquiry
5. Release the payroll -5
6. Simultaneous Costing * Logistics
7. Close the period for MM Close Posting Period
8. Enter journal voucher * GL Doc. entry
9. Adjust Inventory * GL Doc. entry
10. Close the period for AP & AR Close Posting Period
11. Ensure settlement & depreciation are posted Run Depreciation
12. Cash Out -2
13. Fixed Asset WBS Settlement -6
14. Fixed Asset Run Depreciation -13

SAP Job Role
- SAP Enabled Processes
- Electronic Processes

Letters:
- GL: General Ledger
- AP: Accounts Payable
- AR: Accounts Receivable
- MM: Material Management
- Logistics
- Treasury
Month/Year end Closing - Process Map (2/2)

- Close the Period for FA Close Posting Period
- Determine the Lowest value Principle * Pricing
- Update materials prices * Pricing
- Complete the electronic bank reconciliation *
- Run the foreign Currency valuation GL Periodic Processing
- Temporarily Close GL Close Posting Period
- Generate a Preliminary financial report GL Reporting
- Material Ledger/ Actual Costing * Logistics
- Execute Assessment Cycle Allocations
- Run the Reconciliation Ledger Rec. CO with FI
- Final Close Of GL Close Posting Period
- Generated financial reports GL Reporting
- Carry forward balances * Periodic Pro.
- Product Costing Logistics
- Generated financial reports GL Reporting
- Carry forward balances * Periodic Pro.

SAP Job Role
- Electronic Processes
- SAP Enabled Processes

End
Reporting

SAP Overhead Cost Management
OCM Reporting

- Comprehensive, flexible information system to analyze cost flows
- Carry out standard recurring evaluations
- Construct special reports for unique situations
- Analyze all costs online and trace them right back to the original document
- Execute all reports available online in background runs as well (helpful for large amounts of data)
- For hierarchically grouped objects, such as cost centers, you can create separate reports for all hierarchy nodes and individual objects, or you can create all the relevant reports in a single selection run through the database
- The second option allows you to navigate within a hierarchy. This enables particularly flexible monitoring of cost center areas
OCM Reporting Menu Path ...
OCM Sample Report Selection Criteria ...

Cost Centers: Actual/Plan/Variance: Selection

Selection values:
- Controlling area: 1880
- Fiscal Year: 2003
- From period: 1
- To period: 12
- Plan version: 0
- Valuation

Selection groups:
- Cost center group: C1899
- Or value(s): to
- Cost element group: 08.XLCEE
- Or value(s): to
Thank You