Overhead Cost Controlling

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.
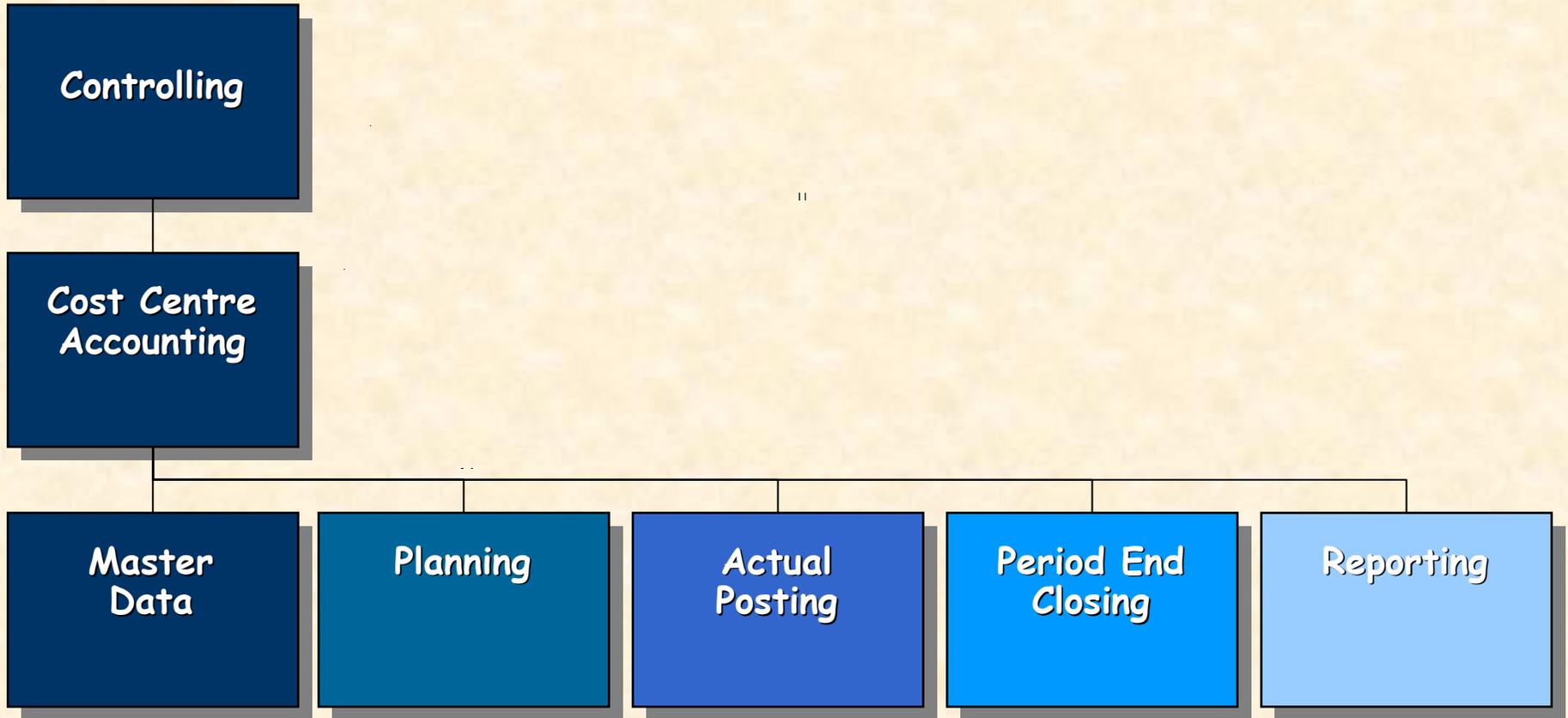 - SAP can monitor and automatically check budgets assigned to each job.

OCM Processes

SAP Overhead Cost Management

OCM Process Overview

```
Controlling
   |
Cost Centre
Accounting
   |
   +--------------+--------------+--------------+--------------+
   |              |              |              |              |
Master         Planning        Actual       Period End     Reporting
Data                          Posting        Closing
```

OCM Processes

Master Data	Planning	Actual Posting	Period End Closing	Reporting
➤ Cost Element ➤ Cost Centre ➤ Activity Type ➤ Resource ➤ Statistical Key Figures ➤ Internal order ➤ Groups	➤ Planning preparation ➤ Cost Centre Planning ➤ Internal Order Planning ➤ Plan cost distribution ➤ Plan cost assessment ➤ Plan indirect activity allocation ➤ Plan settlement of overhead cost orders	➤ Manual entries ➤ SKF entry ➤ Direct activity allocation ➤ Indirect activity allocation ➤ Order budget	➤ Reposting ➤ Actual Cost distribution ➤ Actual Cost Assessment ➤ Cost Splitting ➤ Calculate Actual Activity Prices ➤ Settlement of Overhead Orders ➤ Manual Cost Allocation ➤ FICO Reconciliation	

Master Data

SAP Overhead Cost Management

Organizational Units & Master Data
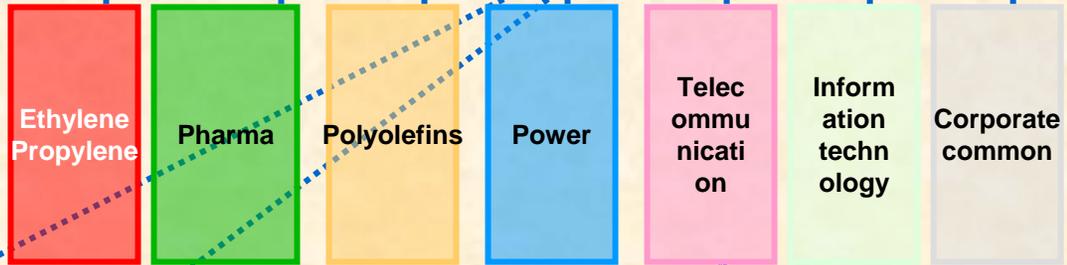
Operating Concern

A Grp Operating Concern (9100)

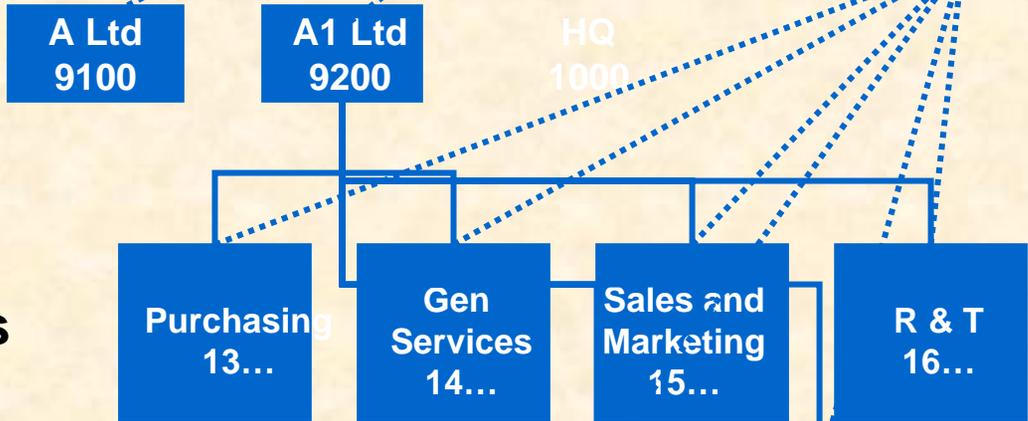**Controlling Area**

A Grp Controlling Area (1000)

Profit Centers

| Ethylene Propylene | Pharma | Polyolefins | Power | Telecommunication | Information technology | Corporate common |

Company Codes

A Ltd 9100 | A1 Ltd 9200 | HQ 1000

Cost Centers

Purchasing 13… | Gen Services 14… | Sales and Marketing 15… | R & T 16…
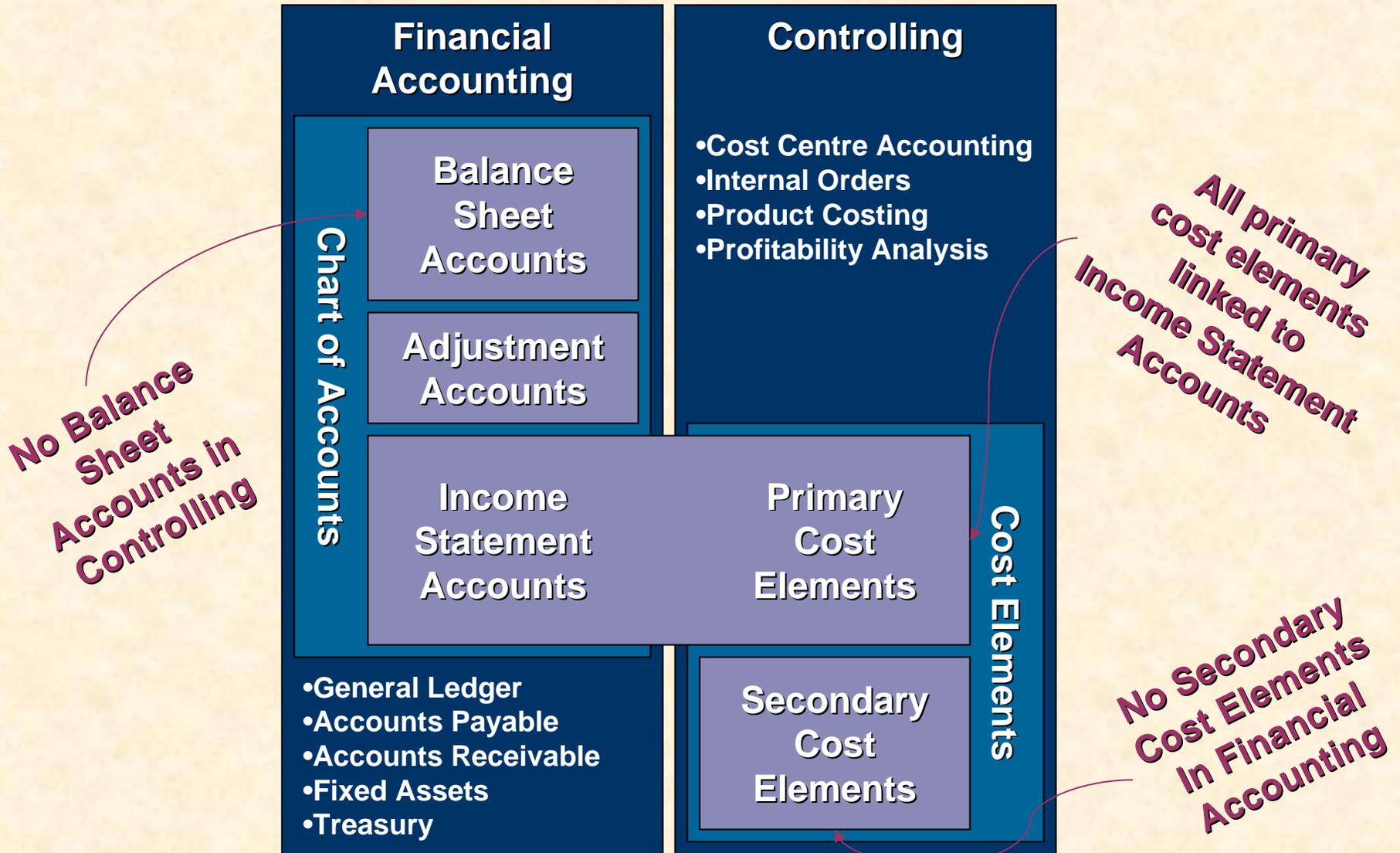
Other Cost Objects

Orders | Cost Objects

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
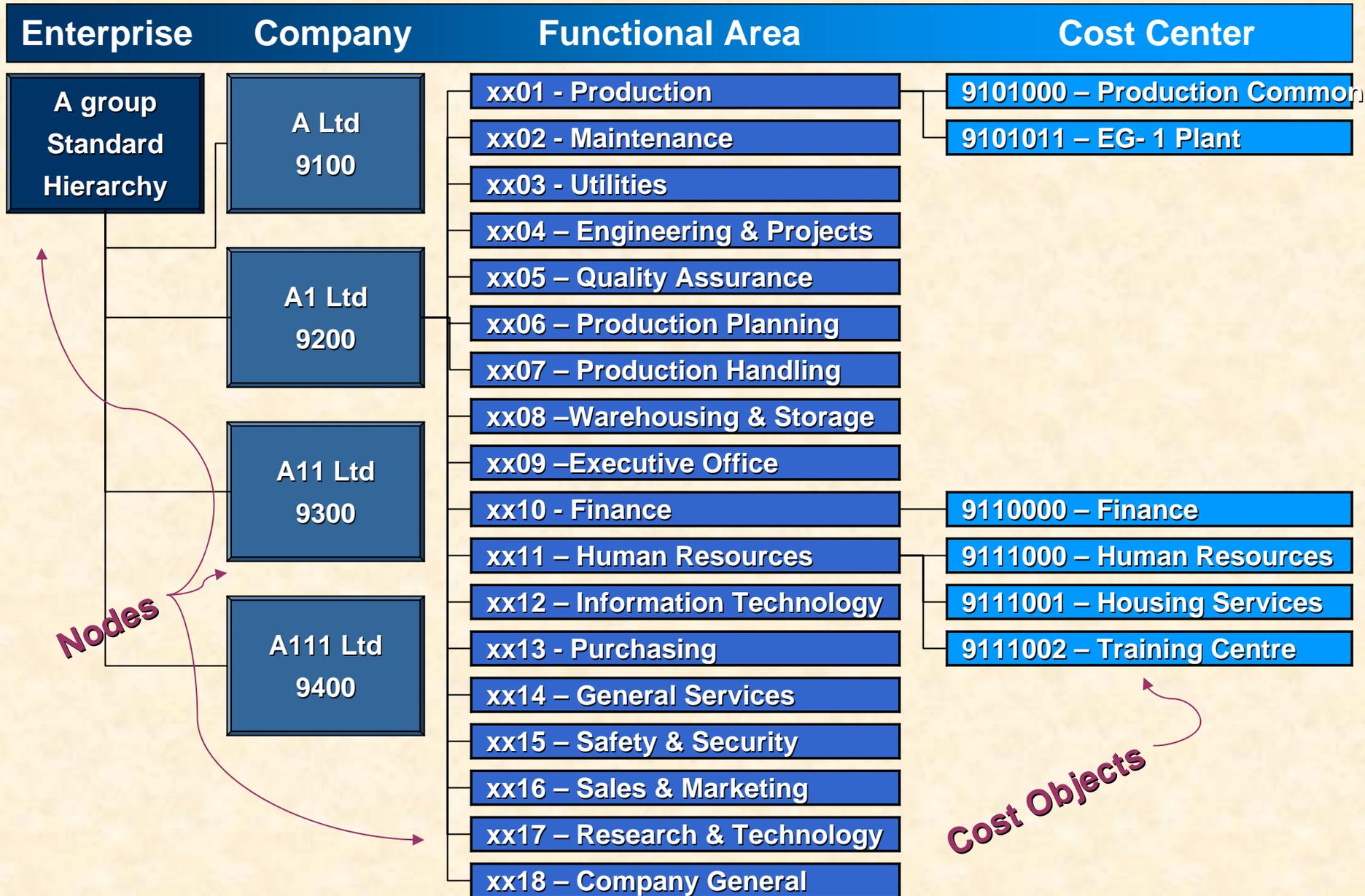
Cost Element vs GL Account

Financial Accounting

Chart of Accounts

Balance Sheet Accounts

Adjustment Accounts

Income Statement Accounts

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

Controlling

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

Cost Elements

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

Cost Centre Standard Hierarchy

Enterprise	Company	Functional Area	Cost Center
A group Standard Hierarchy	A Ltd 9100	xx01 - Production	9101000 – Production Common
		xx02 - Maintenance	9101011 – EG- 1 Plant
		xx03 - Utilities	
		xx04 – Engineering & Projects	
	A1 Ltd 9200	xx05 – Quality Assurance	
		xx06 – Production Planning	
		xx07 – Production Handling	
		xx08 –Warehousing & Storage	
	A11 Ltd 9300	xx09 –Executive Office	
		xx10 - Finance	9110000 – Finance
		xx11 – Human Resources	9111000 – Human Resources
		xx12 – Information Technology	9111001 – Housing Services
	A111 Ltd 9400	xx13 - Purchasing	9111002 – Training Centre
		xx14 – General Services	
		xx15 – Safety & Security	
		xx16 – Sales & Marketing	
		xx17 – Research & Technology	
		xx18 – Company General	

Nodes

Cost Objects

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

Cost center planning

Planned costs on the cost center

Cost center

FI/CO consulting

Senior consulting $

Junior consulting $

Cost Element Planning

Year	2001
Periods	1 to 12
Cost center	30100 FI/CO consulting

Input

Cost element	Name	Planned costs	Version
430000	Salaries	900000	1
474100	Travel costs	500000	1

Plan cost 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**
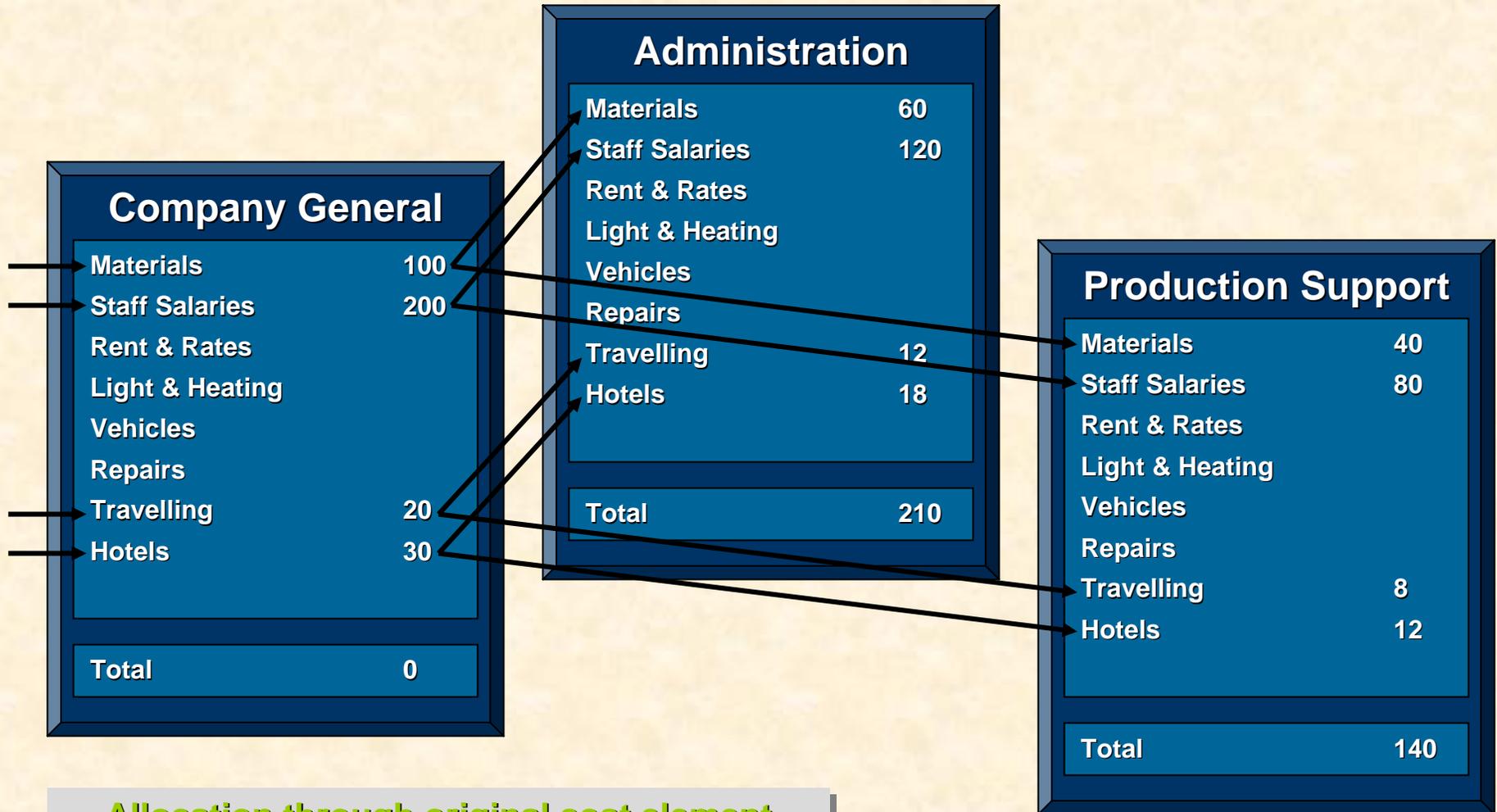
Allocation through original cost element

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

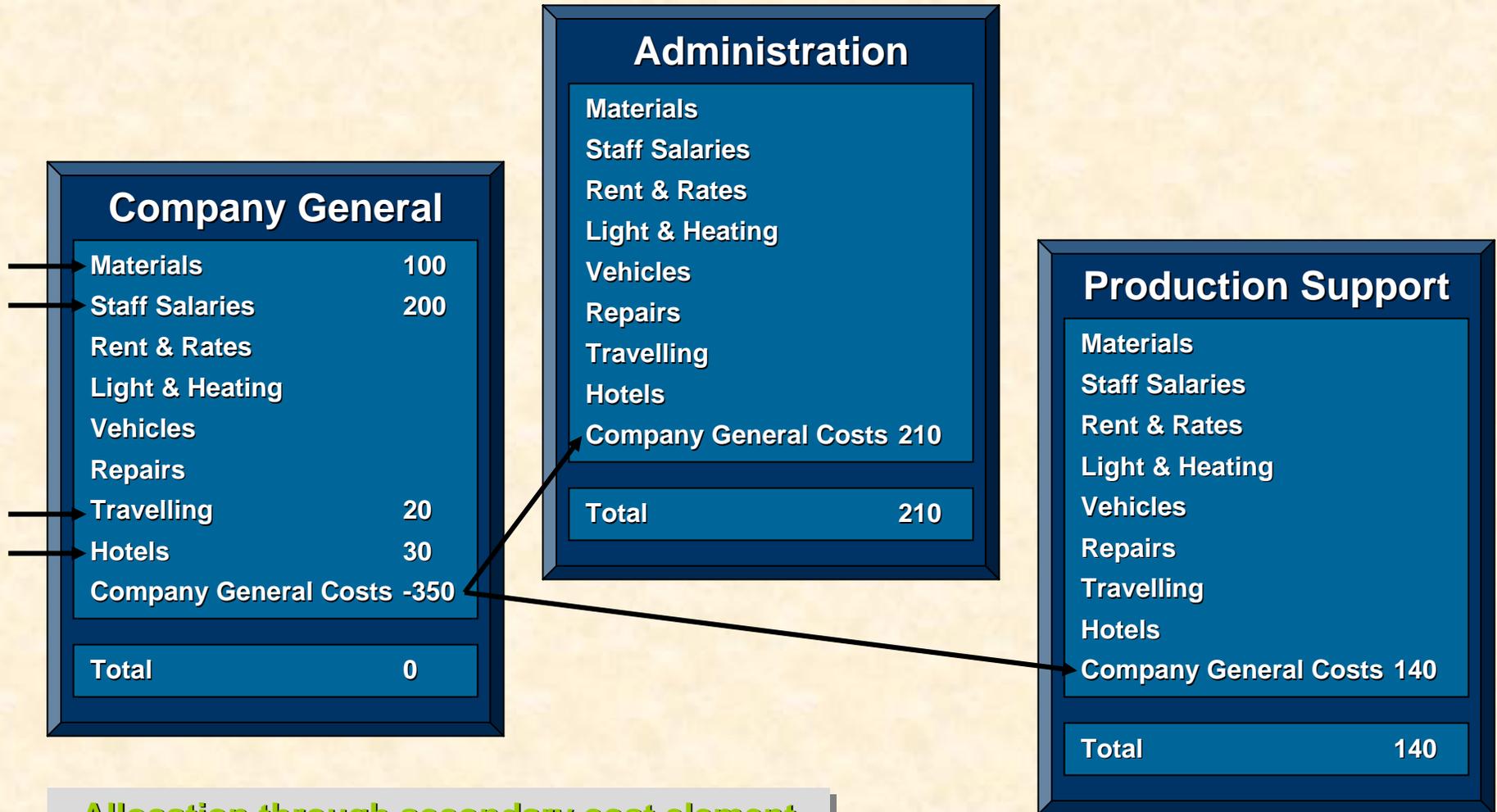 The following information is passed on to the receivers:

  ✓ 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**
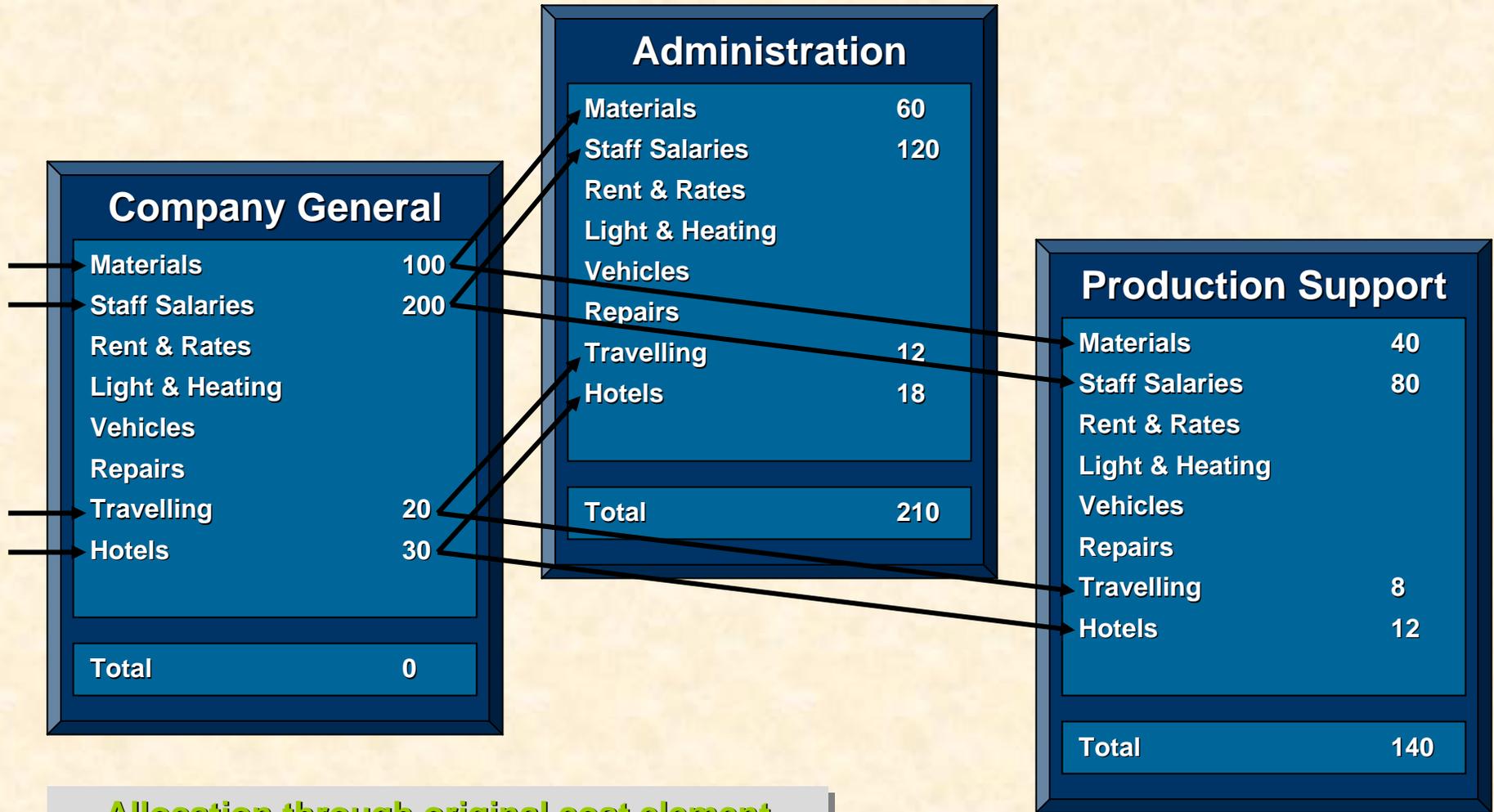
Allocation through original cost element

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.
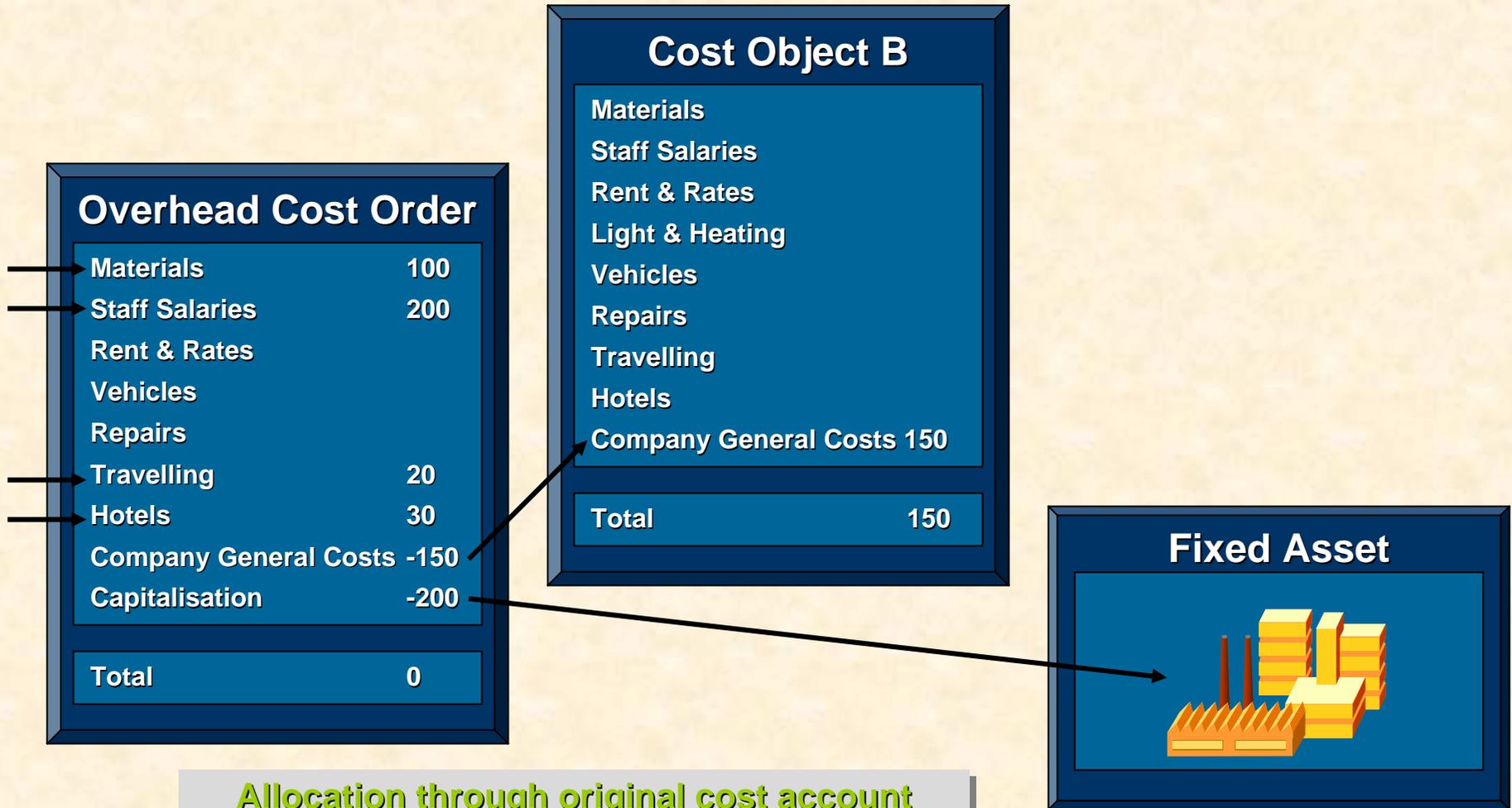
Calculate Actual Activity Prices

➢ 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**

Fixed Asset

**Allocation through original cost account
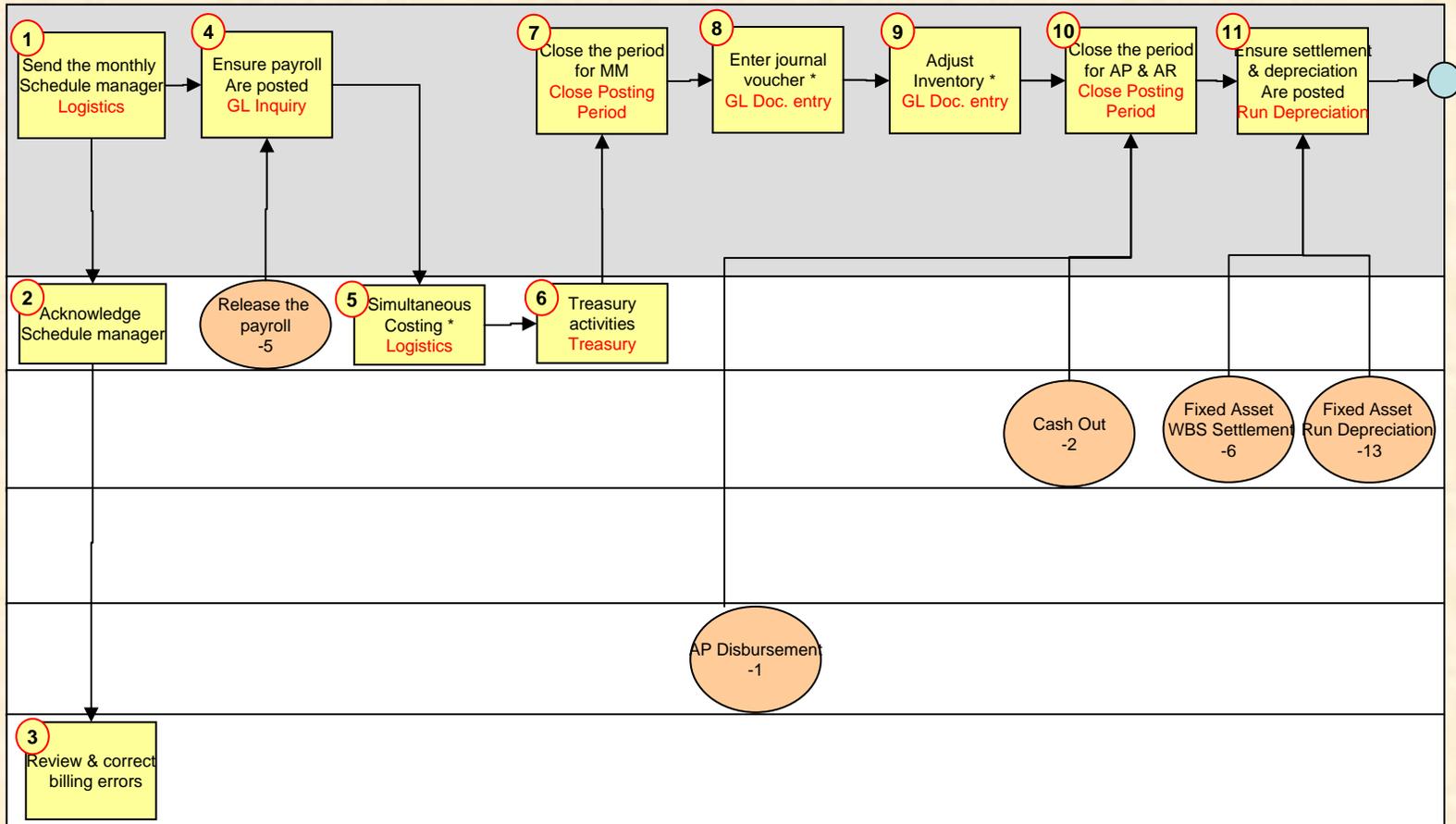or settlement cost element**

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.

FICO Reconciliation

➤ 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
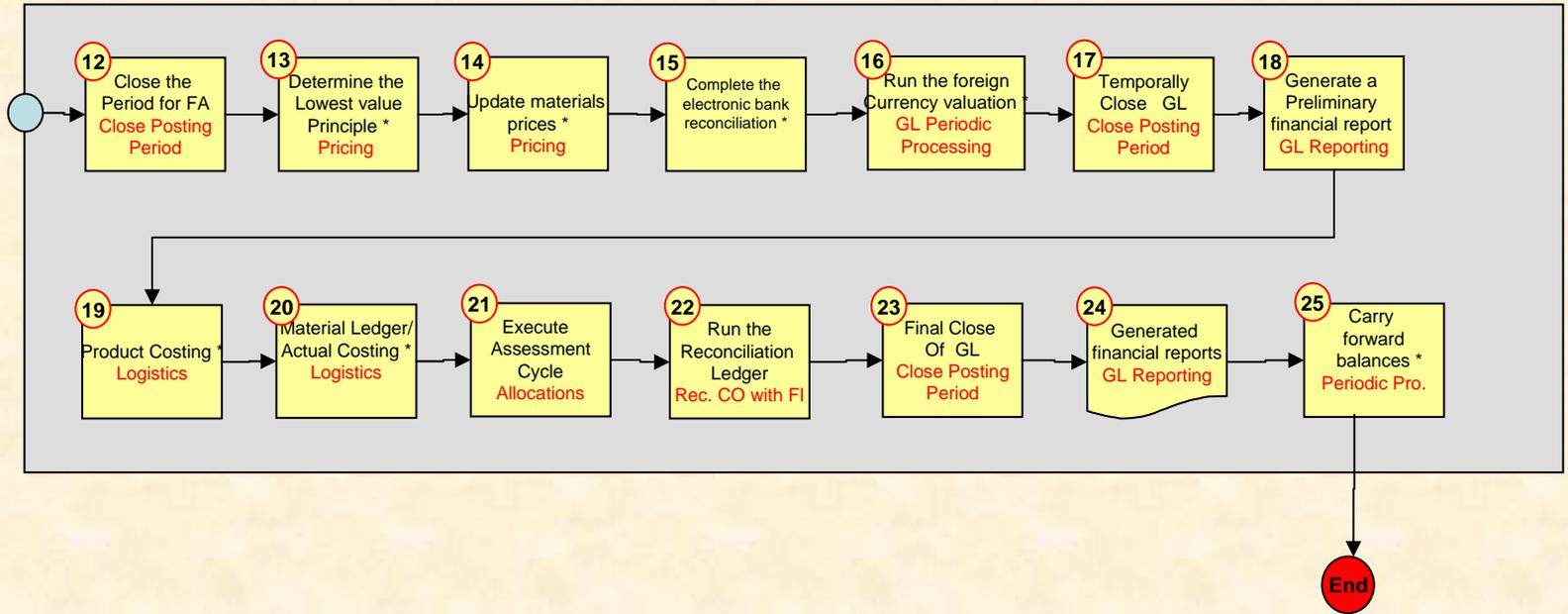
Month/Year end Closing - Process Map(1/2)

1 Send the monthly Schedule manager **Logistics**	4 Ensure payroll Are posted **GL Inquiry**			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**

2 Acknowledge Schedule manager	Release the payroll -5	5 Simultaneous Costing * **Logistics**	6 Treasury activities **Treasury**

Cash Out -2

Fixed Asset WBS Settlement -6

Fixed Asset Run Depreciation -13

AP Disbursement -1

3 Review & correct billing errors

SAP Job Role | Electronic Processes | SAP Enabled Processes

Month/Year end Closing - Process Map(2/2)

12	Close the Period for FA	Close Posting Period

13	Determine the Lowest value Principle *	Pricing

14	Update materials prices *	Pricing

15	Complete the electronic bank reconciliation *	

16	Run the foreign Currency valuation *	GL Periodic Processing

17	Temporally Close GL	Close Posting Period

18	Generate a Preliminary financial report	GL Reporting

19	Product Costing *	Logistics

20	Material Ledger/ Actual Costing *	Logistics

21	Execute Assessment Cycle	Allocations

22	Run the Reconciliation Ledger	Rec. CO with FI

23	Final Close Of GL	Close Posting Period

24	Generated financial reports	GL Reporting

25	Carry forward balances *	Periodic Pro.

End

SAP Job Role	Electronic Processes	SAP Enabled Processes

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 ...