

Implementing Cost of Sales Accounting- Config., Reconcil., & Reporting Specs

Below is a snippet from one of hundreds of articles available to ERPtips subscribers.

If you would like a complimentary copy of the full article, please email

Mark.Downs@ERPtips.com

(include the title of the article in your email)

To subscribe to ERPtips, go to

www.ERPtips.com/Subscribe.asp

ERPtips Journal is published by Klee Associates, Inc.

ERPtips University provides both public and onsite training for SAP clients.

For more about ERPtips University, including the current schedule, click here:

www.ERPtips.com/WorkshopSchedule.asp

Implementing Cost of Sales Accounting- Config., Reconcil., & Reporting Specs

Within SAP financials, robust cost of sales functionality is available if properly configured. In this illustrated guide, FI/CO expert Sutrisno Japit explains how to set up cost of sales functionality in SAP for effective analysis and reporting. Using screen shots to illustrate each configuration step, Sutrisno shows how to activate SAP`s cost of sales accounting functions within the CO module in order to obtain a better understanding of how a company`s expenses truly contribute to the “bottom line.

Click here to read this Snippet

Notice that the Functional Area for G/L account 499997 was determined automatically by the system. It was not determined from the G/L account master data. G/L account 194500 was used as clearing between the two FI documents as configured previously.

Figure 18 shows the P&L Statement after CO/FI reconciliation postings. The internal CO allocation has been debited to Research & Development and credited to Production Variances.

The CO/FI reconciliation account is a non-cost element G/L account for which the system will determine the Functional Area automatically. No Functional Area assignment needs to be made to its master record. The same does not apply to other non-cost element G/L accounts, though. You need to pay special attention to other non-cost element P&L G/L accounts. For example, take the WIP (work in process) offset account. If a production order carries WIP at period-end, you need to carry out a results analysis to calculate the WIP amount and then settle it to FI.

Generally, the settlement will debit the WIP (Balance Sheet) account and credit the WIP offset (P&L) account. The WIP offset posting is intended to balance the WIP amount in the corresponding Functional Area to zero, as the amount has been transferred to the Balance Sheet. Even though the system knows the Functional Area from the production order, it does not assign it to the WIP offset posting line. Therefore, you need to "force" this assignment in the G/L account master record for the WIP offset account (see figure 19).

The configuration and master data settings that we have made so far are generally sufficient for Make-to-Stock scenarios. In Engineer-to-Order scenarios, the Cost of Sales

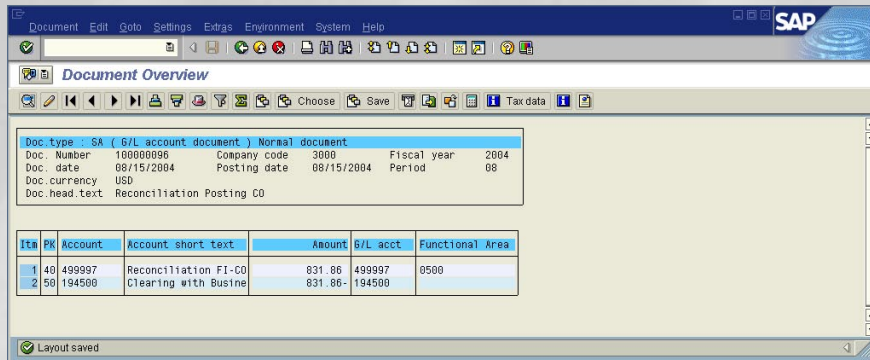


Figure 17: The Resulting CO/FI Reconciliation Document Showing a Debit to Functional Area 0500 and Credit to 194500

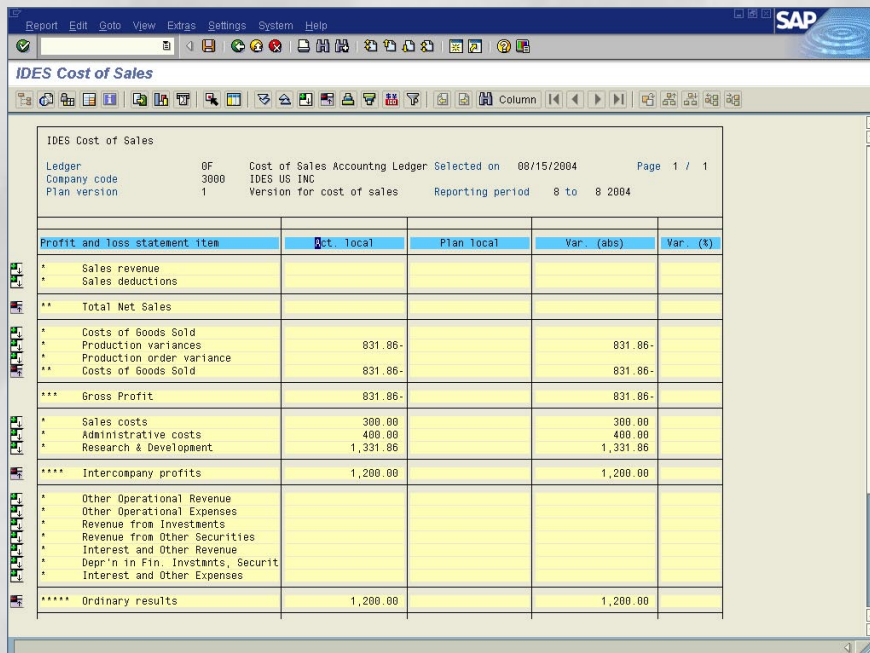


Figure 18: The Cost of Sales P&L Statement Showing the Cost Allocations from the "Production Variances" Item to the "Research & Development" Item

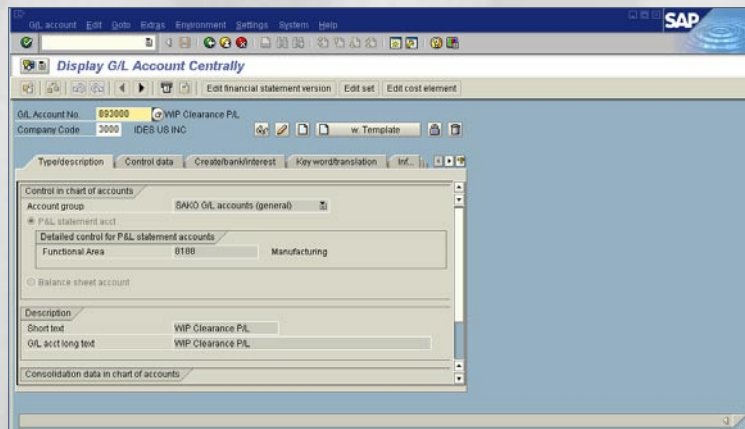


Figure 19: For WIP Offset Account, the Functional Area Should be Assigned in Its G/L Account Master Record

P&L Statement may be structured differently. For example, your client may request production costs to be broken into labor, material, and overhead components in the P&L Statement. The client runs a results analysis at period-end to determine WIP or earned revenues. Figure 20 shows that three different WIP offset accounts are needed in order to balance the WIP amounts for the respective components, i.e., Labor, Material, and Overhead. Since labor and overhead costs are normally posted through internal CO allocations (i.e., activity allocation and overhead calculation, respectively), two different CO/FI reconciliation accounts are needed to reflect the amounts for the respective components.

Determination of different CO/FI reconciliation accounts can be done through the substitution rules. You define the substitution rules through the IMG menu path: "Controlling -> Cost Element Accounting -> Reconciliation Ledger -> Define Adjustment Accounts for Reconciliation Posting -> Define Accounts for Automatic Postings -> Substitution -> Create". Figure 21 shows the substitution rules that will assign 499996 as the CO/FI reconciliation account if the internal CO allocations use cost elements 655xxx.

Conclusion

At this point in the process, we have reviewed the configuration, master data, and report specification that are necessary to implement Cost of Sales Accounting. I have done several Cost of Sales Accounting implementations and would highly recommend this functionality to SAP users who have not yet gone in that direction. As an added bonus, if you

P&L Statement Item	G/L Account	Functional Area
Labor	1. Labor CO/FI reconciliation	0100
	2. Labor WIP offset	
Material	1. Material consumption accounts	0100
	2. Material WIP offset	
Overhead	1. Overhead CO/FI reconciliation	0100
	2. Overhead WIP offset	

Figure 20: Different CO/FI Reconciliation and WIP Offset Accounts Are Needed for Proper Assignment of Production Costs to the Labor, Material, and Overhead Components

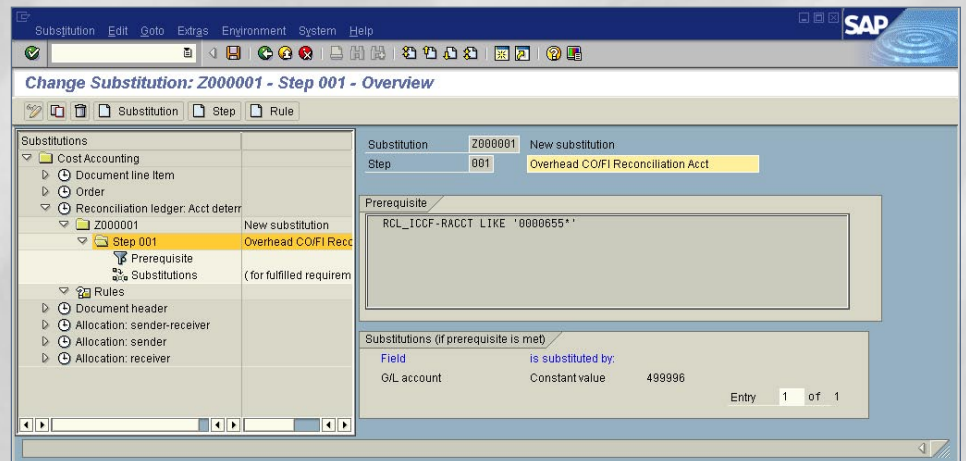


Figure 21: Determination of CO/FI Reconciliation Account Through Substitution Rules

use the techniques I described in this article, you don't have to involve user exits or substitution rules to access this powerful functionality. I hope this article provided you with enough guidelines and knowledge of Cost of Sales Accounting so that you can implement it successfully for your client.

Sutrisno Japit, NIIT, Inc. Sutrisno has over seven years of SAP implementation experience. He specializes in the FI/CO modules and their integration to SD and MM. In addition to his functional knowledge, he is also an expert in user exit development, report development, and transaction automation. He can be reached at sjapit@niit.com.