COMMITMENT MANAGEMENT IN SAP

COMMITMENT MANAGEMENT IN SAP TRACKS FUTURE COMMITMENTS AGAINST COST OBJECTS; THIS ENABLES USERS TO MAKE A REALISTIC COMPARISON OF ACTUAL + COMMITTED AGAINST BUDGET

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1 The concepts

2 Stages in Commitment Management

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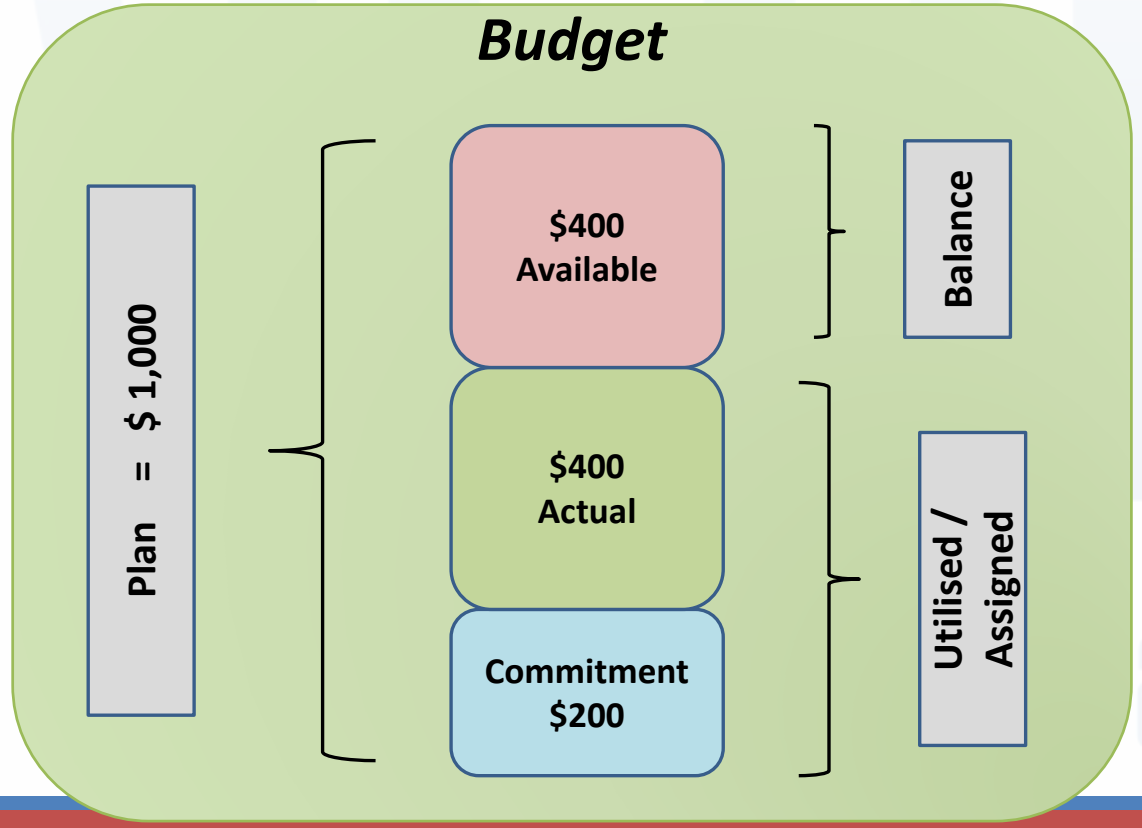
Commitment Management – The Concepts

Commitment Management - the concepts

- Commitments are costs committed to be incurred in the future for materials or services that have been ordered or requisitioned.
- In SAP, commitment to incur costs are represented in incomplete/ undelivered purchasing documents (Purchase Requisition, Purchase Order etc)
- The amount of commitment against the cost object cost element on which the Purchase Order has been raised is the total amount of incomplete/ undelivered Purchase Order.
- Commitments are monitored against a combination of cost object (Cost Center, Internal Order, Project) and cost element (GL Account). A commitment to incur costs against cost objects can be reported against that cost object / cost element.
- Commitment amounts are available as information for reporting purposes. You cannot use Commitment to prevent user from creating Purchase Order exceeding budget (that feature is available as Availability Control in SAP).
- Commitment amount is calculated in Purchase Order currency. This amount is translated into local currency, group currency and controlling area currency for reporting.

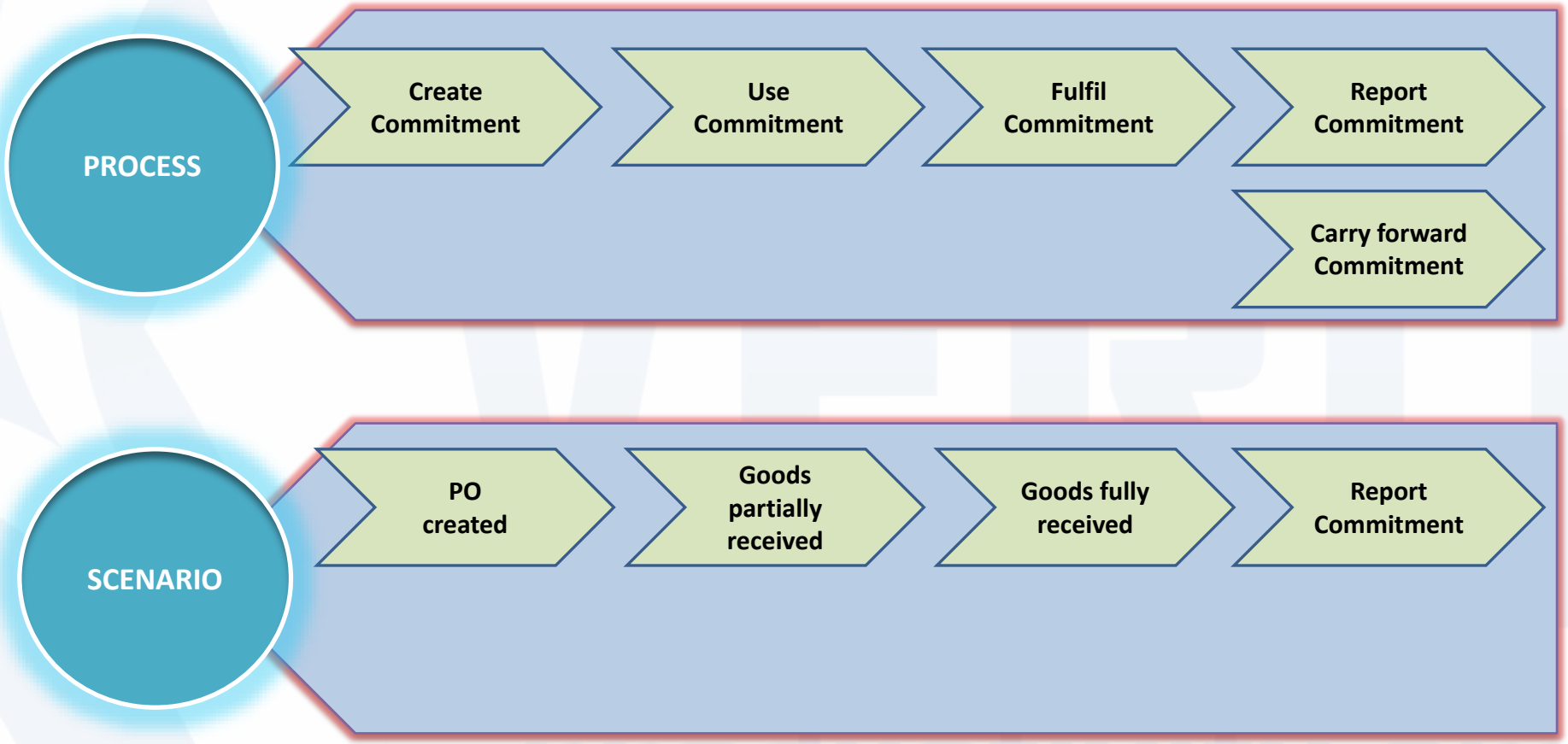
Commitment in a cost object

- In the context of a cost object plan/ budget, the total of commitment amount plus the actual already spent represents the amount utilised (in SAP terms "assigned") against the plan/ budget. Hence, the amount of plan/ budget available for further spend / commitment = plan/ budget – (actual + commitment).



Stages In Commitment Management Process

The Stages in Commitment Management



Create commitment

How are commitment created

- Commitments are created when purchasing documents (purchase requisition, purchase orders) are created against cost objects (cost center, internal order and project)
- The amount of commitment created is the total value of the purchasing document/ item assigned to the cost object.
- The system executes all commitments in the purchasing document currency. The PO currency exchange rate is used for currency translation into the controlling area currency, company code currency and the object / local currency.
- The following purchase order data affects the creation and reduction of purchase order commitments:
  - The purchase order value
  - Delivery date
  - Account assignment
- You create commitments using the expected delivery date, not the date the purchase order was created. Hence, if purchase order was created with delivery date that falls in period 12/2011, then the commitment is created in 12/2011. The reports generated for 11/2011 will not reflect the commitment.

Value-based / Quantity-based commitments

- If values for purchasing documents determine the reduction of a purchase order commitment, then you need value-based commitment management.
  - Set up value-based commitment management per unit of measurement in the Customisation of Unit of Measurement.

- For purchase orders based on quantity procured, the goods receipt or invoice receipt reduces the commitment value and increases the actual cost. For this you need quantity-based commitment management.
  - Goods Receipt indicator set: Commitment is reduced when goods are received.
  - Goods Receipt Indicator is not set: Commitment is reduced when invoices are received.

Purchase Order 4500017205 raised on CC 1324

Purchase Order 4500017205 is created against cost center 1324. The delivery date is 15.05.2012 which corresponds to period 11/2011.

Standard PO 4500017205 Created by USER1

Document Overview On | Print Preview | Messages | Personal Setting

NB Standard PO 4500017205 Vendor 75000 John Doe Company Doc. date 17.05.2012

Header

S	Itm	A	Material	Short Text	PO Quantity	O	C	Deliv. Date	Net Price	Curr	Per	O	Matl Group	Plnt
	10			services	100	TO	D	15.05.2012	24.50	AUD	1	TO	Miscelleanou	Verity Australia

Addl Planning

Item 1 [10] services

Quantities/Weights | Delivery Schedule | Delivery | Invoice | Conditions | Account Assignment | Texts | Delivery Address | Confirmatio...

AccAssCat K Cost center Distribution Single account assignme CoCode V001 Verity Bu

Unloading Point Recipient

G/L Account 621030

Business Area

CO Area V000

Cost Center 1324

Profit Center 1300

Earmarked Funds 0

More

Quantities/Weights | Delivery Schedule | Delivery | Invoice | Conditions | Account Assignment | Texts | Delivery Address | Confirmatio...

Qty 100 TO Net 2,450.00 AUD

Pricing Elements

N	CnTy	Name	Amount	Crcy	per	U	Condition value	Curr.	Status	NumC	OUn	CCon	Un	Condition value
	PBXX	Gross Price	24.50	AUD	1	TO	2,450.00	AUD		1	TO	1	TO	0.00
		Net incl. disc.	24.50	AUD	1	TO	2,450.00	AUD		1	TO	1	TO	0.00
		Net incl. tax	24.50	AUD	1	TO	2,450.00	AUD		1	TO	1	TO	0.00
	SKTO	Cash Discount	3.000-	%			73.50-	AUD		0		0		0.00
		Actual Price	23.77	AUD	1	TO	2,376.50	AUD		1	TO	1	TO	0.00
	MWST	Input Tax	10.000	%			237.65	AUD		0		0		0.00

Condition rec. | Analysis | Update

Commitment created on Cost Center 1324

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1324 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
611010 ER 401K Expenses				1,250.00	1,250.00
611040 ER Benefit Expenses				1,666.66	1,666.66
620000 Uncollectible Accoun				2,083.34	2,083.34
621030 Fees third party		2,450.00	2,450.00	1,666.66	783.34-
630010 Electricity				2,666.66	2,666.66
* Over/underabsorption		2,450.00	2,450.00	12,333.32	9,883.32

Commitment is created against cost center 1324 in period 11/2011

Use commitment

How do commitment values reduce

For quantity-based Commitment

- Upon goods receipt: For every goods receipt performed against the Purchase Order item, the system reduces the commitment value and increases the actual cost
- Upon invoice receipt (where “Goods Receipt” indicator is not set on Purchase Order): For every invoice receipt performed against the Purchase Order item, the system reduces the commitment value and increases the actual cost

For value-based commitment

- For every Invoice Receipt performed against the Purchase Order item, the system reduces the commitment value and increases the actual cost.

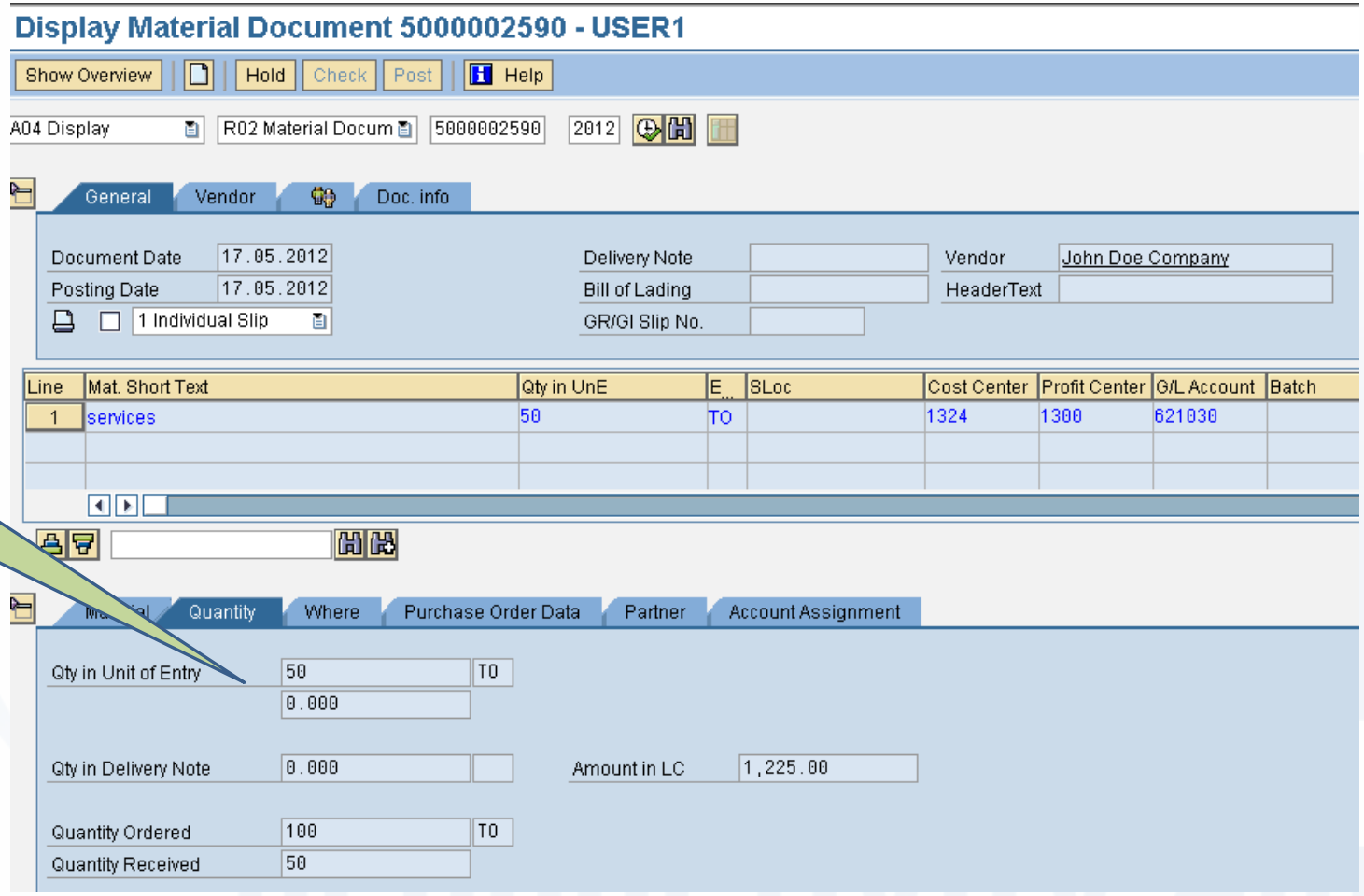
When do commitment values reduce to zero

- When “Delivery Completed” indicator is set on the Purchase Order to indicate that no further goods receipt are expected against that Purchase Order item

- When “Final Invoice” indicator is set on Purchase Order to indicate that no further invoices are expected against that Purchase Order item

- If you set the “lock” or “mark for deletion” indicator on the Purchase Order / item

Partial Goods receipt against PO 4500017205



50 units receipted against the PO item

Commitment reduced in cost center 1324

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1324 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
611010 ER 401K Expenses				1,250.00	1,250.00
611040 ER Benefit Expenses				1,666.66	1,666.66
620000 Uncollectible Accoun				2,083.34	2,083.34
621030 Fees third party	1,225.00	1,225.00	2,450.00	1,666.66	783.34-
630010 Electricity				2,666.66	2,666.66
* Over/underabsorption	1,225.00	1,225.00	450.00	12,333.32	9 83.32

Value of 50 units $1225 is actual cost

Commitment reduced from $2450 to $1225

Assigned = Actual $1225 + Commitment $1225

Available = Plan $1666.66 – Assigned $2450

Invoice receipt has no impact in quantity-based commitment

Display Invoice Document 5105608782 2011

Show PO structure | Follow-On Documents ... | Help

Transaction: 1 Invoice — 5105608782 — 2011

Basic data | Payment | Details | Tax | Contacts | Note

Invoice date	17.05.2012	Reference	
Posting Date	17.05.2012		
Amount	1,225.00	AUD	Calculate tax
Tax amount	0.00	P1 P1 (G.S.T. 10%)	
Text			
Paymt terms	14 Days 3 %, 30 Days 2 %, 45 Days net		
Baseline Date	17.05.2012		
Company Code	V001 Verity Business AU Sydney		

Vendor 0000075000
John Doe Company
AUSTRALIEN
Bank acct
OI

PO reference

Item	Amount	Quantity	Or...		Purchase...	It
1	1,225.00	50	TO		4500017205	1

Cost centers: Actual/plan/commit.

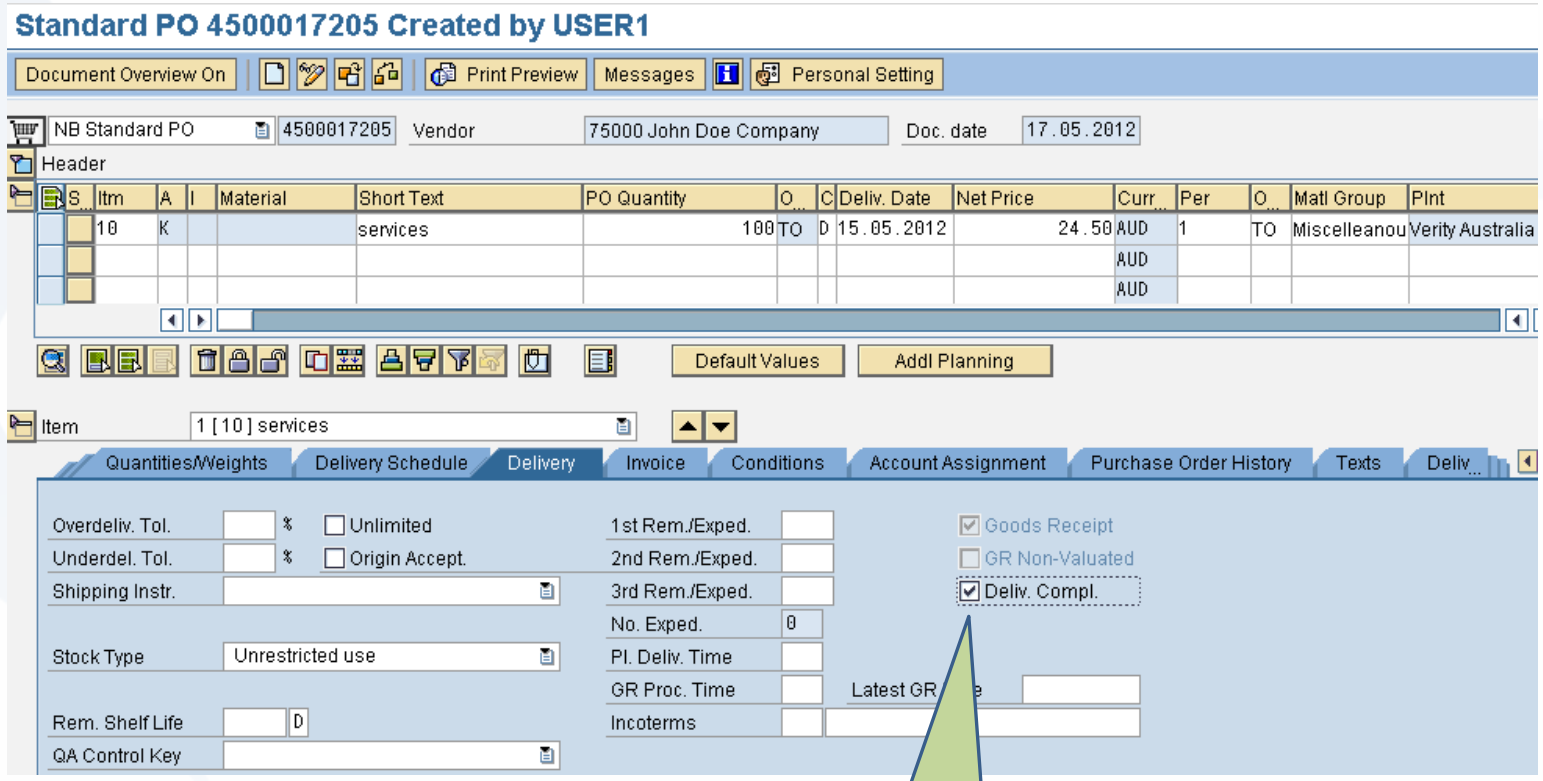
Column

Cost centers: Actual/plan/commit. — Page: 2 / 2

Cost Center/Group 1324 IT Services — Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
611010 ER 401K Expenses				1,250.00	1,250.00
611040 ER Benefit Expenses				1,666.66	1,666.66
620000 Uncollectible Accoun				2,083.34	2,083.34
621030 Fees third party	1,225.00	1,225.00	2,450.00	1,666.66	783.34-
630010 Electricity				2,666.66	2,666.66
* Over/underabsorption	1,225.00	1,225.00	2,450.00	12,333.32	9,883.32

PO 450017205 marked “delivery complete”



PO marked “delivery complete”

Commitment set to zero in CC 1324

Cost centers: Actual/plan/commit.

Column

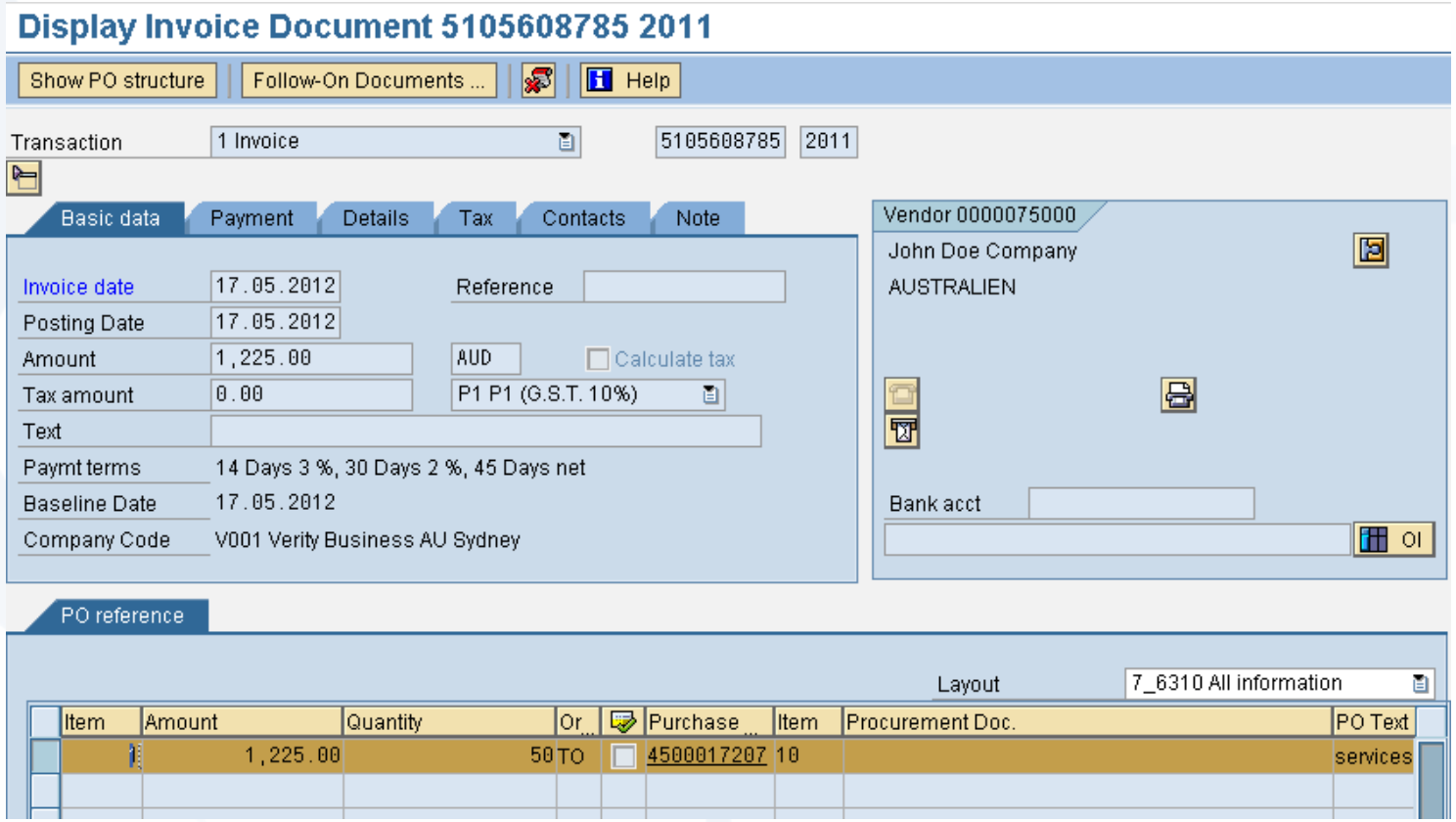
Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1324 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
611010 ER 401K Expenses				1,250.00	1,250.00
611040 ER Benefit Expenses				1,666.66	1,666.66
620000 Uncollectible Accoun				2,083.34	2,083.34
621030 Fees third party	1,225.00		1,225.00	1,666.66	441.66
630010 Electricity				2,666.66	2,666.66
* Over/underabsorption	1,225.00		1,225.00	12,333.32	11,108.32

Outstanding commitments from PO 4500017205 set to zero

Partial Invoice receipt against PO 450017207



No impact on Commitment in cost center 1325

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1325 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				833.34	833.34
610070 TE - Airfare				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
610600 Pension Plan Contrib				300.00	300.00
611020 Health Plan Expenses				416.66	416.66
611050 PR Benefit Expenses				2,000.00	2,000.00
612020 Other Payroll Tax				1,000.00	1,000.00
621030 Fees third party	1,225.00	1,225.00	2,450.00	3,000.00	550.00
621040 Fee third. wo. hours				833.34	833.34
* Over/underabsorption	1,225.00	1,225.00	2,450.00	11,383.34	8,933.34

PO 4500017207 marked "final invoice"

PO marked "final invoice"

Purchase Order Edit Goto Environment System Help

Standard PO 4500017207 Created by USER1

Document Overview On | Print Preview | Messages | Personal Setting

NB Standard PO 4500017207 Vendor 75000 John Doe Company Doc. date 17.05.2012

Header

S	Itm	A	I	Material	Short Text	PO Quantity	O	C	Deliv. Date	Net Price	Curr	Per	O	Matl Group	Plnt
	10	K			services	100	TO	D	15.05.2012	24.50	AUD	1	TO	Miscelleanou	Verity Australia
											AUD				
											AUD				
											AUD				
											AUD				
											AUD				
											AUD				
											AUD				
											AUD				
											AUD				

Default Values | Addl Planning

Item 1 [10] services

Quantities/Weights | Delivery Schedule | Delivery | Invoice | Conditions | Account Assignment | Purchase Order History | Texts | Deliv...

- [x] Inv. Receipt
- [x] Final Invoice
- [ ] GR-Bsd IV

Invoicing Plan

Tax Code

ECC (2) 800 sapserver OVR

Start | sapmmc | 4 SAP Logon fo... | untitled - Paint | E:\commit | Calculator | 9:23 PM

Commitment balance set to zero in CC 1325

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1325 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				833.34	833.34
610070 TE - Airfare				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
610600 Pension Plan Contrib				300.00	300.00
611020 Health Plan Expenses				416.66	416.66
611050 PR Benefit Expenses				2,000.00	2,000.00
612020 Other Payroll Tax				1,000.00	1,000.00
621030 Fees third party	1,225.00		1,225.00	3,000.00	1,775.00
621040 Fee third. wo. hours				833.34	833.34
* Over/underabsorption	1,225.00		1,225.00	11,383.34	10,158.34

Outstanding commitments from PO 4500017207 set to zero

Credit Memo issued against PO 4500017207

Invoice Document Edit Goto System Help

Display Invoice Document 5105608786 2011

Show PO structure | Follow-On Documents ... | Help

Transaction: 2 Credit memo — 5105608786 — 2011

Basic data | Payment | Details | Tax | Contacts | Note

Document date	17.05.2012
Posting Date	17.05.2012
Amount	125.00 AUD
Tax amount	0.00 P1 P1 (G.S.T. 10%)
Text	
Paymt terms	14 Days 3 %, 30 Days 2 %, 45 Days net
Baseline Date	17.05.2012
Company Code	V001 Verity Business AU Sydney

Reference | Calculate tax

Vendor 0000075000
John Doe Company
AUSTRALIEN

Bank acct | OI

PO reference

Layout: 7_6310 All information

Item	Amount	Quantity	Or	Purchase	Item	Procurement Doc.	PO Text
1	125.00	5	TO	4500017207	10		services

Item | Search Term | 0 / 0 Items

ECC (3) 800 | sapserver | OVR

Start | sapmmc | 4 SAP Logon fo... | untitled - Paint | E:\commit | Calculator | 9:25 PM

No impact on commitment CC 1325

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1325 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				833.34	833.34
610070 TE - Airfare				1,000.00	1,000.00
610300 Salaries Overtime				2,000.00	2,000.00
610600 Pension Plan Contrib				300.00	300.00
611020 Health Plan Expenses				416.66	416.66
611050 PR Benefit Expenses				2,000.00	2,000.00
612020 Other Payroll Tax				1,000.00	1,000.00
621030 Fees third party	1,100.00		1,100.00	3,000.00	1,900.00
621040 Fee third. wo. hours				833.34	833.34
* Over/underabsorption	1,100.00		1,100.00	11,383.34	10,283.34

Actual cost reduced by amount of credit note

No impact on commitments

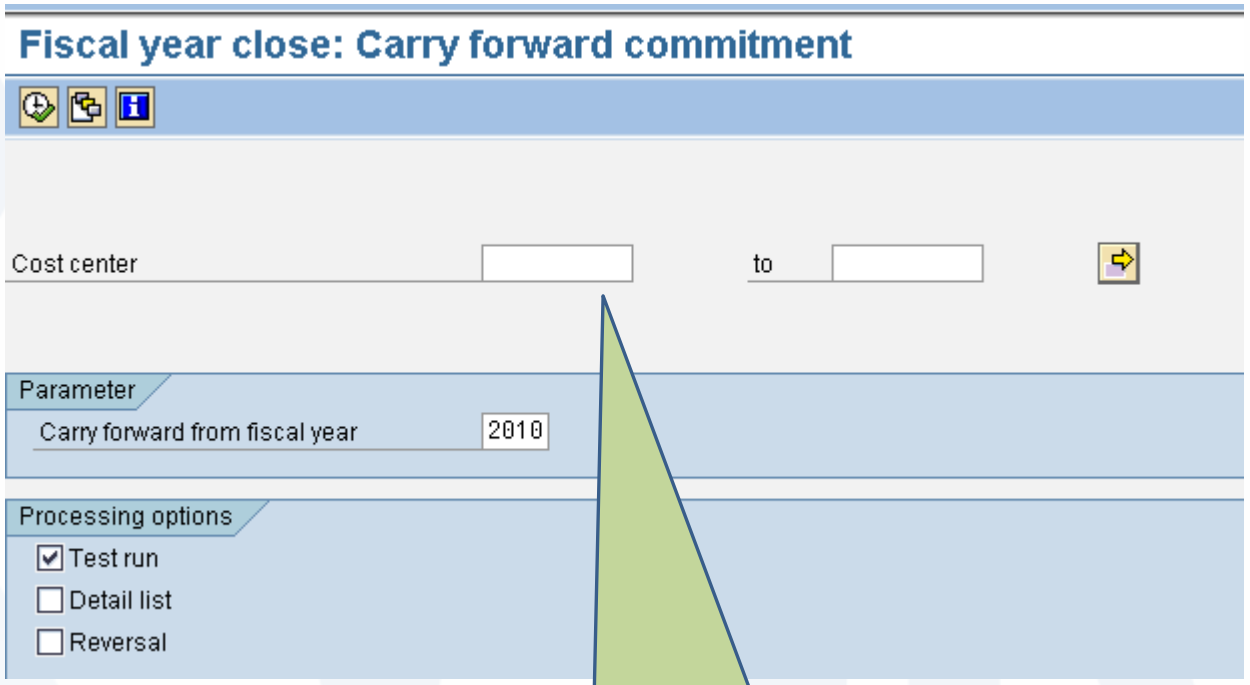
Carry-forward commitment

Year-end carry forward of commitments

- At year-end close of financial books, you can carry the open commitment values from purchase requisitions, and purchase orders forward to the first period of the next fiscal year.

- Outstanding Commitments of 11/2011 (for example) carry forward as commitments of 01/2012.

Year end carry forward of commitments



Example of cost center commitment carry forward. Similarly, you can forward commitments against Internal Orders, Projects through separate transactions

Report commitment

Report Plan against Actual and Commitment

- This report compares plan amounts against actual amounts and commitment amounts. Balance is shown as “Available”

Cost centers: Actual/plan/commit.

Column

Cost centers: Actual/plan/commit. Page: 2 / 2

Cost Center/Group 1323 IT Services Column: 1 / 2
Person responsible PalmIT
Reporting period 11 to 11 2011

Cost elements	Actual	Commitment	Assigned	Plan	Available
610010 TE - Lump Sum Allowa				2,500.00	2,500.00
610080 TE - Miscellaneous				2,083.34	2,083.34
610200 Annual Bonus				2,083.34	2,083.34
611020 Health Plan Expenses				4,166.66	4,166.66
611030 Direct Labor Cost				4,166.66	4,166.66
612000 Social Security				2,083.34	2,083.34
612030 Employer Taxes Tips				2,083.34	2,083.34
621030 Fees third party	1,225.00	4,025.00	5,250.00	2,083.34	3,166.66-
* Over/underabsorption	1,225.00	4,025.00	5,250.00	21,250.02	16,000.02

Report Budget against Actual and Commitment

This report compares budget amounts against actual amounts and commitment amounts. Balance is shown as “Available”

Area: Actual/Budget/Commitments

Column

Area: Actual/Budget/Commitments Date: 15.05.2012 Page: 2 / 2

Column: 1 / 1

Cost center group 1323 IT Services
Responsible: PalmIT
Fiscal Year 2011

Cost centers	Actual	Budget	Commitment	Assigned	Available
1323 IT Services	1,225.00	600,000.00	4,025.00	5,250.00	594,750.00
* Total	1,225.00	600,000.00	4,025.00	5,250.00	594,750.00

Example of Plan/ Actual/ Commitment/ Available

Quantity-based Commitment Management	Budget	Plan	Commitment	Actual	Assigned (Actual + Commitment)	Available against plan	Available against budget
Budget created	600,000						
Plan values created		255,000					
PO #1 raised 100 units @ 24.50			2,450		2,450		
Goods received 50 units @ 24.50			-1,225	1,225			
Invoice received 50 units @ 24.50							
Balance	**600,000**	**255,000**	**1,225**	**1,225**	**2,450**	**18,800**	**597,550**
PO #2 raised 100 units @ 28.00			2,800		2,800		
Balance	**600,000**	**255,000**	**4.025**	**1,225**	**5,250**	**16,000**	**594,750**

Activate Commitment Management

Activate Commitment Management

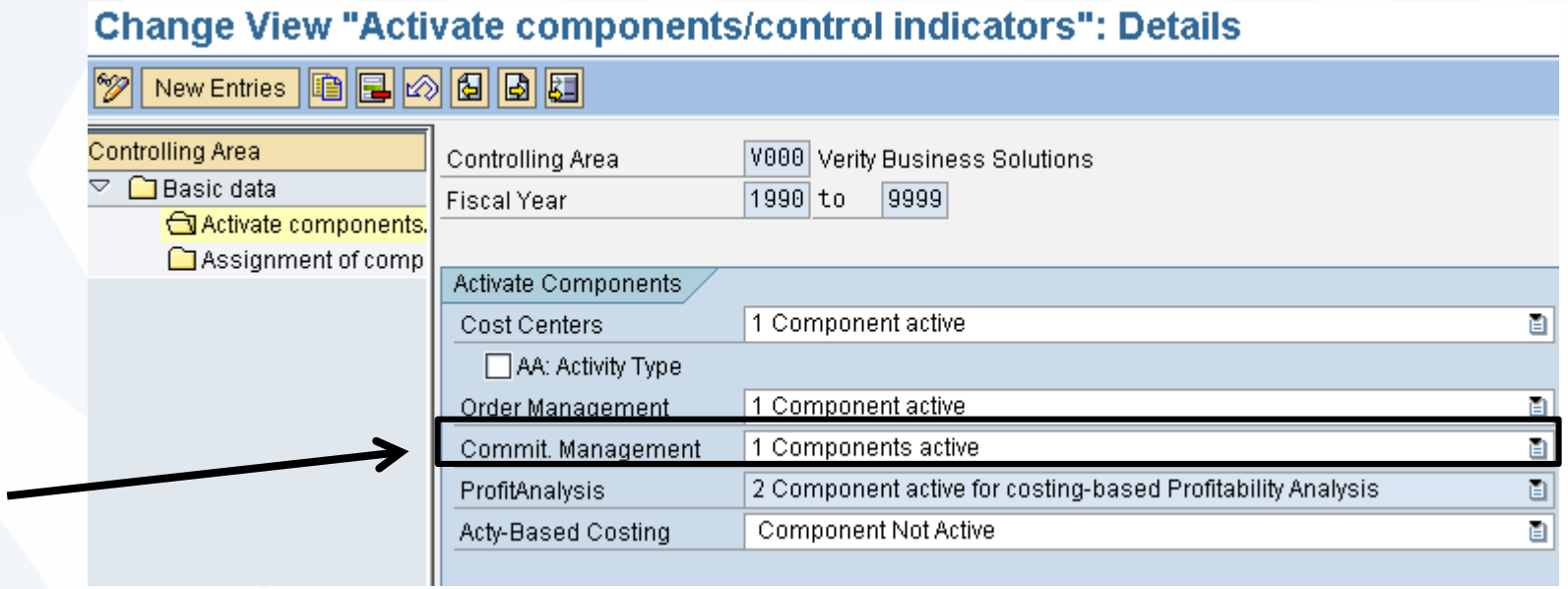
- Commitment Management can be activated at three levels – Controlling Area, cost object configuration and cost object master data.

- It is recommended to always activate Commitment Management at Controlling Area level; even if you do not intend to use it immediately.

- If Commitments Management is activated in the controlling area, then it is automatically activated at the same time for projects.

Activate Commitment Management for Controlling Area

- You should activate Commitment Management for Controlling Area. This will allow you to later activate Commitment Management for cost objects, if required



Activate Commitment Management for Cost Center categories

- Select “Commitment” indicator to activate Commitment Management for all cost centers that are assigned to this Cost Center Category

Change View "Cost center categories": Overview

New Entries

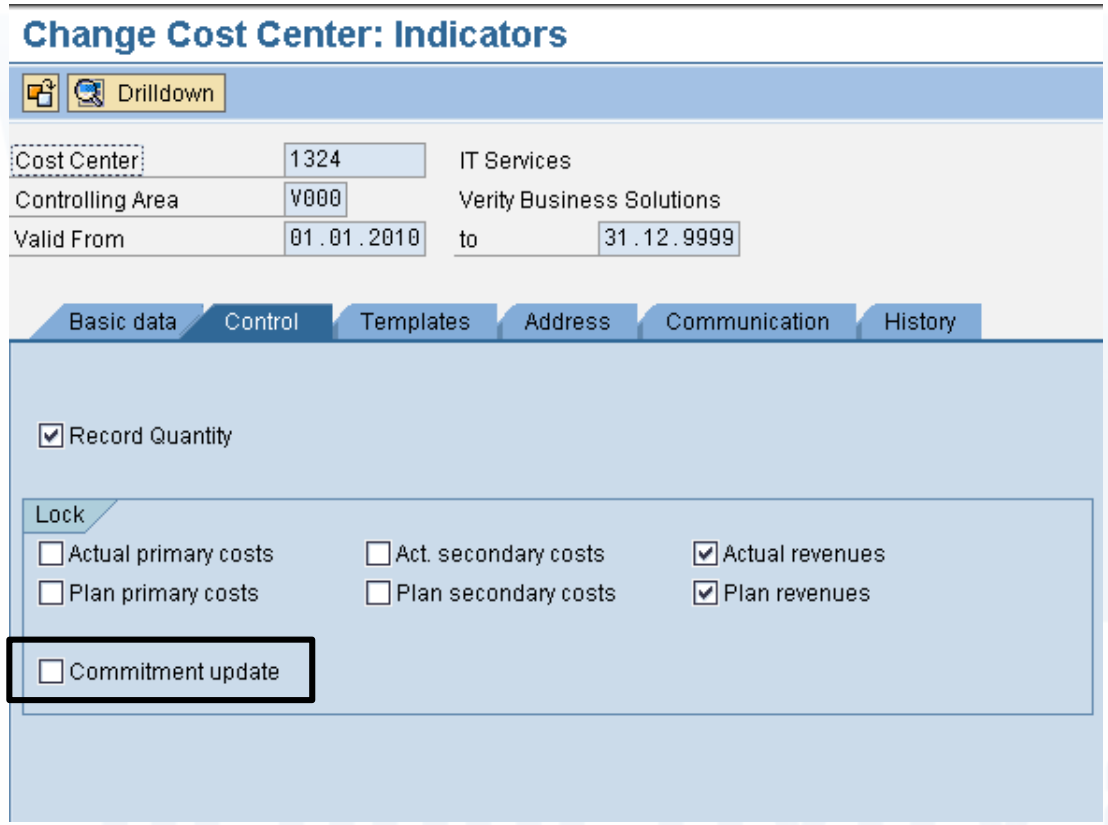
Cost center categories

CCtC	Name	Qty	ActPri	ActSec	ActRev	PlnPri	PlnSec	PlnRev	Cmmt	Fun
1	Production	☑	☐	☐	☑	☐	☐	☑	☐	010
2	Service cost center	☑	☐	☐	☑	☐	☐	☑	☐	010
3	Sales	☐	☐	☐	☑	☐	☐	☑	☐	0300
4	Administration	☐	☐	☐	☑	☐	☐	☑	☐	0400
5	Management	☑	☐	☐	☑	☐	☐	☑	☑	0400
6	Research & Develop.	☑	☐	☐	☑	☐	☐	☑	☐	0500
7	Services	☑	☐	☐	☑	☐	☐	☑	☐	
8		☐	☐	☐	☑	☐	☐	☑	☐	

If the indicator is selected, you have activated Commitment Management for all cost centers assigned to this category

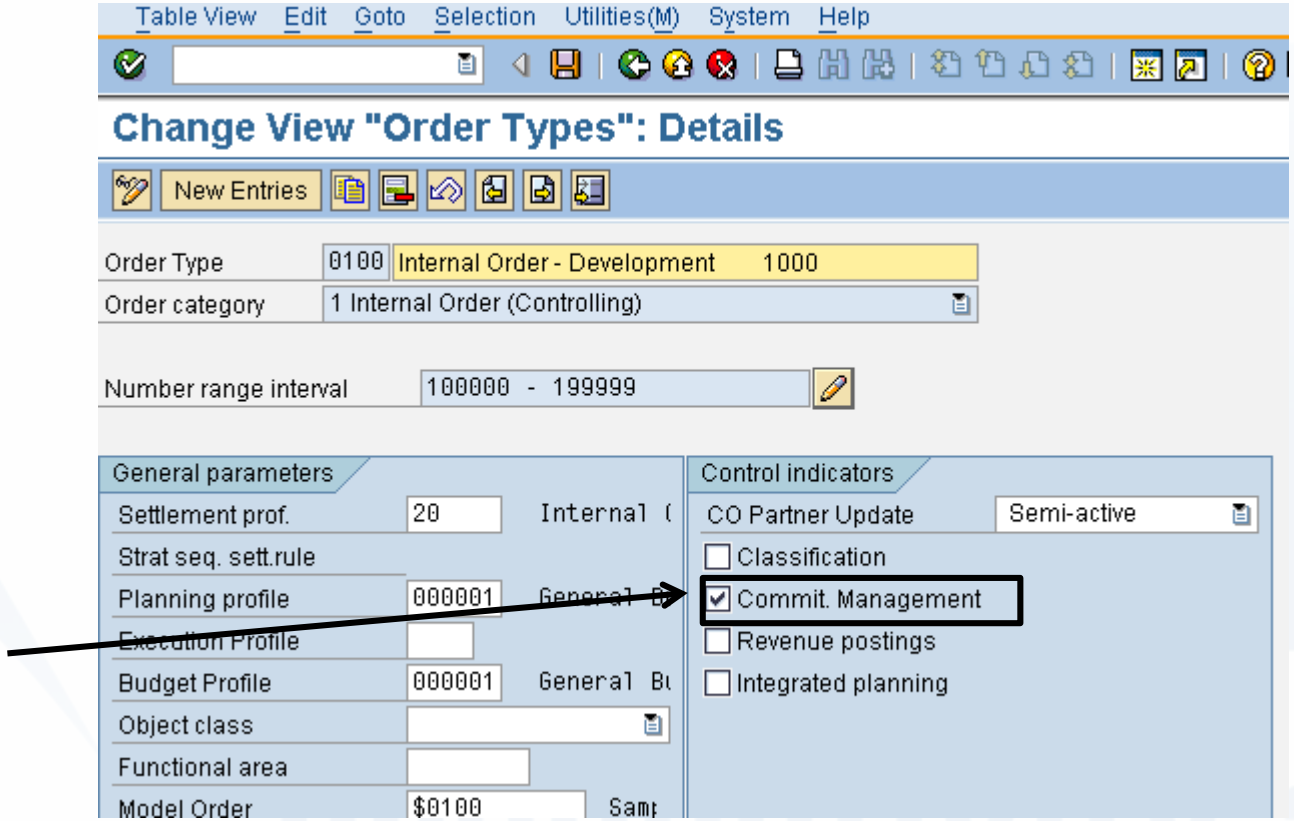
Activate Commitment Management for individual Cost Center

- You can activate individual cost centres for Commitment Management. Do not select “Commitment” indicator in Cost Centre categories configuration



Activate Commitment Management for Internal Orders

- Activation of Commitment Management for Internal Orders is done at Order Type.



Verity Business Solutions

Verity provides the vision, and the framework for a successful Finance process and technology transformation and re-engineering.

We at Verity believe we have the experience to make success happen for our clients. This belief comes from our track record of successfully engaging customers in their pursuit of the best-of-class business solutions. We believe that this search with Verity is short because of our past experience, and fruitful because we do not simply deliver an end-result, but strive to deliver value-added service that earns us the trust and confidence of our customers.

Presented by Rajesh Shanbhag

Rajesh is an accomplished and successful Finance professional with over 20 years' experience in Finance processes and related technologies.

He is a qualified accountant, and he has worked in Finance departments of multinational companies. With this strong foundation in Finance, he has managed to successfully implement best-in-class Finance processes in IT (primarily SAP).

Over the last few years, Rajesh has led Finance teams on large SAP implementations and provided his insights and experience to provide a workable and an improved solution for his customers. Rajesh is a SAP Certified Application Professional.

Thank you

If you want to read more tips on summarisation levels, read the blog on our website www.veritysolutions.com.au

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