

GENERAL INSTRUCTION MANUAL**ISSUING
ORG.**

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

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SUBJECT**LABOR COSTING AND ANALYSIS****APPROVAL**

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CONTENT: This General Instruction reflects Corporate procedures for labor cost recording, distribution and redistribution, reporting and analysis, and is intended to provide guidance in the analysis of labor-related items on the monthly Cost Sheet Report.

The text includes:

- 1 Glossary
 - 2 Definitions
 - 3 Labor Cost Accounting Processes
 - 4 Redistributed Labor
 - 5 Labor Cost Variance and Accountability
- Appendix A – Labor Cost Elements

1 GLOSSARY:**1.1 ABBREVIATIONS & ACRONYMS**

AI	Accounting Instruction
PBP&RU/PD	Payroll Benefits, Payments & Reconciliation Unit/PD/OAD
CC	Cost Center
CO	SAP Controlling Module
FA&PAD	Financial Analysis & Performance Advisory Dept.
FI	SAP Finance Module
P&FAAD	Projects & Fixed Assets Accounting Division/OAD
GI	General Instruction
NDE	Net Direct Expenditures
OAD	Operations Accounting Department
PD/OAD	Payroll Division/OAD
PM	Plant Maintenance
PMT	Project Management Team
FICO	SAP Finance & Controlling Module
T/C	SAP Transaction Code
WBS	Work Breakdown Structure

1.2 OTHER AIs AND GIs REFERENCED

AI 739	Charging Inspection and Surveying Services to Saudi Aramco Organizations, Capital Projects and Third Parties
AI 601	Plant Maintenance Orders – Cost Flow
AI 916	Posting SAP Payroll to SAP FICO
GI 216.965	Cost Distribution Rates
GI 250.001	Cost Sheet Review and Approval
GI 287.001	Full Costing**

1.3 SAUDI ARAMCO FORMS REFERENCED

SA-8688	Saudi Aramco PMT - Redistributed Labor
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1.4 REPORTS REFERENCED

Manpower Roster*	Cost Sheet Dashboard (previously ZKR00040 Labor Cost Report (T/C ZK0015))
Monthly Manpower Summary*	Cost Sheet Dashboard (previously ZMANSKF1 Total Manpower by CC/CC Group (T/C ZK0023))
ZHR00380	Time Keeper Monthly Activity Report Current Month (T/C ZH0038)

2 DEFINITIONS:

The definitions and procedures detailed in this Instruction are intended to facilitate the labor cost analysis process when more detailed explanation of variances is required. For more information about cost sheets and cost sheet review, analysis and approval, refer to GI 250.001 - Cost Sheet Review and Approval.

2.1 MONTHLY COST SHEET:

Saudi Aramco's Cost Sheets are prepared monthly. Reports start at the cost center level and consolidate upward to the Business Lines and ultimately to the total Corporate level. All reports are available in the Corporate Portal/Finance Online/Cost Sheet Dashboard.

2.1.1 CATEGORIES OF LABOR CHARGES

The principal summary categories for labor charges are:

- 2.1.1.1 Regular Labor - calculated based on timekeeping hours multiplied by effective regular hourly rates, by employee categories, and charged to regular cost elements shown in Appendix A.
- 2.1.1.2 Overtime Labor - calculated based on timekeeping hours multiplied by effective overtime hourly rates, by employee categories, and charged to overtime cost elements shown in Appendix A.**
- 2.1.1.3 Additional Straight Time Labor - calculated based on timekeeping hours multiplied by effective regular hourly rates, by employee categories, and charged to overtime cost elements shown in Appendix A.**
- 2.1.1.4 Indirect Costs - Reallocations and Miscellaneous, specifically, Employee Support Costs, and Overheads/Prorations/Allocations charged "below-the-line" in secondary cost elements.

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2.2 LABOR BUDGET RATES

Estimated labor budget rates are calculated annually by FA&PAD and published in GI 216.965. These rates then become the effective rates for the fiscal year.

2.3 REGULAR AND OVERTIME EFFECTIVE RATES

Regular and overtime effective rates are published in GI 216.965. These rates are used to distribute direct labor to employees' home departments for the categories of direct labor, such as Saudi Arab, US/CDN, UK, Asian/Other Arab and Casual.

2.4 DIRECT LABOR COMPONENTS

Direct labor components refer to employee compensation elements used in the calculation of the effective labor rates. Employee benefits costs are **excluded** from direct labor calculations. Direct labor components include:

- Base pay
- Commodities and services difference and expatriate premium
- Shift allowance
- Specified location allowance
- Local transportation allowance
- Housing allowance and rental assistance allowance
- Vacation allowance (Saudi 11+)
- Industrial security bonus
- Annual Benefit Supplement
- Non Career Bonus (in lieu of benefits)
- Thirteenth month pay, Ramadan bonus and annual Company awards
- Tax reimbursement and hypothetical tax deductions
- Travel zone allowance
- Sign-on Bonus
- Plant Emergency Response Team Allowance and Aviation Captains Allowance
- Sulfur handling bonus
- Residence sale allowance
- Saudi employees on out-of-kingdom assignments receive an Expatriate Premium or Mobility Bonus, Tax Reimbursement, C&S difference payments, Housing difference payments (in addition to SAHA) and Educational Assistance.

2.5 EMPLOYEE BENEFITS & OTHER PAYMENTS*

Employee support costs such as insurance, medical, savings plan, etc. are not included in the calculation of regular labor rates but are charged to expense accounts initially, then reallocated to Departments as Indirect Costs. Education assistance, repatriation travel expenses, personal effects shipment costs, etc., are not included in the calculation of regular labor rates but are charged to expense accounts and subsequently reallocated as transportation and living expense under Indirect Costs.

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2.6 OVERTIME LABOR CHARGES

Overtime labor charges represent scheduled and non-scheduled overtime paid at premium pay rates and additional straight time at regular rates.

2.7 LABOR DISTRIBUTION

Employees' home departments are charged for direct labor at effective rates based upon nationality and grade code grouping (3-10 or 11+). These charges appear on the Cost Sheet Report in the Labor section of Net Direct Expenditures. See Appendix A for labor and overtime cost elements.

2.8 LABOR REDISTRIBUTION

Labor redistribution refers to the reallocation process of an employee's labor cost from the employee's home department to another benefiting account. Debits and credits for labor redistribution appear below the NDE & Direct Controllable Expenditure line ("below the line") under the Reallocations & Miscellaneous Costs of the Indirect Costs section of the relevant Cost Sheet Report.

2.9 HOME DEPARTMENT

Home department refers to the department that budgets for and exercises administrative control over an employee. This department is charged for the direct labor cost of the employee above the NDE & Direct Controllable Expenditure line ("above the line") as a component of Net Direct Expenditures.

2.10 BENEFITING COST CENTER/INTERNAL ORDER/WBS

The benefiting CC/Internal Order/WBS is the cost object actually receiving the benefit from an employee's work even though his direct labor is budgeted by another department. For example, an employee may work on a PM Order, construction project, special project and/or for a third party. Labor charges are reallocated through redistribution transactions "below-the-line" under the Indirect Cost category of Reallocation & Miscellaneous Costs.

3 LABOR COST ACCOUNTING PROCESSES:**3.1 ACTUAL PAYROLL COSTS**

At the end of each month, SAP Payroll posts labor and payroll related costs to the SAP FI General Ledger Module. All labor-related costs from SAP Payroll are posted to the appropriate labor cost elements, e.g., Saudi Arab 3-10, Saudi Arab 11+, etc., and cost center 429819 – Sundry Payroll Items.

3.2 EMPLOYEE BENEFITS & OTHER PAYMENTS*

Employee benefits, medical expenses, transportation and living expenses, etc., are allocated based on GI 287.001.

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3.3 DISTRIBUTED LABOR

3.3.1 Labor is distributed to cost centers as part of the month-end SAP CO labor reposting. The SAP CO re-postings debit the applicable cost centers using appropriate primary labor cost elements and crediting cost center 429819 - Sundry Payroll Items. Debits to the various cost centers are based on actual hours reported through the Time Management System multiplied by the labor distribution rate established by FA&PAD. The labor costing program (SAP program ZKI00190) charges labor to cost centers based on the employee's permanent cost center which is determined by the e8000 **month-end** record reflected in SAP Payroll Infotype 0001 - Organizational Assignment at the time the labor reposting is run. If the employee is on a temporary assignment, the cost center reflected at **month-end** in SAP Payroll Infotype 9001 - Temporary Assignment will be charged. *

Distributed direct labor charges are listed in the Labor section of NDE on the Cost Sheet Reports. Primary labor cost element postings are never transferred from the NDE of the employee's home or temporary assignment cost center to alternate cost objects. **

3.3.2 Direct labor charges are summarized by department in the Monthly Manpower Summary in the Cost Sheet Dashboard or the monthly Report ZKR00040 Labor Cost Report for current month's transactions and prior month's adjustments.

3.3.3 Any uncleared labor differential ("labor rate variance") in Cost Center 429819 - Sundry Payroll Items is allocated monthly to organizations under Employee Support Costs section of Indirect Costs. GI 287.001 describes the methodology used in the full cost allocation.*

3.4 PERSONNEL REPORTS

Departmental Planning & Program analysts may use the Monthly Manpower Summary and Manpower Roster accessible from the Cost Sheet Dashboard. Alternatively, Manpower and Time Management Reports are provided monthly on line through SAP to authorized users. These reports are ZMANSKF1 - Total Manpower By CC/CC Group, or Report ZHR00380 Time Keeper Monthly Activity Report.

4 REDISTRIBUTED LABOR:

Labor is redistributed to benefitting cost objects "below-the-line" in the Reallocations & Misc. section of Indirect Costs in the cost sheet. Labor is redistributed to PM orders, special projects, job orders, wells, receivables and cost centers other than the employee's home cost center, using labor redistribution rates. Certain exceptions are made which are documented in AI 739 and AI 601.

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4.1 BOOKING REDISTRIBUTED LABOR

- 4.1.1 PBP&RU/PD/OAD books redistributed labor costs via journal entry based on a letter signed by both transferring and receiving departments' managers for Customers Accounts and Internal Orders.
- 4.1.2 P&FAAD/OAD books redistributed PMT labor cost to WBS based on Form SA-8688 - Saudi Aramco PMT - Redistributed Labor submitted by departments.
- 4.1.3 For surveying and/or inspection services provided, the redistribution process is based on submission of monthly Expense and Capital Project Cost Report/Contract Invoice Cost Chargeable to Capital Projects reports as indicated in AI 739.

4.2 LABOR REDISTRIBUTION RATES

- 4.2.1 Labor redistribution rates are established annually and published in GI 216.965. Rate categories are established for redistribution purposes in GI 216.965 based on broad categories as follows and the employee's situation:*
- Saudi Aramco employees – In-Kingdom or Out-of-Kingdom
 - ASC/AOC employees
 - Contractor-provided Supplemental Manpower
- 4.2.2 For redistribution of Saudi Aramco labor to PM orders, a composite hourly rate is used as established annually by the Corporate Maintenance Systems group and FA&PAD. This rate is published in GI 216.965 for the calendar year. SAP redistributes labor charges to benefiting accounts for time spent in the completion of PM orders.

5 LABOR COST VARIANCE AND ACCOUNTABILITY:

Saudi Aramco departments are responsible for explaining variances from plan relating to net direct expenditure items on their Cost Sheet Report. As applied to labor cost, net direct expenditure items on Cost Sheet Report include regular and overtime labor.

Variances listed on the Cost Sheet Report represent the difference between the "Year-to-Date Actual" and the "Year-to-Date Budget". It is favorable if the actual expense is lower than the budget and unfavorable if the actual expense is greater. A favorable expense variance is followed by a negative sign (-) on the SAP Cost Sheet Report or shown in brackets in the Cost Sheet Dashboard.

5.1 DIRECT LABOR VARIANCE

Direct labor variance may result from changes in plans regarding any (or a combination) of the following factors:

- Manpower
- Regular Work
- Planned Overtime

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- 5.1.1 Manpower Variance. Manpower overrun or under-run is the difference between the actual number of employees of a particular cost category in each cost center/cost center group as of a certain date and the planned manpower of a particular cost category for that cost center/cost center group as of that date. The manpower differential for each direct labor cost center/cost center group is calculated by multiplying the manpower variance by the applicable direct labor effective rate.
- 5.1.2 Regular Work Undertime: Uvertime is the difference between the planned full month of work for an employee and the actual (or reported) time for that employee. This type of variance can occur in the case of leave without pay. To calculate the undertime differential, multiply the number of hours of undertime by the applicable effective rate per hour.
- 5.1.3 Planned Overtime: Overtime differential is caused by the actual hours of overtime being greater or less than the budgeted number of overtime hours.

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APPENDIX A**LABOR COST ELEMENTS**

7200301	SA Regular Labor - GC 3-10
7200303	Saudi Arab Regular Labor - GC 11+
7200305	Saudi Arab Overtime Labor - GC 3-10
7200307	Saudi Arab Overtime Labor - GC 11+
7200309	Non-Employee/Student Regular Labor
7200310	Non-Employee/Student OT Labor
7200321	US/Canadian Regular Labor - GC 3-10
7200323	US/Canadian Regular Labor - GC 11+
7200325	US/Canadian Overtime Labor - GC 3-10
7200327	US/Canadian Overtime Labor - GC 11+
7200341	United Kingdom Regular Labor - GC 3-10
7200343	United Kingdom Regular Labor - GC 11+
7200345	United Kingdom Overtime Labor - GC 3-10
7200347	United Kingdom Overtime Labor - GC 11+
7200361	Asian/Other Arab Regular Labor - GC 3-10
7200363	Asian/Other Arab Regular Labor - GC 11+
7200365	Asian/Other Arab Overtime Labor - GC 3-10
7200367	Asian/Other Arab Overtime Labor - GC 11+
7200381	Casual Regular Labor - GC 3-10
7200383	Casual Regular Labor - GC 11+
7200389	Casual Overtime Labor - GC 3-10
7200391	Casual Overtime Labor - GC 11+

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