LafargeHolcim

# Guideline for slow moving calculation

**Request**
Detailed explanations regarding Slow Moving calculation

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Client:
rCIP Maintenance and Inventory

## Summary

LHARP defines the rules on calculation of allowances of obsolescence (for simplicity termed sometimes “allowances” in this document) for spare parts and wear parts. A detailed explanation is given in LHARP chapter 3.1.1.6.

This guideline explains in detail how the rules shall be applied.

Emphasis will be on the specific calculation implemented in EBM with a dedicated transaction.

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### 1.1. LHARP 3.1.1.6 Inventories (lines 15 – 19)

The chapter “Parts and Supplies” explains in detail how and when allowances shall be calculated.

The following lines are an extract from LHARP. The latest version is always available on Intranet.

*The process for determining any value adjustments (allowance for obsolescence of spare parts) is:*

*Review item by item and write the specific item off 100% if:*

- *The related equipment is permanently out of use*
- *There is no related equipment*
- *The spare part is damaged*

*The remaining spare part inventories have an allowance for obsolescence (also known as slow moving provision) raised globally by applying the following rule:*

- *30% after 1 year without usage*
- *50% after 2 years without usage*
- *80% after 3 years without usage*

*The calculation of the allowances is based on original costs (straight-line basis) and must be applied against all inventories recorded in 'Parts and Supplies' (line 18).*

*Usage is defined as being used within the production process. If only one unit of an inventory item is used, then this entire inventory item is not subject to the allowance for obsolescence, even if a large amount of the item is on stock.*

*Note that where parts and supplies are used after having raised an allowance for obsolescence, they have to be charged to the receiving cost center at the original cost and not at the reduced value. The allowance is released when appropriate to type of cost 'Other Provisions and Write-Offs'.*
*The obsolescence is charged to production cost:*

- *In the case of clinker and cement and aggregates to 'Plant Management' auxiliary cost center*
- *In the case of ready-mix concrete and asphalt to the main production cost center using the type of cost 'Other Provisions and Write-Offs'.*

*Note that critical and rotating spare parts that do not meet the capitalization threshold defined for property, plant and equipment (PPE) are no longer considered critical and rotating spares. They are therefore included in inventory category 'Parts and Supplies' (Line 18) and are subject to the calculation of allowance for obsolescence of spare parts.*

*Costs (including allowance for obsolescence) of spare parts inventories are normally linked to the cost center where they are most likely to be used. Where the spare part is thereafter used in a different plant the inventory has to be transferred at cost. The plant that was carrying the related obsolescence allowance will reverse the allowance using the type of cost 'Other Provisions and Write-Offs'.*

### 1.2. Slow Moving calculation in EBM

LHARP requirements for slow moving calculation were taken into consideration during development of the European Business Modell (EBM).

Slow moving calculation is used for spare and wear parts (ZSWP, PSCS group 03 and 04). In order to have a correct calculation of allowances some requirements need to be fulfilled.

Especially the last movement type and the respective date determine the calculation.

### 1.3. Material Master Data

Slow moving calculation is applied to materials which have a material ID. Each movement of a material is logged in SAP. The log contains, among a lot of other data, the last movement type and date.

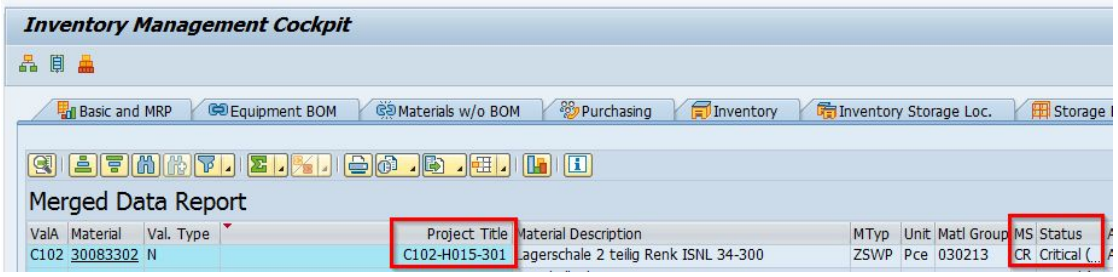
Special attention has to be put on materials which are migrated from an external system to EBM. In order to guarantee a correct calculation from the very beginning, the last movement date has to be maintained and migrated to SAP.

### 1.4. Specific Material Status

EBM defines two specific material status which shall help the plants to carry out analysis related to warehouse management. The status used are CR and ST.

#### 1.4.1. Material status CR

Material status CR (critical) is used for all materials which fulfill the capitalization threshold and management consideration as defined in LHARP 3.1.2.4 Property, Plant and Equipment (PPE). Materials have a moving average price in the master data but do not have a value for NWC calculation and they are not taken into account for slow moving calculation, impairment test is performed instead (the “criticality” is expressed by a specific and related “ProjectTitle” – this is a must – and the material shall be linked to this).



### 1.4.2. Material status ST

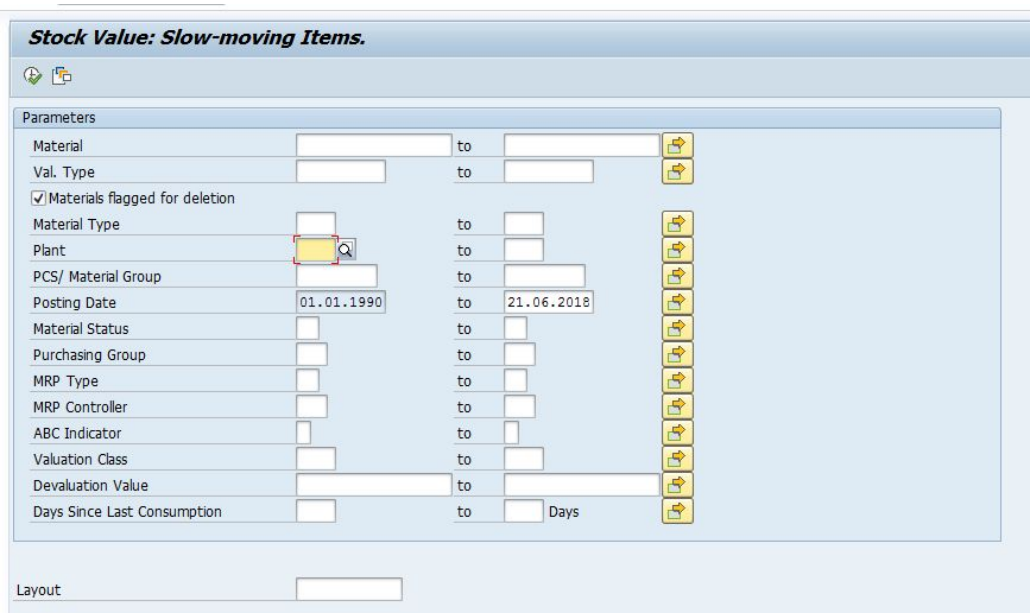
Material status ST (strategic) is used for all materials which **do not fulfill** the capitalization rules and threshold (and not considered being “critical” by the management) but are important for the plant. Materials have a moving average price and are part of the NWC. They do not have any reference to a project title. All these materials sitting in *Inventories – Parts and Supplies* have to be included in the slow moving calculation.


## 1.5. Automatic slow moving calculation in EBM – ZMM004

EBM has a specifically developed transaction, which helps the user to calculate the slow moving and the allowances according to LHARP.

The transaction can be run for a plant, individual materials, material groups, etc.

It is possible to create a specific variant for a plant, cluster, materials and others.




Note:

The program can only deliver correct numbers, if the last movement date was correctly migrated from an old ERP to SAP.

## 1.6. Example for ZMM004 calculation

### 1.7. Example 1: Last movement date and plant specific material status are maintained correctly

Slow moving calculation can be run excluding the materials with plant specific material status "CR". The result can be used to calculate the allowances for slow moving.

### 1.8. Example 2: Last movement date is correct but plant specific material status not maintained correctly

In this case, it is preferable to run in a first step ZMM004 without any filter and in a second step ZMM003 (inventory cockpit) with the same selection.

From ZMM003 all the materials with a project title (parts which are capitalized) are selected. These selected materials have to be excluded from the result of ZMM004. The remaining list can be used to calculate the allowances for slow moving.

### 1.9. Example 3: Last movement date is not correct

When the last movement date was not migrated correctly from a previous system, the slow moving calculation might not give the correct result.

In this case the calculation of allowances has to be done manually in an external file. The last movement date which has to be considered needs to be derived manually from SAP.

## 1.10. Support documents

- LHARP
  - 3.1.1.6 Inventories
  - 3.1.2.4 Property, Plant and Equipment (PPE)
- EBM training documents
  - MAN11 - EBM Inventory Management_Obsolete management Presentation
  - MAN11 - EBM Inventory Management_Obsolete Management_Training User Manual