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# **SAP CO SUBMODULES**

**DETAILED EXPLANATION**



**CONTACT: CHANUCMA@GMAIL.COM**

**YOUTUBE CHANNEL: CHANU SK**

**WEBSITE: [HTTP://WWW.SAPFICOCOACH.INFO](http://www.sapficocoach.info)**

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# COST CENTRE ACCOUNTING

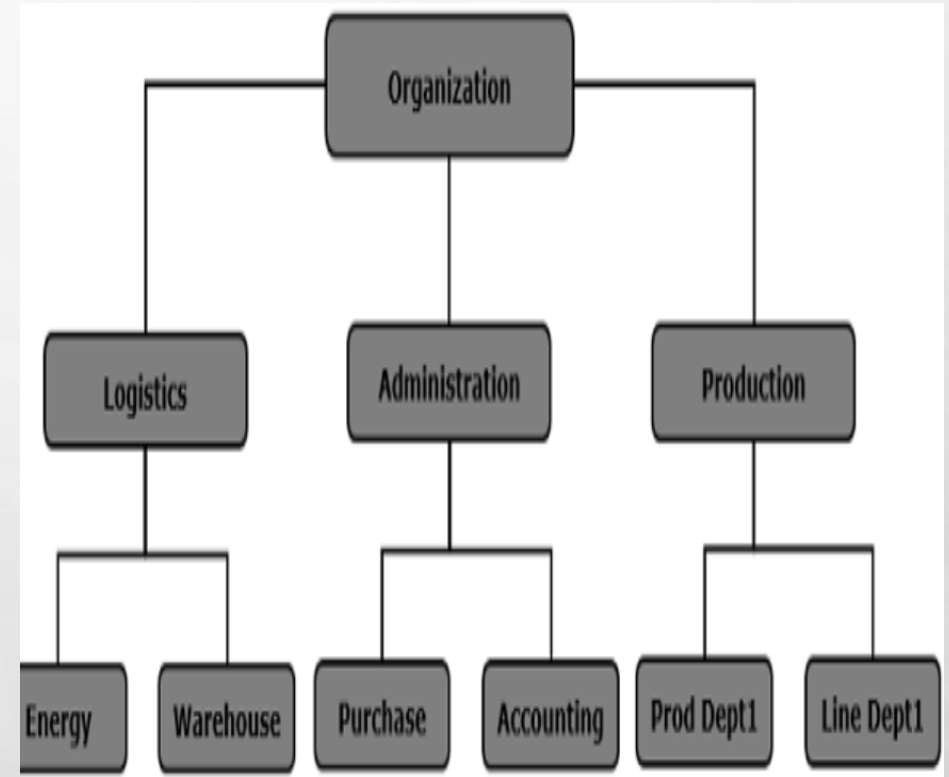
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- ✓ A cost center is often a department within a company. The manager and employees of a cost center are responsible for its costs but are not responsible for revenues or investment decisions
- ✓ Cost center represents one of the small units of responsibility within an organization structure
- ✓ Cost center accounting is used to identify the cost incurred by the organization
- ✓ Costs can be captured as per department wise, product wise, area wise, responsibility person wise, etc
- ✓ In cost center accounting, operational expenses are captured by three separate master data objects such as cost centers, activity types and statistical key figures
- ✓ SAP Cost center are organized in a Standard Hierarchy. The SAP Cost Center Standard Hierarchy is used to structure the cost centers in an organization. All cost centers must be entered in the Standard Hierarchy.
- ✓ Assigning the costs to cost centers determines where the costs are incurred within the organization. Each cost center in SAP can belong to one or more cost center groups.
- ✓ Cost Center Accounting is just for controlling purposes within your organization

# COST CENTRE ACCOUNTING

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- ✓ Cost centers are responsibility areas for costs within organization and used to capture actual costs of an organization
- ✓ It enhances performance measurement
- ✓ it provide decision making information to Management
- ✓ Improve the profitability
- ✓ Improve the monitoring the costs and expenditure
- ✓ cost centers must be assigned to one standard hierarchy. First, we create cost elements and then we assign the cost elements to cost centers
- ✓ SAP cost center is **the lowest organizational** unit in controlling enterprise structure.
- ✓ You can also implement Cost Center Accounting **without Financial Accounting**. Some settings, however, such as chart of accounts, company code, must be made in Financial Accounting.



# INTERNAL ORDER ACCOUNTING

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- ✓ An Internal Order is an extremely flexible CO tool that can be used for a wide variety of purposes to track costs and, in some cases revenues, within a controlling area.
- ✓ Internal orders are normally used to plan, collect, and settle the costs of internal jobs and tasks and service
- ✓ It is used to view cost for specific tasks, for e.g. vehicle expenses, production order costs
- ✓ Internal order accounting is used for monitoring the short term job and monitoring the cost and revenue of the organization
- ✓ It can be used to group all the costs/expenses that could be incurred to plan and hold a marketing event, say over a 2 month period. And then the order can be settled periodically to a cost center.
- ✓ Internal orders provide capabilities for planning, monitoring, and allocation of costs.
- ✓ Each internal order in SAP must be identified as one of the following SAP internal order types:
  - Real Order
  - Statistical Order
- ✓ The main use cases for each order type are related to cost capturing and reporting. A real order denotes an actual cost posting to the internal order, while a statistical order will only hold the cost information for reporting purposes.

# INTERNAL ORDER ACCOUNTING

The difference between REAL and STATISTICAL is that, **real order is required to be settled to a cost center.** When an order is a real order, it is where you post a cost during posting in FI and in other modules. Example; when you prepare a purchase order for a marketing event and charge it to an order, the cost is post to an order not to a cost center. And the cost accumulated in the order are required to be settled to a receiver cost center.

WHEREAS, a STATISCAL order can not be settled to a **receiver** cost center. Being a statistical is specified during set-up of an order. When you post costs in FI, you post simultaneously to a cost center and to a statiscal order. No settlement of costs accumulated in the statiscal order at month-end.



As an example, let's assume ABC Company organizes a marketing event over a two-month period. The following costs are incurred for the event:

Event Advertisement	1500
Security Expenses	2200
Venue Rental	3500
Total Event Cost	7 200

To capture and segregate the costs related to the event, ABC Company creates an internal order as a real order that will eventually be settled to the marketing cost center. As the costs are incurred, however, the real internal order captures the costs, while the cost center is not affected. At the end of the second month of the event, the total cost of 7200 is settled from internal order to the marketing cost center. Alternatively, ABC Company may elect to settle the incurred costs each month-end, and may allocate to multiple cost objects.

Thus, real order postings form part of the transactional balance in the CO module by transferring primary costs from other SAP modules to a cost object during settlement.

### Statistical Order

Many organizations use internal orders purely for management analysis. In this case, they would elect to use a statistical order. In this type of internal order, the cost center is maintained in the order as the real cost object. Thus, when a transaction is posted to this type of order, the real cost is incurred by the cost center and the internal order maintains a statistical balance. No settlement is required for this order type and costs may not be allocated to multiple cost centers. In this way, statistical orders are useful for internal analysis and decision making.

# PRODUCT COSTING

## ✓ Why we perform product costing :

- To determine how much products cost to produce.
- To develop reports used by sales, marketing, and executives.
- To build financial statements for internal and external reporting (both profit and loss statement and balance sheet).

✓ Product Costing is the tool used in SAP for planning costs and establishing material prices. It helps in estimating the Cost of goods sold manufactured and COGS of each for each product unit.

✓ SAP provides two different types of material costing process viz Material cost estimate with quantity structure and Material cost estimate without quantity structure.

✓ Material cost estimate with quantity structure works in combination of BOM (Bill of Material) and Routing assigned to it.


✓ Product Costing is integrated closely to various SAP modules as origin of data comes from below SAP module:-

- Material Management (MM) module for material master record / purchase info record.
- Production Planning (PP) module for Bill of material (BOM), routing and work center.
- Cost Center Accounting (CO) module as information of cost centers, its linkage of work center, activity types and activity wise cost centers help in determining conversion costs associated with manufacturing process.

# PROFIT ANALYSIS (CO-PA)

- ✓ SAP CO Profitability Analysis is used to analyze the market segments classified as products, customers, sales area, business area, etc.
- ✓ The aim of the system is to provide your sales, marketing, product management and corporate planning departments with information to support internal accounting and decision-making.
- ✓ There are two types of Profitability Analysis are supported –
  - **Costing-based Profitability Analysis** – It is used to group the costs and revenues as per the value fields. It is used to ensure that you access at all times to a complete, short-term profitability report.
  - **Account-based Profitability Analysis** – It is used to provide you with a profitability report that is permanently reconciled with financial accounting. It is mainly used for getting information related to sales, marketing, product management and corporate planning departments to support internal accounting and decision-making.

Costing-based	
Value fields	
Revenues	1,000,000
Sales deductions	100,000
-----	
Net revenues	900,000
Var. material costs	400,000
Var. production costs	190,000
Production variances	10,000
-----	
Contribution margin 1	300,000
Material overhead	50,000
Production overhead	50,000
-----	
Contribution margin 2	200,000
R&D	10,000
Marketing	50,000
Sales costs	40,000
-----	
Contribution margin 3	100,000

Account-based	
Cost and revenue elements	
800 000 Revenues	1,000,000
808 000 Sales deductions	100,000
-----	
Net revenues	900,000
893 000 Cost of sales	690,000
231 000 Price differences	10,000
-----	
	
651 000 R&D	10,000
671 000 Marketing	50,000
655 000 Sales and administration	40,000
-----	
Result	100,000



### Characteristics

Sales Region	North
Product	Prod1
Product Group	Snowboard
Customer	Cust1
Customer Group	Wholesale

**Season** **Wi2001**

**Valuation Type** **L**

**Category** **FD**

**Grid Value** **164**



### Value Fields

Revenue	980
Sales Deduction	100
Planned Freight Costs	150
Cost of Sales	550



# PROFIT CENTER ACCOUNTING

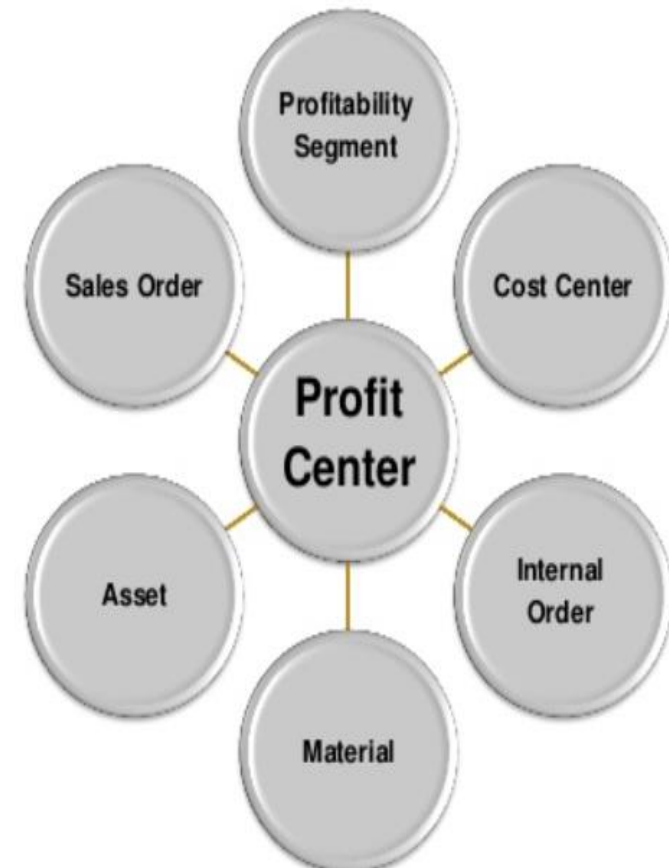
- ✓ SAP CO Profit Center is used for managing **internal controlling**. The main aim of Profit Center Accounting is to determine profit for **internal areas of responsibility**. It lets you determine profits and losses using either period accounting or the **cost-of-sales approach**.
- ✓ Why Do We Create Profit Center?  
The main aim of creating a Profit Center in SAP CO is to analyze the cost of a product line or a business unit.
- ✓ You can also generate P&L accounts according to a Profit Center and also generate balance sheets, however a Profit Center should only be used for internal reporting purpose.
- ✓ The key components of a profit center include – name of the profit center, the controlling area under which it is assigned, time period, person responsible for the profit center, standard hierarchy, etc.
- ✓ By assigning balance sheet items (asset portfolio, payables and receivables, material stocks, work in process) to profit centers, you can analyze your fixed assets by profit center, thus using them as investment centers. This makes it possible to expand profit centers to investment centers

# PROFIT CENTER ACCOUNTING

Profit Center Accounting helps in answering the following questions :

- ✓ How much is the revenue?
- ✓ How much is the cost of goods manufactured?
- ✓ How much is the contribution margin?
- ✓ How much is the administrative and sales costs?
- ✓ How much is the operating profit?

## Profit Center Accounting (EC-PCA) (Cont.)



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# ACTIVITY BASED COSTING

Activity Based Costing is a **method of costing**, where the cost of products, processes, customers are determined through Activities performed in the production/ support unit. It is more logical method of determining **overhead cost** for the product than the historically method of using machine hours or man hours to distribute the cost. In activity based costing process, **first the activities are identified**, which attract cost and then the **total cost are distributed to product** on the basis of number of activities consumed in the manufacturing and production processes.

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