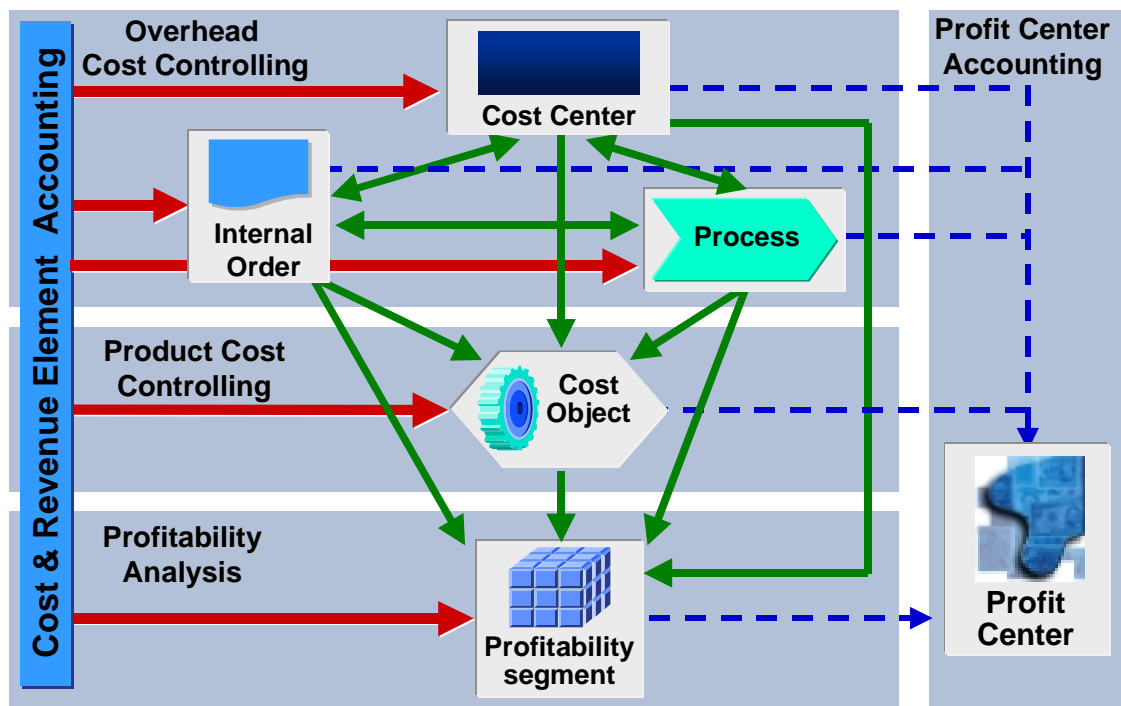


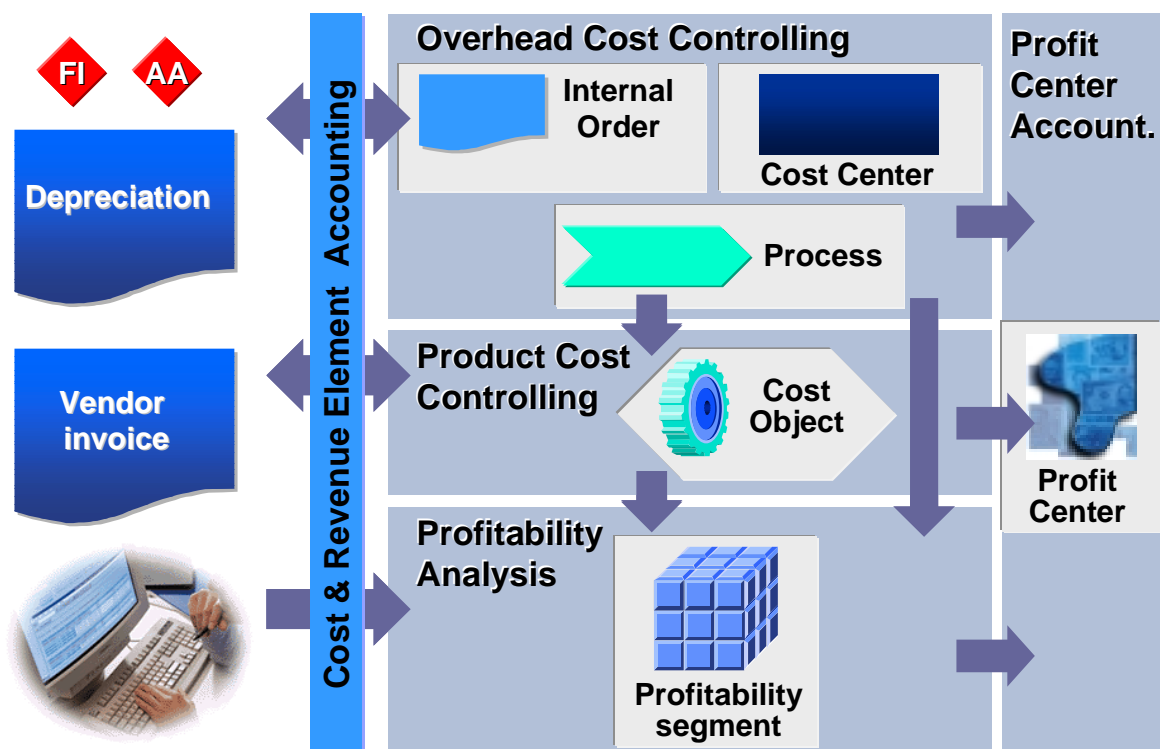
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- There are also important cost flows that can occur between the Overhead Cost Controlling and Product Cost Controlling components. Cost objects (such as production orders, etc.) can receive direct cost postings from FI (such as when an invoice receipt is assigned to the cost object); allocated costs from cost centers (as production activities are performed, or from assignment of overhead); costs settled from internal orders; and costs allocated from processes in ABC.

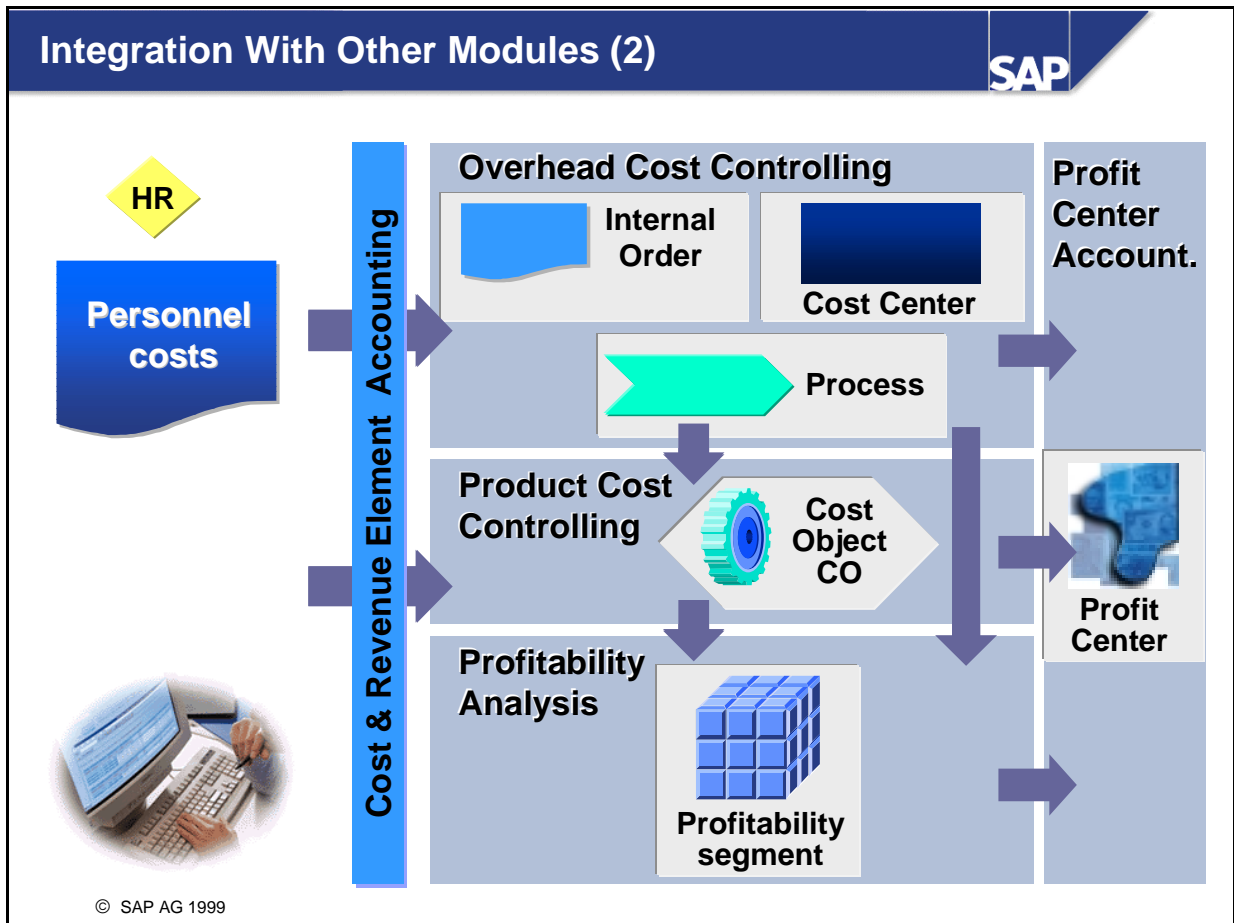


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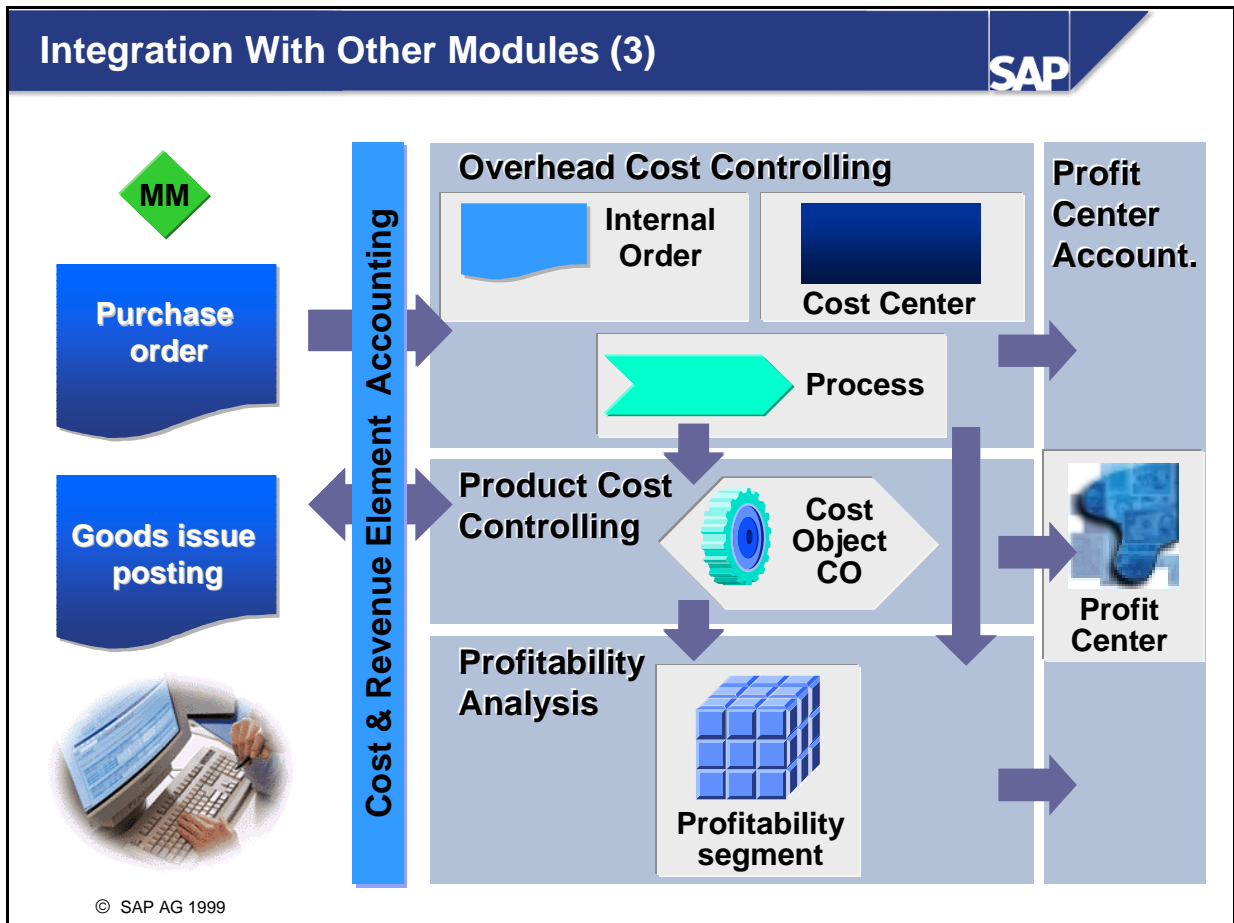
- Profitability Management components also are tightly integrated with Overhead Cost Controlling and Product Cost Controlling. Profit Center Accounting, by virtue of its basic design, receives statistical cost postings from virtually all other CO components.
- In addition to direct postings from FI, Profitability Analysis can receive cost assessments from cost centers and ABC processes, settlements of cost from internal orders, and production variances settled from cost objects.



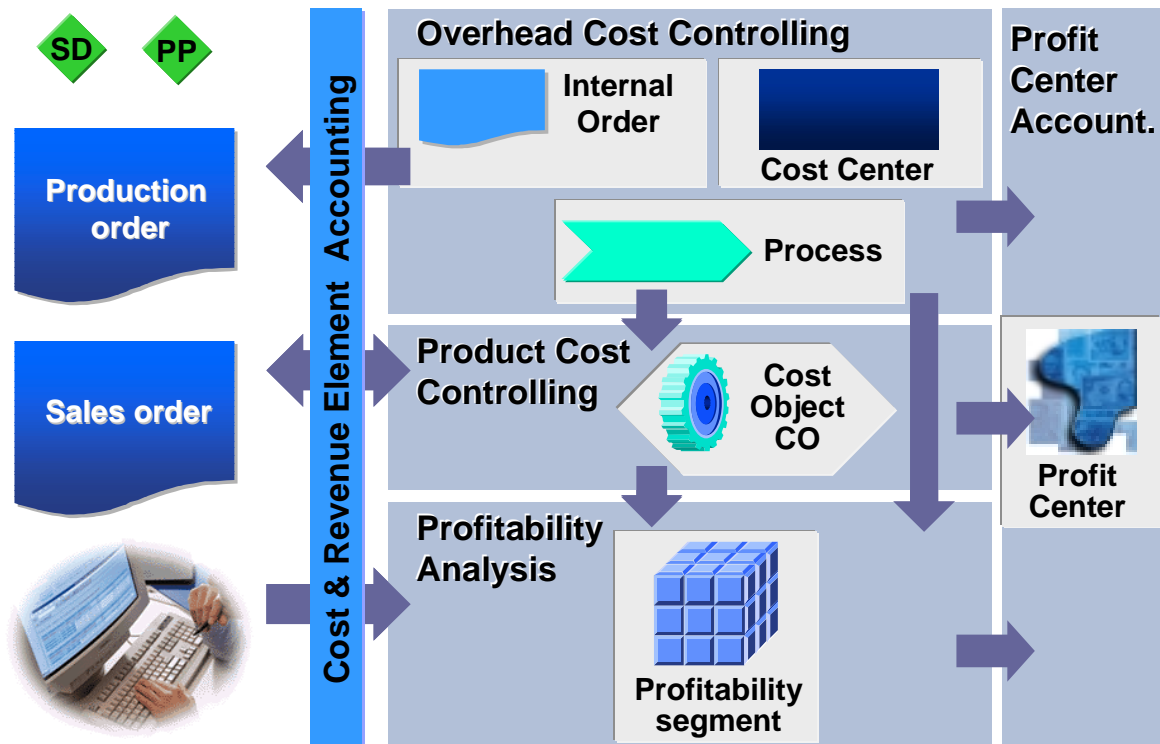
- Other R/3 modules generate data that has a direct impact on CO. For example, when non-stock consumable items are purchased, an expense is posted to the G/L. At the same time, the expense is posted as a cost to the cost center (or other object in CO) for which the items have been purchased. That cost center's costs may later be passed on as overhead to another cost center, a cost object, or other object in CO.
- The Financial Accounting application area of R/3 is a primary source of data for Controlling. Typically, expense postings to the General Ledger result in cost postings to CO. These expense postings to the G/L could be manual journal entries, or initiated through accounts payable postings, or through depreciation postings from Asset Accounting (FI-AA), or from other R/3 modules.
- Revenue postings to the G/L would also typically generate postings in CO to CO-PA and Profit Center Accounting.
- Both expense and revenue postings from FI must specify an object in CO that will receive the cost or revenue data.
- There are also several situations that will cause CO to create postings in FI. These would include reconciliation postings initiated by the reconciliation ledger in CO, inventory postings caused by the delivery of finished goods from production, and settlement of capital costs from the creation of fixed assets.



- The Human Resources (HR) modules can generate several types of cost postings to Controlling, including payroll and benefits. The HR system allows you to allocate the cost of labor to different Controlling (CO) objects. In addition, planned personnel costs can be transferred to CO as input to CO planning.

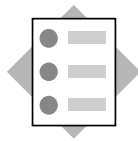


- The Logistics area of R/3 also has numerous integration points with Controlling. In the inventory area of Materials Management, a goods issue transaction can create a cost posting in CO to whichever object is specified (for example: cost center, production order, internal order). Looking from the other direction, CO can cause a posting to inventory (in MM) resulting from the delivery of finished goods from production. In addition, product cost estimates created in CO can update price fields in material master records. Finally, the creation of purchase orders in MM can generate commitment postings within CO.



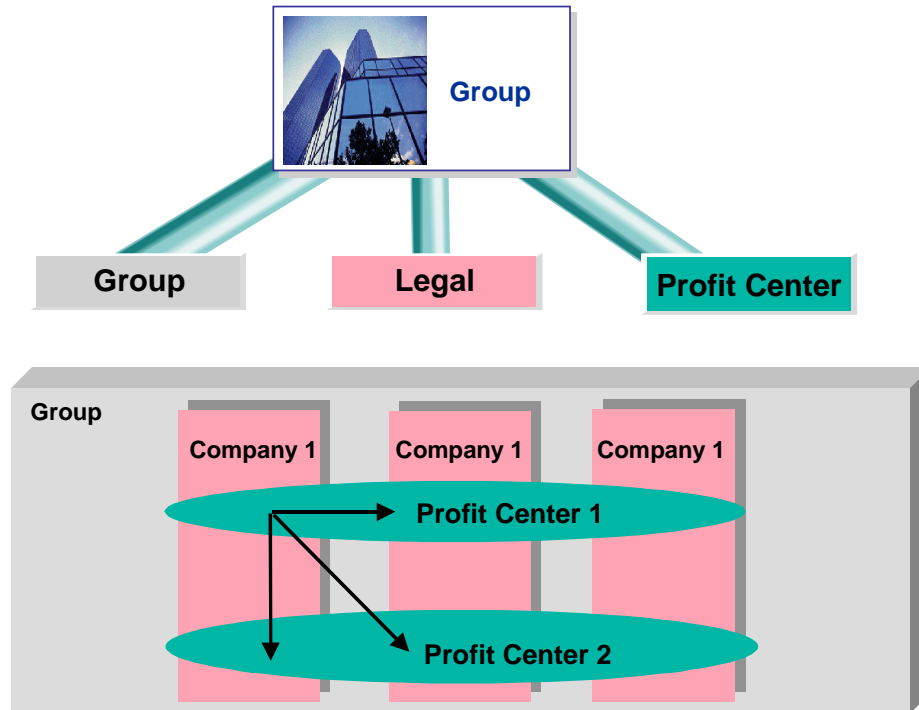
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- The Production Planning (PP) area of Logistics also works very closely with Controlling. Bills of Material (BOMs) and routings, which are created in PP, can be utilized in Product Cost Controlling in CO. In addition, PP production orders are one form of cost object utilized to track and control production costs in Cost Object Controlling.
- Sales and Distribution (SD) is a primary source of revenue postings to CO via billing documents. An SD sales order can also be used in conjunction with a make-to-order production scenario in CO, in order to track costs and revenues and evaluate the profitability of fulfilling the order.



**At the conclusion of this topic you will be able to:**

- **describe the purpose of Transfer Prices**
- **understand how the Transfer Price concept is implemented in the R/3 System**



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- The view of the individual company and the valuation of business transactions according to legal reporting requirements represents **only one** of several possible perspectives. Balance sheet and tax considerations play an important role in the financial statements of the individual companies.
- In addition to this legal view, though, successful corporate and group management need information that shows business activities from the point of view of the whole group or of individual profit centers.
- Corporate controlling for the entire group requires you to value these business transactions using group production costs. In many groups the management structures do not correspond to the individual legal accounting units. Internal prices guide the activities of the individual profit centers according to market principles. Consequently, value flows represented from the point of view of profit centers are vital for the purposes of internal management and profitability.