

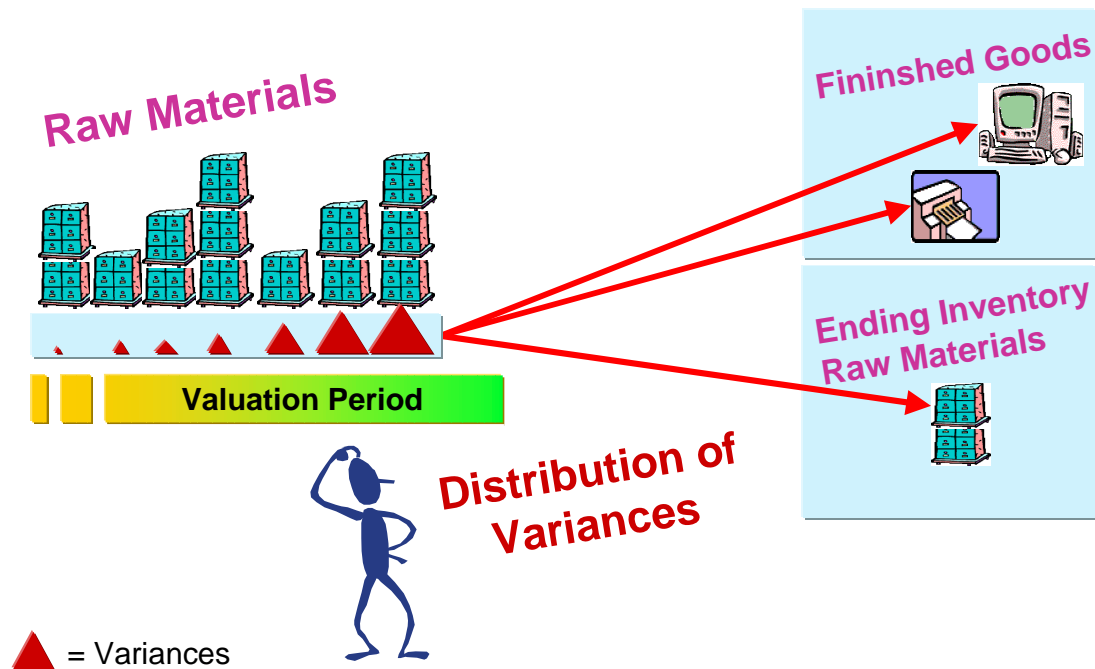


- What actual costs did we incur in our area in the current period?
- What costs were we expecting based on the quantities manufactured?
- Are some product groups performing significantly better than others?
- What is causing these variances?
- What are the scrap costs of our new line?
- Did continuous improvements show cost effects?

- Cost Object Controlling includes three principal steps: preliminary costing of the cost object, simultaneous costing, and period-end closing.
- Preliminary costing refers to the calculation of planned costs for a cost object, such as a production order. Planning variances can be determined by comparing the results of preliminary order costing with the standard cost estimate for the quantity of material to be produced with the order.
- In Cost Object Controlling, as quantities of raw materials are issued for use in a production scenario, either from inventory or from external purchase, their value is accumulated on the appropriate cost object (such as a production order). Similarly, as an activity type is performed in the production scenario (such as hours of direct labor), the cost of that activity is also accumulated on the cost object. This process is termed simultaneous costing. It refers to the posting of cost to a cost object by the same transaction that documents the material issue or activity completion. (The transaction that is used to document the completion of units of an activity is called a confir

mation.) The simultaneous costing concept may sometimes be referred to as valuation of quantity flows to a cost object.

- Period-end closing refers to a series of tasks performed at the end of each accounting period. This includes calculating applicable overhead costs, calculation of work in process (WIP), calculation of variances, and settlement (which passes information to Financial Accounting, Profit Center Accounting, and Profitability Analysis).
- Various standard reports are provided to analyze the costs posted to cost objects.

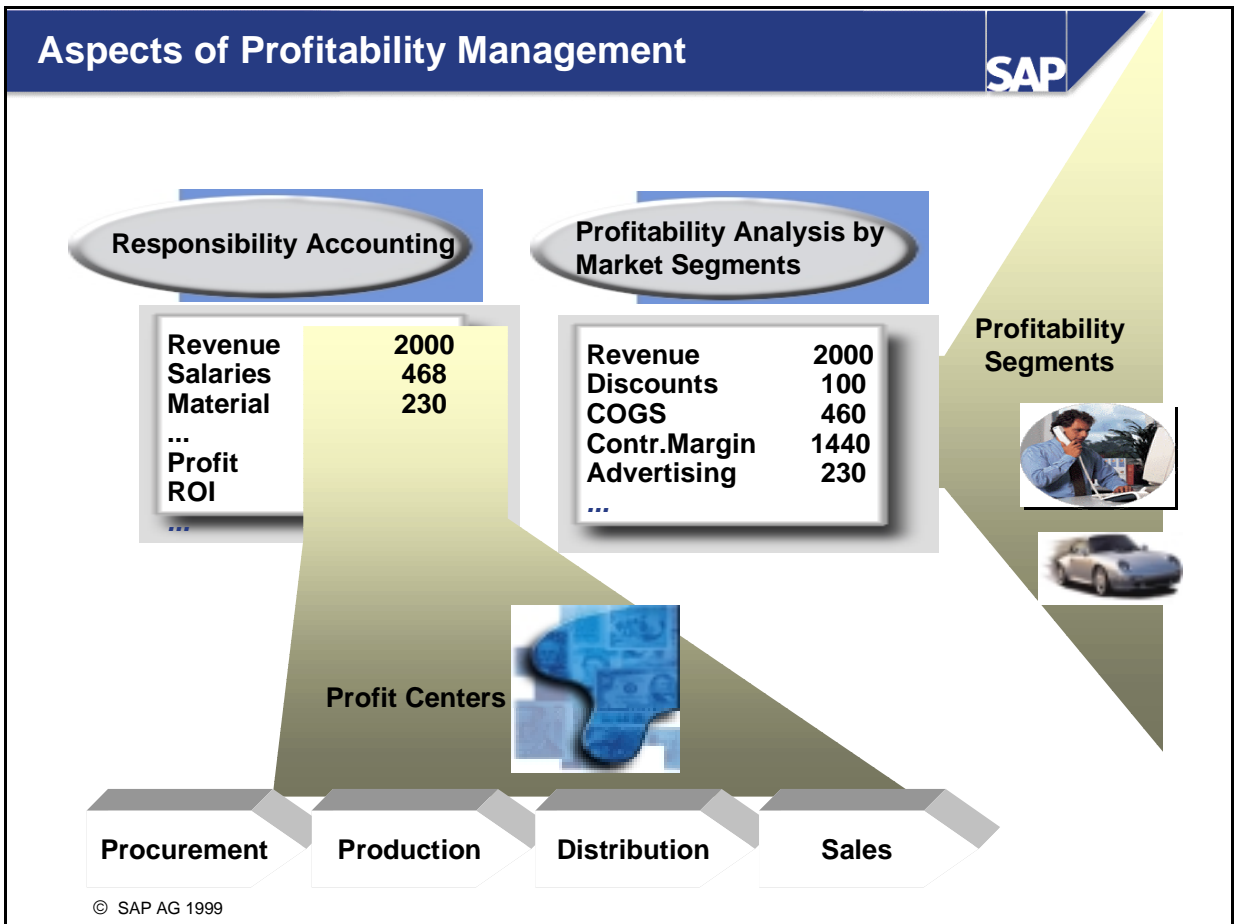


- Actual Costing uses the Material Ledger to store material prices in up to three currencies and according to three valuation strategies (group, legal and profit center).
- Actual Costing aims to provide the actual costs for each material at period close. Each material movement is recorded in the Material Ledger together with the preliminary valuation and any variance (from invoice or order settlement). Material settlement is used to integrate this variance into the material price at period close.
- Both single-level and multi-level material settlement are available. Multi-level settlement is used to reconstruct the quantity structure based on the material movements for the period, and assign variances for the raw materials to the finished and semi-finished products as follow-up costs.
- The actual price for each material can be updated to the material master for the closed period.



- **Profitability Management**
 - **Profitability Analysis (CO-PA)**
 - **Profit Center Accounting (EC-PCA)**





■ Profitability Reporting:

- Profitability Analysis (CO-PA) lets you analyze the profitability of segments of your external market. These segments can be defined according to products, customers, geographic areas, and numerous other characteristics, as well as your internal organizational units such as company codes or business areas. The aim is to provide your executive management, sales, marketing, planning, and other groups in your organization with decision-support from a market-oriented viewpoint.

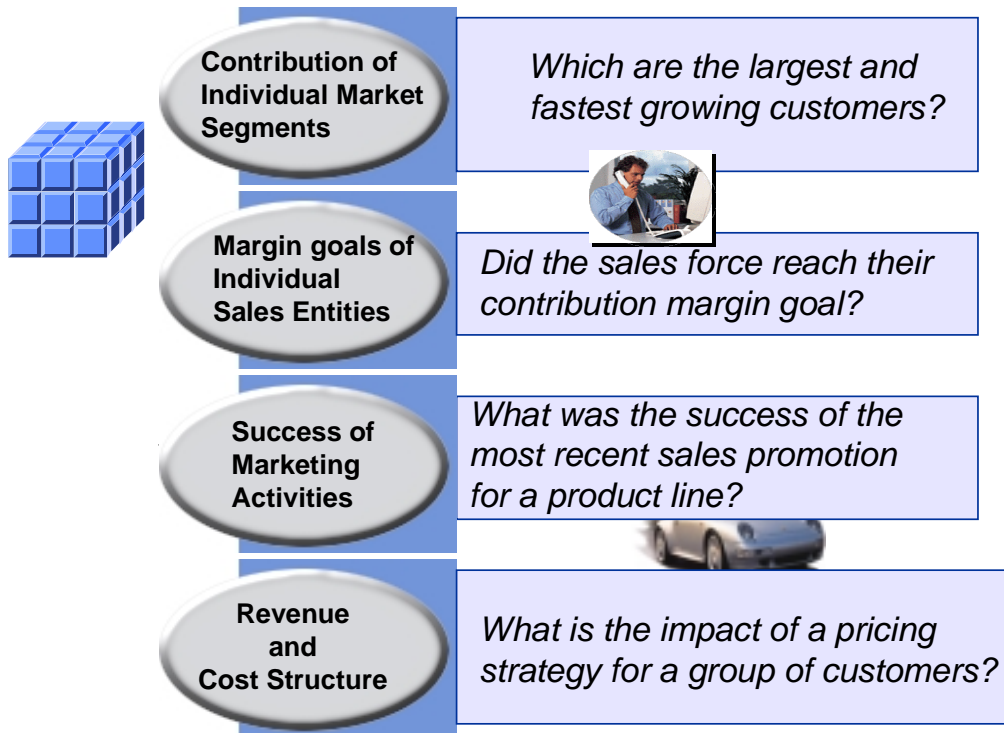
■ Responsibility Reporting:

- EC-PCA lets you analyze internal profit and loss for profit centers. This makes it possible for you to evaluate different areas or units within your company. You can structure profit centers according to region (branch offices, plants), function (production, sales), or product (product groups, divisions). Profit Center Accounting is a co

mponent of the "Enterprise Controlling" module.

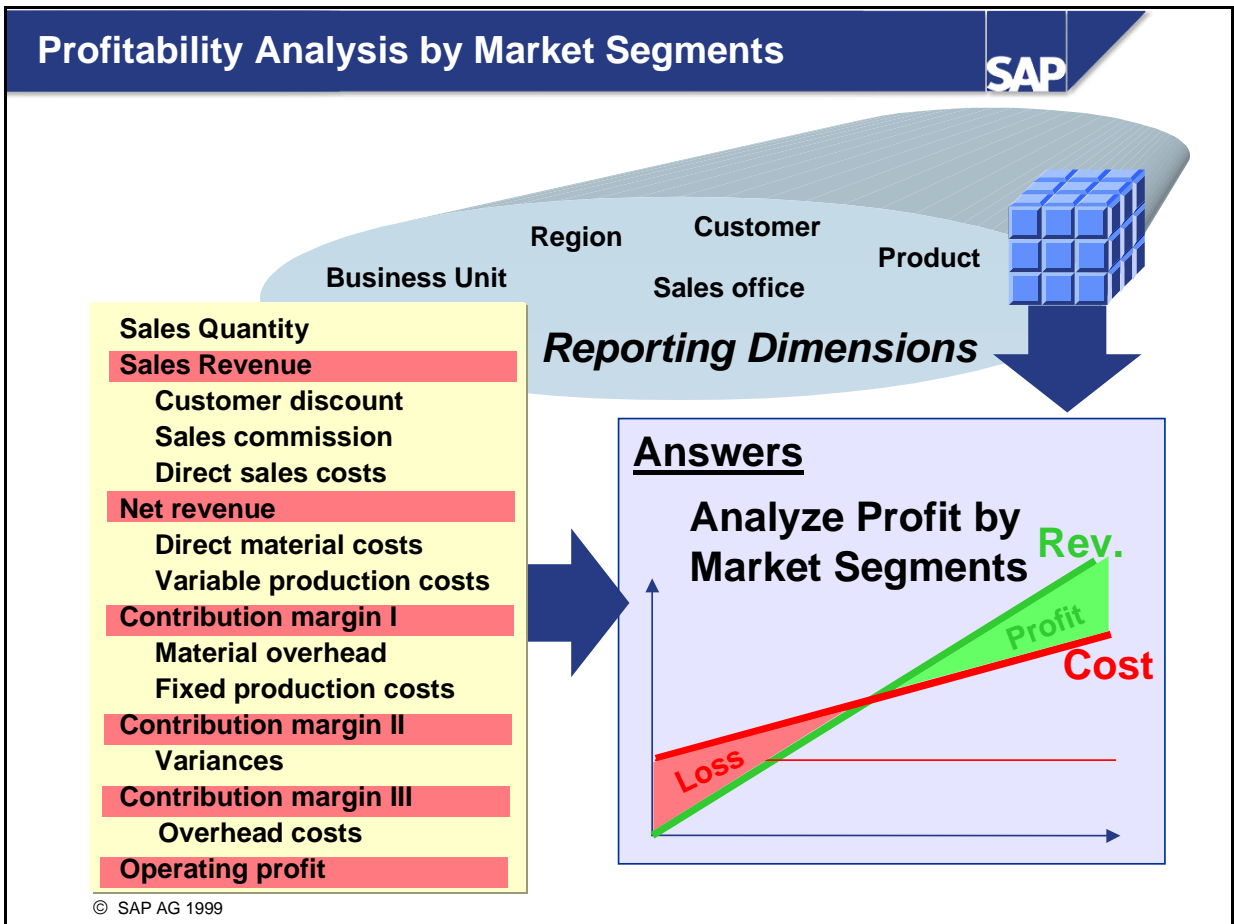
Typical Questions in Profitability Analysis

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- Profitability Analysis (CO-PA) enables you to analyze profits and contribution margins for market segments of your company. The objective of CO-PA is to support sales, product management, and corporate-wide planning and decision-making, using an external view from a market-oriented perspective.



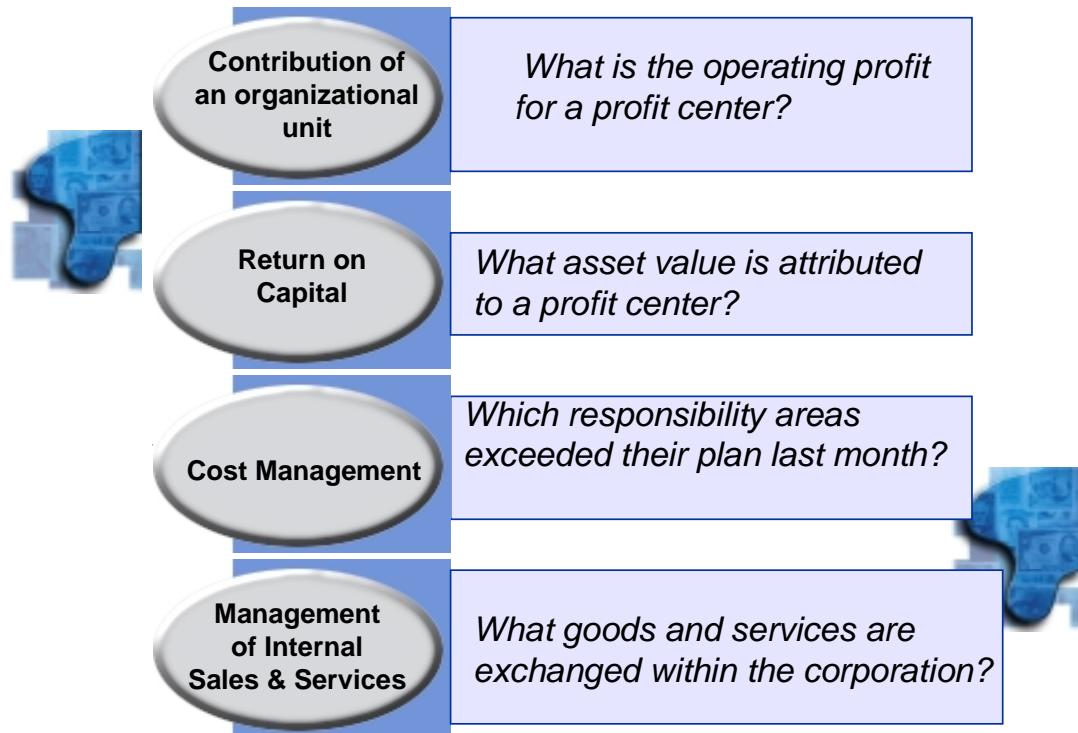
- The market segments are defined in terms of characteristics such as products, product groups, customers, customer groups, geographic areas, etc. For example, you may wish to analyze profitability for a specific group of products that you sell to a particular customer (or group of customers). When setting up CO-PA for use in your company, you will have broad flexibility to choose whichever characteristics are relevant for defining your company's market segments. Each unique combination of characteristic values (e.g. sales of product A to customer Y) defines a profitability segment.
- You must also decide which specific values related to profitability should be analyzed for those segments. These values are known as key figures. For example, you can define which types of revenue and expense/cost categories should be used to determine a value for gross margin according to your company's requirements. Here again, CO-PA gives you the ability to freely select whichever values are relevant to the various users in your company. If different types of users define gross margin differently (e.g. sales management vs. product management), it is possible to provide separate

gross margin figures for each, calculated according to their individual requirements.

- CO-PA provides a multidimensional reporting tool that can be used to design reports that analyze data for any selected market segments, and any defined measures of profitability.

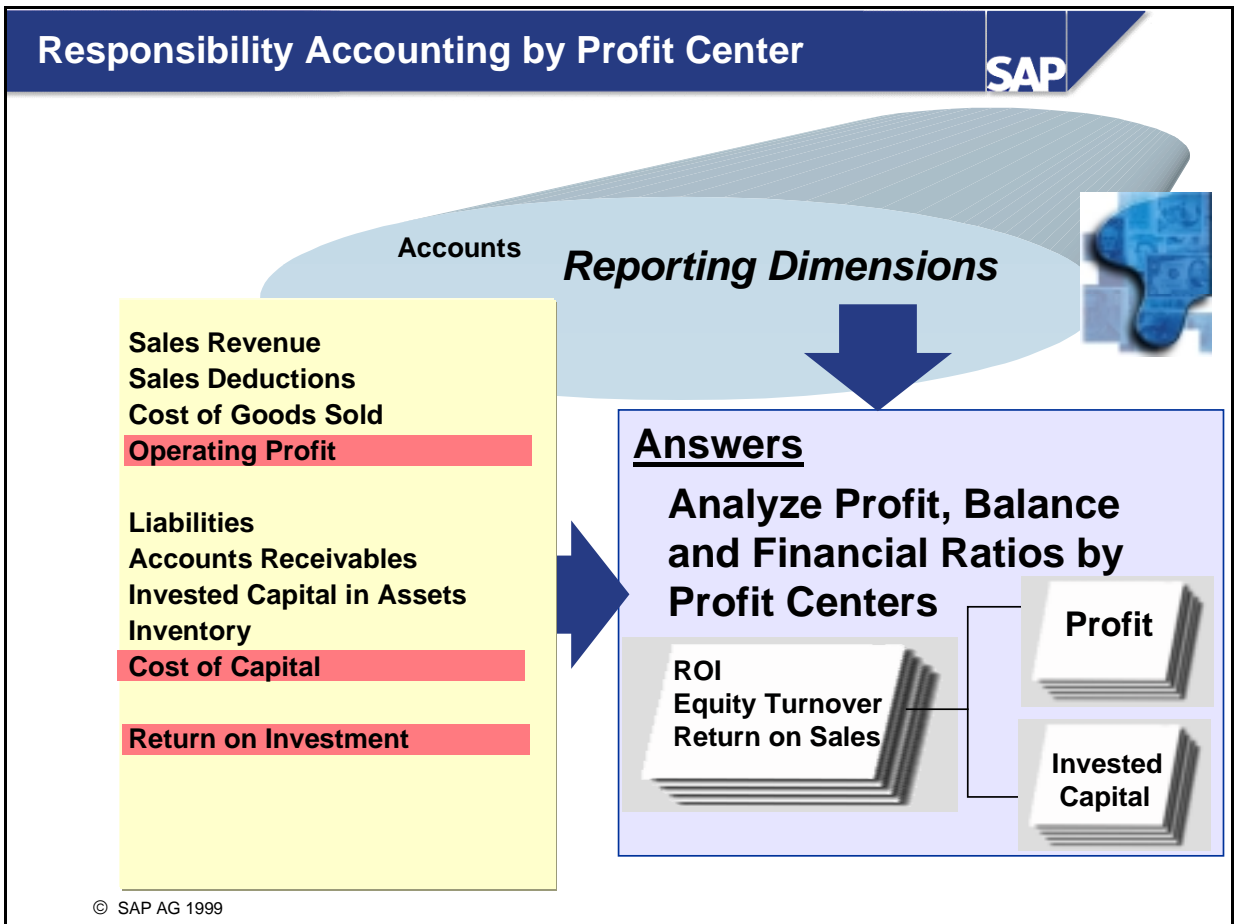
Typical Questions in Profit Center Accounting

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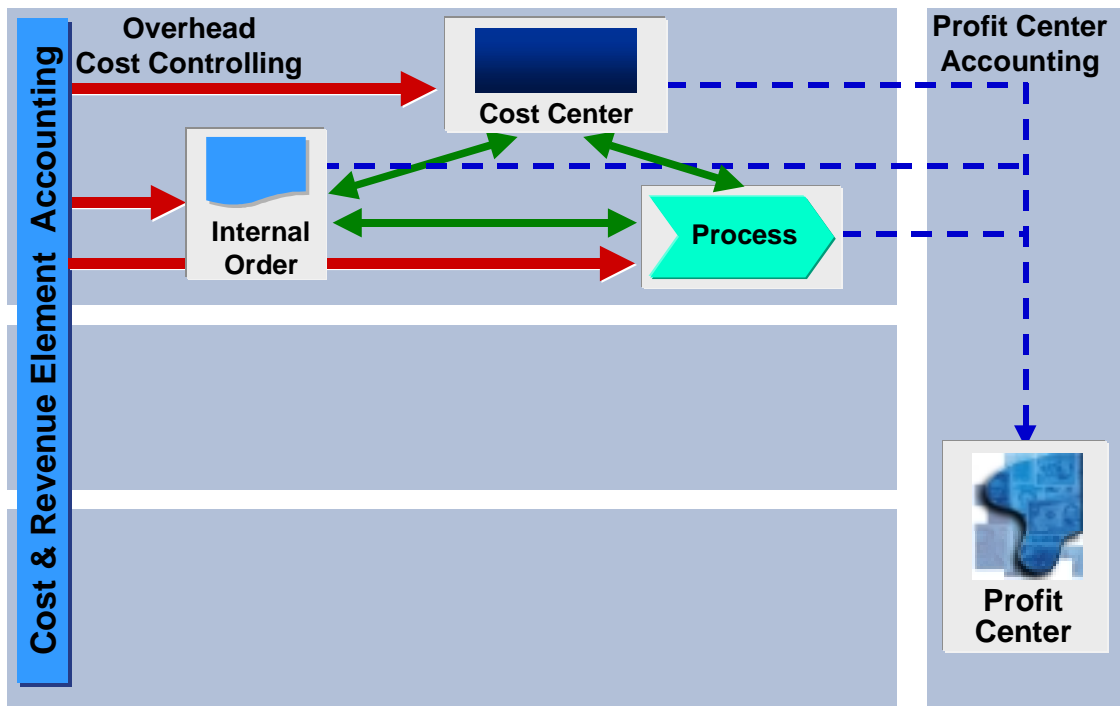
- A profit center is a management-oriented organizational unit used for internal controlling purposes. Dividing your company up into profit centers allows you to analyze areas of responsibility and to delegate responsibility to decentralized units, thus treating them as "companies within the company". EC-PCA lets you set up your profit centers according to product (product lines, divisions), geographical areas (regions, offices or production sites) or function (production, sales).



- Profit Center Accounting (PCA) allows you to calculate internal measurements of profitability. This internal view of profitability, then, reflects the success of a given profit center at meeting the profitability goal for which it was given responsibility.
- The Information System provides a tool for evaluating plan and actual data. Numerous standard reports are provided, and you can create your own custom reports as well.
 1. Reports can be executed for Profit Centers or Profit Center groups. Profit Center Accounting can report on selected balance sheet items, such as Assets, AR/AP, Material Inventory, and Work in Process. This permits the calculation of certain financial key ratios such as ROI (Return on Investment). Other reporting capabilities include detailed information on the source objects (e.g. cost centers, internal orders) that contributed costs posted to profit centers.

Integration Within CO - Value Flows (1)

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- There can be numerous interrelationships between the various CO components. Value flows can occur for many different purposes.
- Within the Overhead Cost Controlling area, costs can be posted to cost centers and internal orders from other R/3 modules (external costs). Cost centers can then allocate costs to other cost centers, to orders, and to processes in Activity-Based Costing (ABC). Processes, in turn, can pass costs to cost centers and orders. Internal orders can settle costs to cost centers and to processes in ABC (as well as to other orders).