

11i Implement and Use Cost Management Average and Standard Costing

Student Guide – Volume 1

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Preface

Profile

Before You Begin This Course

Prerequisites

There are no prerequisites for this course.

How This Course Is Organized

11i Implement and Use Cost Management Average and Standard Costing is an instructor-led course featuring lecture and hands-on exercises. Online demonstrations and written practice sessions reinforce the concepts and skills introduced.

Related Publications

Oracle Publications

Additional Publications

- System release bulletins
- Installation and user's guides
- read.me files
- Oracle Magazine

Typographic Conventions

Typographic Conventions in Text

Convention	Element	Example
Bold italic	Glossary term (if there is a glossary)	The <i>algorithm</i> inserts the new key.
Caps and lowercase	Buttons, check boxes, triggers, windows	Click the Executable button. Select the Can't Delete Card check box. Assign a When-Validate-Item trigger to the ORD block. Open the Master Schedule window.
Courier new, case sensitive (default is lowercase)	Code output, directory names, filenames, passwords, pathnames, URLs, user input, usernames	Code output: <code>debug.set ('I', 300);</code> Directory: <code>bin (DOS), \$FMHOME (UNIX)</code> Filename: Locate the <code>init.ora</code> file. Password: User <code>tiger</code> as your password. Pathname: Open <code>c:\my_docs\projects</code> URL: Go to <code>http://www.oracle.com</code> User input: Enter <code>300</code> Username: Log on as <code>scott</code>
Initial cap	Graphics labels (unless the term is a proper noun)	Customer address (<i>but</i> Oracle Payables)
Italic	Emphasized words and phrases, titles of books and courses, variables	Do <i>not</i> save changes to the database. For further information, see <i>Oracle7 Server SQL Language Reference Manual</i> . Enter <code>user_id@us.oracle.com</code> , where <i>user id</i> is the name of the user.
Quotation marks	Interface elements with long names that have only initial caps; lesson and chapter titles in cross-references	Select "Include a reusable module component" and click Finish. This subject is covered in Unit II, Lesson 3, "Working with Objects."
Uppercase	SQL column names, commands, functions, schemas, table names	Use the SELECT command to view information stored in the LAST_NAME column of the EMP table.

Convention	Element	Example
Arrow	Menu paths	Select File—> Save.

Brackets	Key names	Press [Enter].
Commas	Key sequences	Press and release keys one at a time: [Alternate], [F], [D]
Plus signs	Key combinations	Press and hold these keys simultaneously: [Ctrl]+[Alt]+[Del]

Typographic Conventions in Code

Convention	Element	Example
Caps and lowercase	Oracle Forms triggers	When-Validate-Item
Lowercase	Column names, table names	SELECT last_name FROM s_emp;
	Passwords	DROP USER scott IDENTIFIED BY tiger;
	PL/SQL objects	OG_ACTIVATE_LAYER (OG_GET_LAYER ('prod_pie_layer'))
Lowercase italic	Syntax variables	CREATE ROLE <i>role</i>
Uppercase	SQL commands and functions	SELECT userid FROM emp;

Typographic Conventions in Navigation Paths

This course uses simplified navigation paths, such as the following example, to direct you through Oracle Applications.

(N) Invoice > Entry > Invoice Batches Summary (M) Query > Find (B) Approve

This simplified path translates to the following:

1. (N) From the Navigator window, select Invoice > Entry > Invoice Batches Summary.
2. (M) From the menu, select Query > Find.
3. (B) Click the Approve button.

Notations :

(N) = Navigator

(M) = Menu

(T) = Tab

(I) = Icon

(H) = Hyperlink

(B) = Button

Typographical Conventions in Help System Paths

This course uses a “navigation path” convention to represent actions you perform to find pertinent information in the Oracle Applications Help System.

The following help navigation path, for example—

(Help) General Ledger > Journals > Enter Journals

—represents the following sequence of actions:

1. In the navigation frame of the help system window, expand the General Ledger entry.
2. Under the General Ledger entry, expand Journals.
3. Under Journals, select Enter Journals.
4. Review the Enter Journals topic that appears in the document frame of the help system window.

Getting Help

Oracle Applications provides you with a complete online help facility.

Whenever you need assistance, simply choose an item from the Help menu to pinpoint the type of information you want.

To display help for a current window:

1. Choose Window Help from the Help menu, click the Help button on the toolbar, or hold down the Control key and type 'h'.

A web browser window appears, containing search and navigation frames on the left, and a frame that displays help documents on the right.

The document frame provides information on the window containing the cursor. The navigation frame displays the top-level topics for your responsibility, arranged in a tree control.

2. If the document frame contains a list of topics associated with the window, click on a topic of interest to display more detailed information.

3. You can navigate to other topics of interest in the help system, or choose Close from your web browser's File menu to close help.

Searching for Help

You can perform a search to find the Oracle Applications help information you want. Simply enter your query in the text field located in the top-left frame of the browser window when viewing help, then click the adjacent Find button.

A list of titles, ranked by relevance and linked to the documents in question, is returned from your search in the right-hand document frame. Click on whichever title seems to best answer your needs to display the complete document in this frame. If the document doesn't fully answer your questions, use your browser's Back button to return to the list of titles and try another.

11i Overview of Cost Management

Chapter 1

11i Overview of Cost Management

11i Overview of Cost Management

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Course Objectives

After completing this course, you should be able to describe:

- **The role of cost management**
- **Costing setup and implementation**
- **Cost information**
- **Cost rollup**
- **Average costing**
- **Standard costing**
- **Analyzing inventory and WIP transactions**
- **Period close for inventory organizations**
- **Periodic costing**

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Agenda

Agenda

- **Product Overview**
- **Role of Cost Management**
 - **Product Costing**
 - **Inventory Control and Valuation**
 - **Profit Analysis**
 - **Management Reporting**
 - **Budgeting and Planning**
- **Cost Management Business Flow**
- **Oracle Cost Management Integration**

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Product Overview

Product Overview

Oracle Cost Management helps you manage and control your business. This sophisticated tool is used for:

- **Product costing**
- **Inventory valuation**
- **WIP valuation**
- **Cost simulation**
- **Margin analysis**


Performance


Analysis


Audit control

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Aim

This course explains how to use Oracle Cost Management to meet your accounting needs.

Product Overview

Using Oracle Cost Management, you can:

- **Value inventory and work in process on a perpetual basis**
- **Choose a perpetual costing method, including standard costing or average costing, for each organization**
- **Simulate, analyze, and forecast product costs**
- **Easily update and manage item unit costs**
- **Flexibly define the inventory structure and cost controls that are important to your business**

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Product Overview

Using Oracle Cost Management, you can:

- **View and report item costs, inventory and work in process values, accounting entries, and gross margins**
- **Close periods quickly and easily**
- **Automatically transfer inventory and work in process transactions to your general ledger**
- **Choose periodic costing methods, including periodic average costing and incremental LIFO costing**

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Agenda

Agenda

- Product Overview
- **Role of Cost Management**
 - Product Costing
 - Inventory Control and Valuation
 - Profit Analysis
 - Management Reporting
 - Budgeting and Planning
- Cost Management Business Flow
- Oracle Cost Management Integration

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Role of Cost Management

You use cost management to implement operational control and analysis for an organization.

Control

- **Establish product costs**
- **Control and value inventory**
- **Formulate budgets and plans**

Analysis

- **Analyze profitability**
- **Generate management reports**
- **Forecast profitability**

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Agenda

Agenda

- Product Overview
- Role of Cost Management
 - **Product Costing**
 - Inventory Control and Valuation
 - Profit Analysis
 - Management Reporting
 - Budgeting and Planning
- Cost Management Business Flow
- Oracle Cost Management Integration

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Product Costing

- Cost management uses product costs to value inventory and determine profitability.
- Generally accepted methods for setting product costs are listed below.

Oracle Cost Management

Method	Support
Average Costing	Supported by Oracle Cost Management for all organizations.
Standard Costing	Supported by Oracle Cost Management for all organizations. Standard costs can be shared across inventory-only organizations.
FIFO (First In First Out) Costing	Not supported by Oracle Cost Management in this release.
Periodic Average Costing	Supported by Oracle Cost Management.
Incremental LIFO (Last In First Out) Costing	Supported by Oracle Cost Management.

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Product Costing Method: Average Costing

Product Costing Method: Average Costing

- **There are two types of average costing:**
 - **Moving-average**
 - **Periodic**
- **With the advent of computers, most cost accountants prefer the moving-average method.**

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Product Costing Method: Average Costing

Average Costing

- Moving-average costing uses the transaction cost to derive item costs:
 - As you receive items into inventory, you reweight the average unit cost with the transaction value.
 - In certain instances, you also reweight the average unit cost when you issue from inventory.
- Average costing perpetually values inventory using a costing method based on actual costs, holding inventory at a weighted average cost.
- At any point in time, the average cost of an item is the cumulative value of all transactions divided by the cumulative transaction quantity for an item.

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Product Costing Method: Periodic Costing

Periodic Costing

- **Periodic costing values inventory on a periodic basis. There are three principal objectives of periodic costing:**
 - **To capture actual acquisition costs based on supplier invoiced amounts plus other direct procurement charges required by national legislation or company policy**
 - **To capture actual transaction costs using fully absorbed resource and overhead rates**
 - **To average inventory costs over a prescribed period, rather than on a transactional basis**

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Product Costing Method: Periodic Costing

Periodic Costing

- **There are two types of periodic costing:**
 - **Periodic average costing**
 - **Periodic incremental LIFO costing**

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Product Costing Method: Periodic Average Costing

Product Costing Method: Periodic Average Costing

- Periodic average costing establishes costs on a per-item and per-period basis, using the derived cost and final balance as the beginning balance of the next period.
 - You can use periodic average costing to cost one or more organizations on a periodic basis. This cost is based on invoice price, when available.
 - You can match additional invoiced charges, such as freight, customs, or insurance, to the material receipts.
- For manufactured items, periodic average costing values inventory by including full absorption of resource and overhead costs.

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Product Costing Method: Periodic Incremental LIFO Costing

Product Costing Method: Periodic Incremental LIFO Costing

- Incremental LIFO costing values inventory by assuming that the most recently received item (last in) is the first to be used or sold (first out), but there is no necessary relationship to the physical movement of specific items.

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Product Costing Method: Standard Costing

- **Standard costing uses predefined costs that are fixed for a specified period of time.**
- **Use standard costing for performance measurement and control.**

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Product Costing Method: Standard Costing

- **Define component costs (material costs) using the projected average acquisition costs and associated indirect costs (material overhead) over the specified period of time.**
- **Roll up assembly costs using bills of material and routings:**
 - **Use bills of material to determine the component cost of an assembly.**
 - **Use routings to apply both internal (resource) and external (outside processing) conversion costs as well as indirect costs (overhead) to assemblies.**

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Agenda

Agenda

- Product Overview
- Role of Cost Management
 - Product Costing
 - **Inventory Control and Valuation**
 - Profit Analysis
 - Management Reporting
 - Budgeting and Planning
- Cost Management Business Flow
- Oracle Cost Management Integration

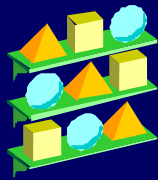
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Inventory Control and Valuation

Financial Integrity of Inventory Balances

- You depend on cost management to generate information about the financial integrity of inventory balances reported by the organization.



Inventory



Control



Valuation

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Inventory Control and Valuation

Inventory Control

- You can use cost management to verify the accuracy of onhand balances by reviewing and auditing the physical inventory and cycle-count programs performed by materials management. You can also use cost management for reviewing policies and procedures related to accessing and acquiring inventory.

Inventory Valuation

- Inventory valuation reflects the result of inventory controls (onhand quantities), product costs (unit costs), and potentially the analysis of variances. Not every company capitalizes its variances.

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Profit Analysis

Margin Analysis Reports

- You can use cost management to determine profitability by analyzing costs associated with revenue-generating activities.
- Use the Margin Analysis Reports to report sales revenue, cost of goods sold, and gross margin information for each item shipped/invoiced within the specified date range.
- You can print reports in summary and in detail.
- The costing method of the organization is independent of margin analysis reporting and does not affect the procedure to run margin analysis reports.

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Profit Analysis

Gross Margin Versus Gross Profit

- Generally, direct cost of goods sold is shipped inventory valued at one of the costing methods.

Gross Margin = Revenue – Direct Cost of Goods Sold

- Generally, other cost of sales includes manufacturing variances, freight and duty, royalty, warranty and other indirect costs.

Gross Profit = Gross Margin – Other Cost of Goods Sold



Analysis

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Management Reporting

- You can use cost management to prepare various management reports regarding profits and operations for an organization.



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Management Reporting

Profitability Reporting

- Gross margin or gross profit
- Product-line profitability
- Pricing reviews
- Variance analysis
- Overhead absorption
- Purchase price variance and invoice price variance
- Manufacturing variances and scrap

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Management Reporting

Operational Reporting

- Inventory balances
- Excess and obsolete inventory
- Comparisons of actual production to planned levels
- Input/output analysis

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Budgeting and Planning

- You can use cost management to assist you in budgeting direct and indirect production costs, planning production levels, and forecasting profitability.



Reports



Budgeting



**Planning
production**



**Forecasting
profitability**

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Budgeting and Planning

Budgeting

- Departmental operating budgets
- Indirect production expenses
- Cash forecasting for inventory

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Budgeting and Planning

Planning Production

- Use revenue forecast to determine required production levels.
- Factor in desired inventory levels to modify production level.
- Determine standard resource and overhead rates using planned production levels.
- Set standard costs for the period.

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Budgeting and Planning

Forecasting Profitability

- Forecast cost of goods sold (multiply forecast unit sales of an item by the pending standard cost).
- Forecast gross margin (revenue forecast less the cost of goods sold forecast).
- Forecast variances and indirect production expenses (the difference between budgeted spending and planned production value).
- Forecast gross profit (forecast gross margin minus forecast variances and indirect production costs).

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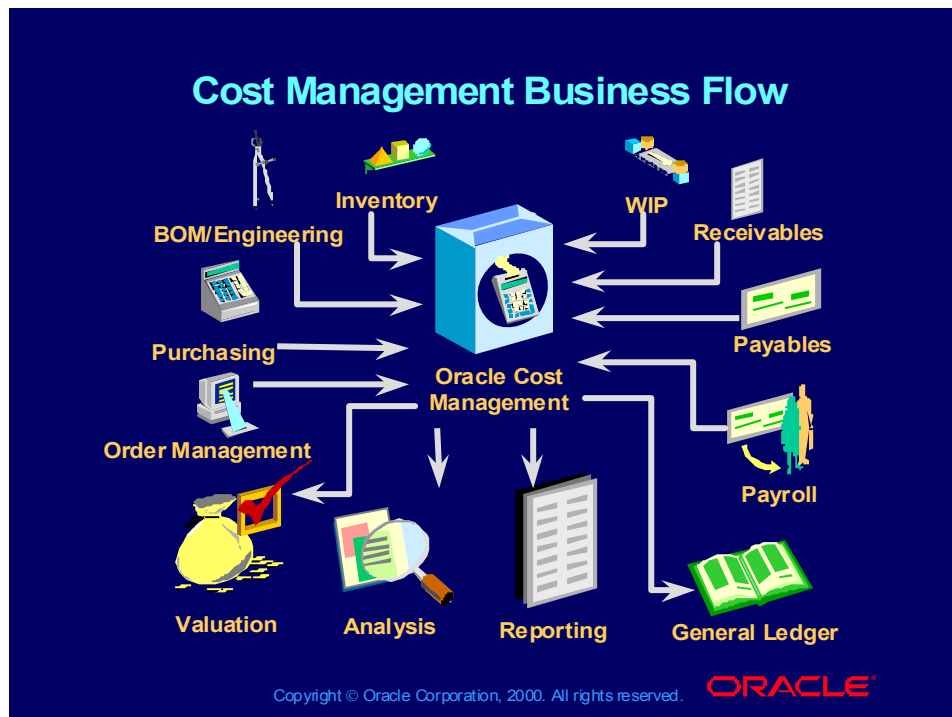
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- **Cost Management Business Flow**
- Oracle Cost Management Integration

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Cost Management Business Flow



Cost Management Business Flow

- In Oracle Order Management, you enter customer orders and shipments.
- In Oracle Receivables, you enter product sales information.
- In Oracle Purchasing, you open purchase orders, establish purchase order unit prices, receive material, and handle outside processing charges.
- In Oracle Bills of Material/Oracle Engineering, you create product structures, routings, resources, standard operations, and departments used in product costing.
- In Oracle Inventory, you define the organizational structure/cost environment where you process material transactions and maintain perpetual inventory values using either standard or average costing.
- In Oracle WIP, you enter WIP transactions and maintain perpetual WIP inventory values using either standard or average costing.
- In Accounts Payable, you pay actual invoice unit prices on purchase order fulfillment.
- In Payroll, you set up employees that work in your organization.
- In Oracle Cost Management, you cost products, value inventory in stores and in work-in-process, and run simulation reports to analyze costs and profits. You pass cost information to many applications and transfer accounting activity to your general ledger at any time.

Cost Management Business Flow

Application

- Order Management
- Receivables
- Purchasing
- Bills of Material/
Engineering

Information

- Orders and shipments
- Product sales
- Purchase orders,
prices, receipts, and
outside processing
- Product structures,
routings, resources,
standard operations,
and departments

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Cost Management Business Flow

Application

- Inventory
- WIP
- Accounts Payable
- Payroll

Information

- Organizational structure, cost environment, transactions, inventory valuation at standard or at average
- Transactions, WIP valuation at standard or at average
- Actual invoice unit prices on purchase order fulfillment
- Employees

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Cost Management Business Flow

Application

- Cost Management

Information

- Product costs
- Valuation of stores and of work-in-process
- Simulation reports to analyze costs and profits
- Cost information passed to many applications
- Accounting activity transferred to the general ledger at any time

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Agenda

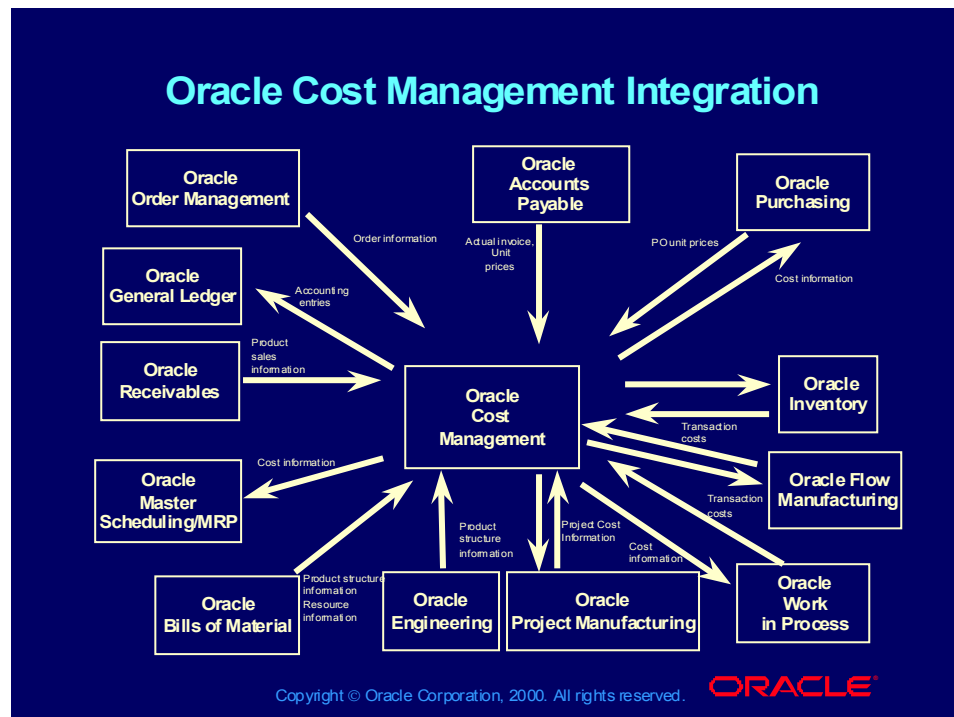
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Oracle Cost Management Integration



Integrated Application Suite

- Together, all Oracle Manufacturing and Oracle Financials comprise an integrated suite of business applications that provide accurate financial analysis and reporting of cost transactions.
- Oracle Cost Management is a sophisticated product costing, inventory valuation, WIP valuation, and margin analysis tool that you can use to control, manage, and analyze the profitability of your business.
- Oracle Cost Management is fully integrated with other Oracle applications and provides a comprehensive cost accounting solution to your business needs.

Oracle Cost Management supports flexible inventory costing with advanced options. You can:

- Maintain perpetual inventory values using either standard or average costing.
- Maintain, edit, and change your costs at any time.
- Process material transactions or move inventory, and accounting entries are automatically created.
- Automatically interface inventory and WIP transactions with your general ledger.
- Transfer accounting activity to your general ledger at any time.

Oracle Cost Management Integration

Application

- **Manufacturing and Financials**
- **Cost Management**

Function

- **Integrated suite of business applications**
- **Provide accurate financial analysis and reporting of cost transactions**
- **Product costing, inventory valuation, WIP valuation, margin analysis**
- **Use to control, manage, and analyze the profitability of your business**

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Oracle Cost Management Integration

Application

- Cost Management

Function

- Perform flexible inventory costing
- Maintain perpetual inventory values at standard or average
- Maintain, edit, and change costs at any time
- Process material transactions or move inventory, and generate accounting entries automatically

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Oracle Cost Management Integration

Application	Function
<ul style="list-style-type: none">• Cost Management	<ul style="list-style-type: none">• Automatically interface inventory and WIP transactions with the general ledger• Transfer accounting activity to the general ledger at any time• Supports costing for Oracle Flow Manufacturing at standard or average

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Integrated Application Suite

- Oracle Cost Management supports costing for Oracle Flow Manufacturing in both standard and average costing organizations.

Oracle Cost Management Integration

Application	Function
<ul style="list-style-type: none">• Cost Management	<ul style="list-style-type: none">• Supports costing for Oracle Project Manufacturing• Cost all project related manufacturing transactions• Capture manufacturing costs by project or by project and task and transfer them to Oracle Projects

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Integrated Application Suite

- Oracle Cost Management supports costing for Oracle Project Manufacturing.
- You can cost all project related manufacturing transactions and then capture these costs and transfer them to Oracle Projects.
- You can associate items and manufacturing business processes with specific projects, and optionally tasks, to track quantity and cost information through these business processes.
- With project manufacturing costing, you can process and cost material and labor against a specific project or a group of projects for a specific customer.

Review Question

Review Question

Cost management uses product costs to value inventory and determine profitability. You depend on cost management to generate information about the financial integrity of inventory balances reported by the organization.

- 1. True**
- 2. False**

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Review Question

Review Question

Cost management uses product costs to value inventory and determine profitability. You depend on cost management to generate information about the financial integrity of inventory balances reported by the organization.

- 1. True**
- 2. False**

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Summary

Summary

In this course, you should have learned how to:

- **Describe the role of cost management**

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11i Overview of Implementing and Setup for Cost Management

Chapter 2

11i Overview of Implementing and Setup for Cost Management

11i Overview of Implementing and Setup for Cost Management

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Objectives

After completing this course, you should be able to do the following:

- **Describe general ledger cost controls**
- **Describe organizational cost controls**
- **Describe financial cost controls**
- **Describe work-in-process (WIP) cost controls**

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Agenda

Agenda

- Describing general ledger cost controls
- Describing organizational cost controls
- Describing financial cost controls
- Describing work-in-process (WIP) cost controls

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Overview



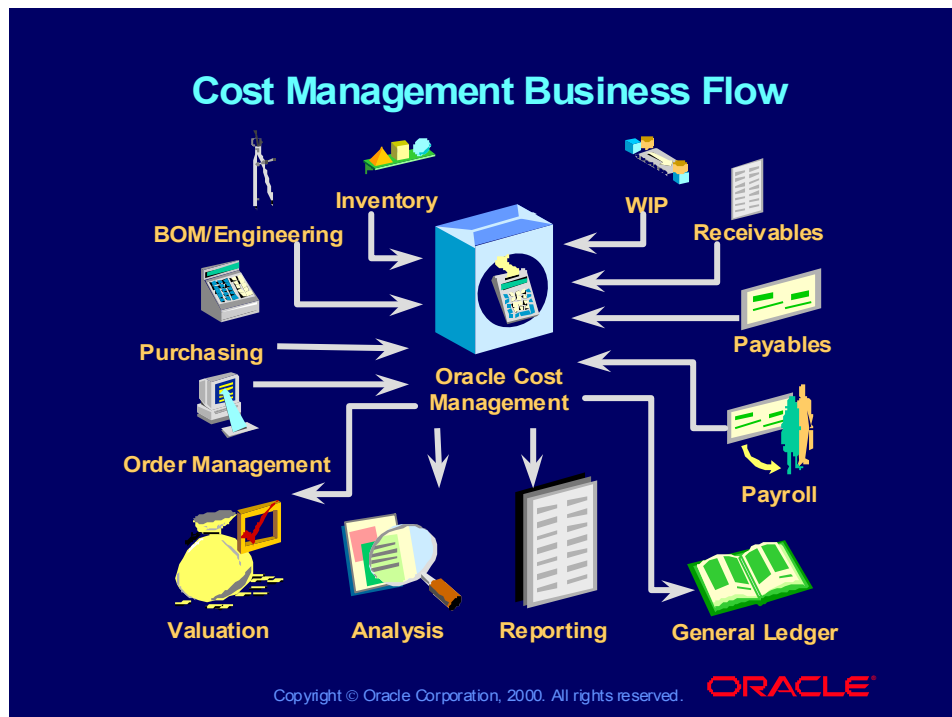
Setting Up System Controls for Oracle Cost Management

- Inventory organization controls and cost control level
- Costing method
- General ledger transfer option
- Organization-level default and system accounts
- Interorganization transfer information
- Subinventory accounts and controls
- Receiving options and controls
- Units of measure
- Categories for product-line costing
- Account aliases
- Cost security profiles

Setting Up WIP Controls for Oracle Cost Management

- WIP parameters
- Default WIP accounting classes
- Recognition of repetitive variances and scrap account required

Cost Management Business Flow



Integrated Business Application Suite

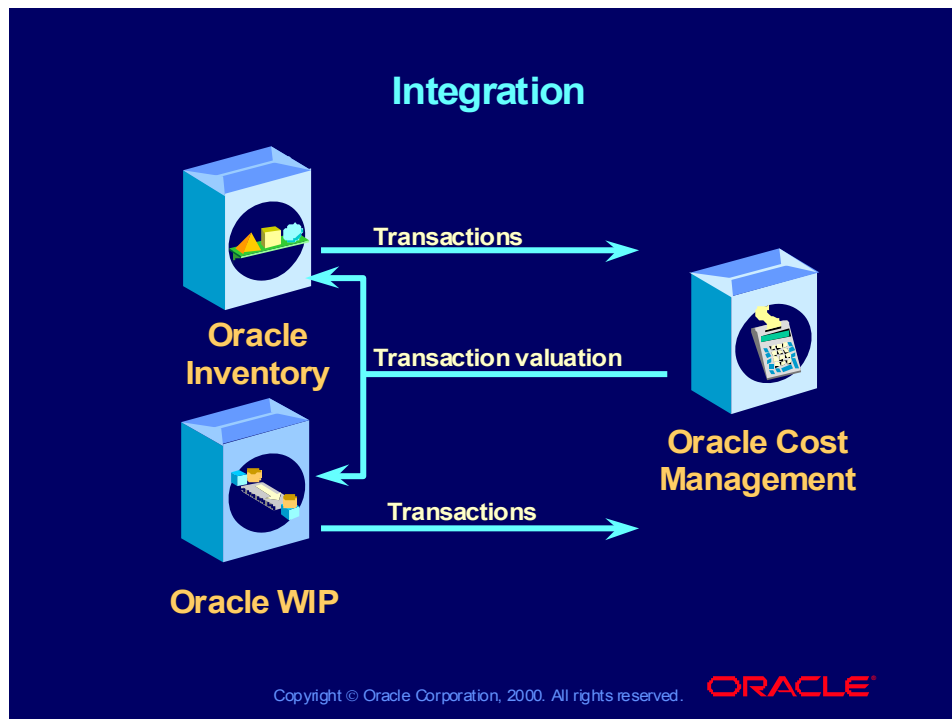
Oracle Manufacturing and Financial Applications comprise an integrated suite of business applications.

Oracle Cost Management (OCM) provides financial analysis and reporting of cost transactions. In OCM, you cost products, value inventory in stores and in work-in-process, and run simulation reports to analyze costs and profits. You pass cost information to many applications and transfer accounting activity to your general ledger at any time.

In Oracle Bills of Material/Oracle Engineering, you create product structures, routings, resources, standard operations, and departments used in product costing. In Oracle Inventory, you define the organizational structure/cost environment where you process material transactions and maintain perpetual inventory values using either standard or average costing. In Oracle WIP, you enter WIP transactions and maintain perceptual WIP inventory values using either standard or average costing.

In Order Management, you enter customer orders and shipments. In Oracle Receivables, you enter product sales information. In Oracle Purchasing, you open purchase orders, establish purchase order unit prices, receive material, and handle outside processing charges. In Accounts Payable, you pay actual invoice unit prices on purchases.

Integration



Oracle Inventory Integration

Oracle Cost Management values material transactions that are processed in Oracle Inventory.

Oracle Work in Process Integration

Oracle Cost Management values resource, overhead, and outside processing transactions that are processed in Oracle Work in Process.

11i Describing General Ledger Cost Controls

Chapter 3

11i Describing General Ledger Cost Controls

11i Describing General Ledger Cost Controls

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Objectives

After completing this lesson, you should be able to do the following:

- **Describe fiscal period and controls for Oracle Inventory**
- **Describe your functional currency and currency controls**
- **Define your general ledger chart of accounts**
- **Describe your accounting periods**
- **Define your daily and period exchange rates**
- **Define your set of books**

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Agenda

Agenda

- **Overview of Fiscal Period and Controls for Oracle Inventory**
- **Functional Currency and Currency Controls**
- **General Ledger Chart of Accounts**
- **Accounting Periods**
- **Exchange Rates**
- **Set of Books**

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Overview



Overview

Setting Up Fiscal Period and Inventory Controls

- Functional currency and currency controls
- General ledger chart of accounts
- Accounting periods
- Exchange rates
- Set of books

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Agenda

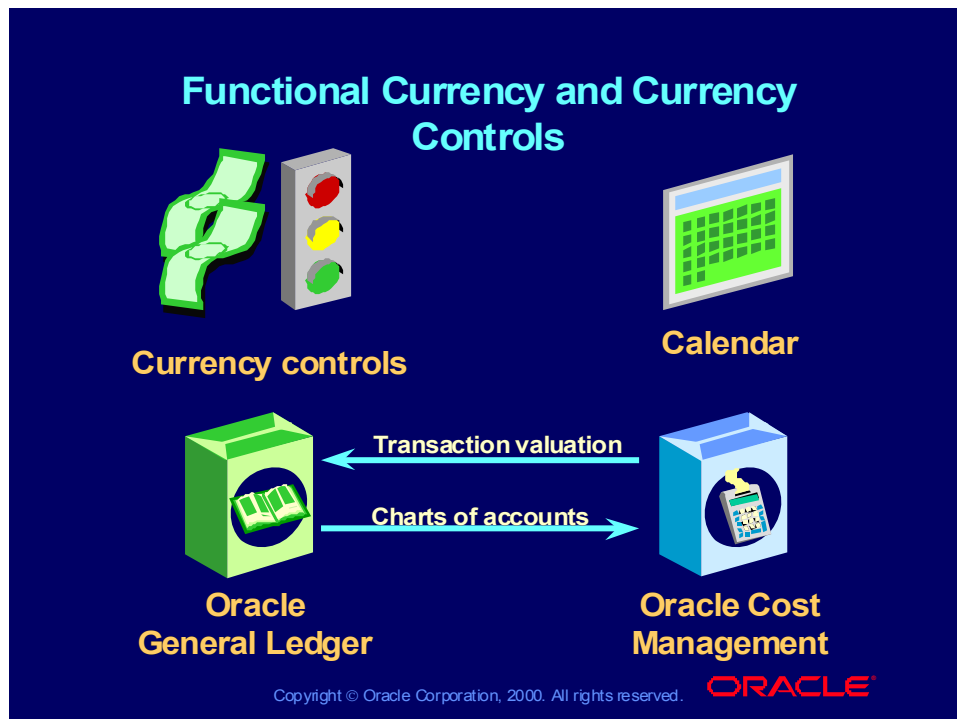
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- Overview of Fiscal Period and Controls for Oracle Inventory
- **Functional Currency and Currency Controls**
- General Ledger Chart of Accounts
- Accounting Periods
- Exchange Rates
- Set of Books

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Functional Currency and Currency Controls



Functional Currency and Currency Controls: Precision

- **Decimal Precision:** When you define your functional currency, you control the decimal precision for your accounting entries and for your unit cost information.
- **Standard Precision:** Standard precision sets the number of decimal places for accounting transactions.
- **Extended Precision:** Extended precision sets the number of decimal places for the following:
 - Unit costs
 - Stored values in the database
 - All cost processes, reports, and inquiries

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Functional Currency and Currency Controls: Precision

Extended Precision

- Financial products and Purchasing do not use extended precision.
- Oracle Cost Management does use extended precision. For example, if you enter a material cost of 1.123456 on the Item Cost window and the extended precision is set to 5, the material cost is rounded to 1.12346. The extended precision must be greater than or equal to the standard precision.

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Functional Currency and Currency Controls: Minimum Accountable Unit

Functional Currency and Currency Controls: Minimum Accountable Unit

- The minimum accountable unit sets the rounding level for your accounting transactions and determines the level of interest in accounting entries. If you leave the Minimum Accountable Unit field blank, all accounting passes to GL at the standard precision. You can leave this field blank.
- For example, if you want your accounting transaction to round to the nearest whole unit of your functional currency, you enter 1.00.
 - Transactions with a value of less than .5 do not generate any accounting transactions.
 - Transactions with a value of greater than or equal to .5 are rounded up to 1.

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Functional Currency and Currency Controls: Currencies

Predefined Currencies

- All International Standards Organization (ISO) currencies have been predefined in Oracle Applications. You must enable all currencies that you want to use when entering currency values.

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Enabling Currencies or Defining Non-ISO Currencies

Enabling Currencies or Defining Non-ISO Currencies

Use the Currencies window to enter:

- Currencies

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Financials > Currencies > Currencies

General Ledger, Vision Operations (USA) Responsibility

(N) GL Setup > Currencies > Define

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(Help) Oracle Financial Applications > Oracle General Ledger > Multi-Currency > Defining Currencies

Review Question

Review Question

- **Extended precision sets the number of decimal places for unit costs, stored values in the database and all cost processes, reports, and inquiries. Financial products and Purchasing do not use extended precision. Oracle Cost Management uses extended precision.**
1. True
 2. False

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Review Question

Review Question

- **Extended precision sets the number of decimal places for unit costs, stored values in the database and all cost processes, reports, and inquiries. Financial products and Purchasing do not use extended precision. Oracle Cost Management uses extended precision.**

1. True

2. False

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Agenda

- Overview of Fiscal Period and Controls for Oracle Inventory
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- **General Ledger Chart of Accounts**
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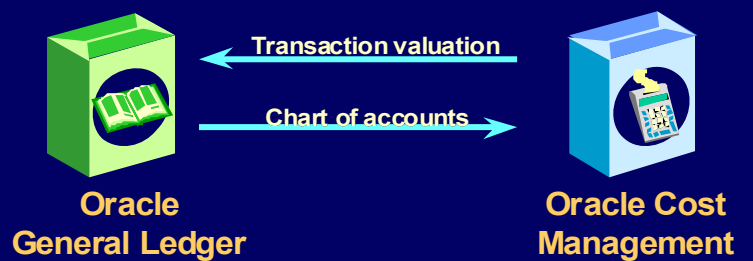
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General Ledger Chart of Accounts

General Ledger Chart of Accounts

- Oracle Cost Management uses the chart of accounts defined in Oracle General Ledger.
- If you do not use Oracle General Ledger, you define your chart of accounts in Oracle Inventory or in Oracle Cost Management.



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Accounting Periods

- Oracle Cost Management uses the same accounting periods as Oracle General Ledger.
- If you do not use Oracle General Ledger, you define your periods in Oracle Inventory or Oracle Cost Management.

Period Types

- Define period types before defining an accounting calendar. Period types control the number of accounting periods per fiscal year.
- For example, a period type of month has 12 accounting periods per year. Predefined period types include month, quarter, and year.

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Accounting Periods

Adjusting Periods

- Adjusting periods are usually for special manual General Ledger closing entries only. An example is the thirteenth period for posting year-end audit adjustments.
- Adjusting periods may overlap other accounting periods. Non-adjusting periods must not overlap other periods of the same type. They should run in succession with no gaps between periods.
- Feeder systems, such as Oracle Inventory, Oracle Purchasing, and Oracle Work in Process, never use adjusting periods.

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Accounting Calendar

Accounting Calendar

Use the Accounting Calendar window to enter:

- Periods

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Financials > Accounting Calendar > Accounting

(N) INV Setup > Financials > Accounting Calendar > Accounting

General Ledger, Vision Operations (USA) Responsibility

(N) GL Setup > Financials > Calendar > Accounting

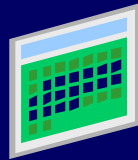
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(Help) Oracle Financial Applications > Oracle General Ledger > Setting Up General Ledger > Calendars > Defining Calendars

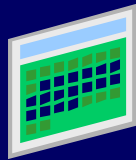
Open Accounting Periods

- An accounting period must be open for you to complete a transaction; that is, the transaction date that you enter must fall within the beginning and ending dates that you define for the period.



**Closed
period**

Jan-98



**Closed
period**

Feb-98



**Open
period**

Mar-98



**Open
period**

Apr-98

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Open Accounting Periods

- **Multiple Open Periods:** You can have multiple open periods, and each period has a separate open/close status. You can open only the accounting periods associated with your set of books. Even though the calendar and periods are shared with GL, you open and close periods in Inventory separate from GL. In Inventory, periods must be opened or closed sequentially.
- **Transaction Dates:** The transaction date that you enter must fall within the beginning and ending dates that you define for the open period. You cannot enter a transaction date for a closed period. You cannot forward date a transaction with a future date.

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Open Accounting Periods

Open Accounting Periods

Use the Inventory Accounting Periods window to open:

- Periods

Manufacturing and Distribution Manager Responsibility

(N) CST Accounting Close Cycle > Inventory Accounting Periods

(N) INV Accounting Close Cycle > Inventory Accounting Periods

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(Help) Oracle Financial Applications > Oracle General Ledger >
Setting Up General Ledger > Calendars >
Opening and Closing Periods

Review Question

Review Question

Predefined period types include the following:

- 1. Month**
- 2. Quarter**
- 3. Year**
- 4. All of the above**

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Review Question

Review Question

Predefined period types include the following:

1. Month
2. Quarter
3. Year
4. All of the above

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Agenda

Agenda

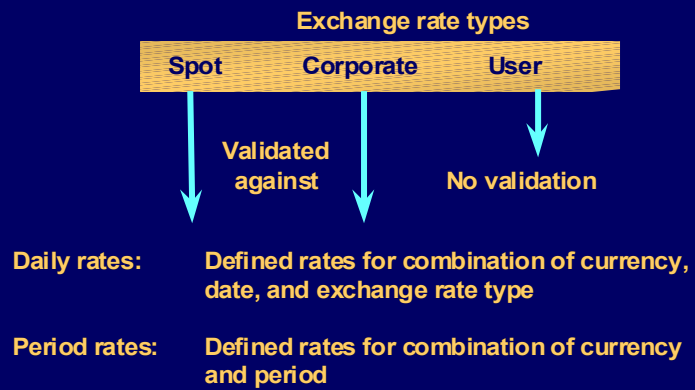
- Overview of Fiscal Period and Controls for Oracle Inventory
- Functional Currency and Currency Controls
- General Ledger Chart of Accounts
- Accounting Periods
- **Exchange Rates**
- Set of Books

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Exchange Rates

- Define multiple exchange rates for a currency.



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Exchange Rates

Exchange Rates: Daily Versus Period

- **Maintain daily exchange rates for foreign currency conversion. When you perform a transaction in a currency other than your functional currency, the rate that you define is used in converting the amounts on the transactions into the functional currency.**
- **Use period rates for running reports on inventory, work in process, and margin analysis in different currencies. When you run reports in a currency other than your functional currency, the rate that you specify is used in converting the amounts.**

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Exchange Rates

Types of Exchange Rates

- **Spot:** You enter the spot exchange rate to perform conversion based on the rate on a specific date. The exchange rate applies to the immediate delivery of a currency.
- **Corporate:** You define a corporate exchange rate to standardize rates for your company. The corporate exchange rate is generally a standard market rate determined by senior financial management for use throughout the organization.
- **User:** You specify a user exchange rate when you enter a foreign currency that does not have a daily exchange rate.

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Exchange Rates

Exchange Rates

Use the Daily Rates window to enter:

- Daily rates

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Financials > Currencies > Daily Rates

General Ledger, Vision Operations (USA) Responsibility

(N) GL Setup > Currencies > Rates > Daily

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(Help) Oracle Financial Applications > Oracle General Ledger > Multi-Currency > Entering Daily Rates

Exchange Rates

Exchange Rates

Use the Period Rates window to enter:

- Period rates

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Financials > Currencies > Period Rates
General Ledger, Vision Operations (USA) Responsibility
(N) GL Setup > Currencies > Rates > Period

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(Help) Oracle Financial Applications > Oracle General Ledger >
Multi-Currency > Entering Period Rates

Exchange Rates

Exchange Rates

Personal Profiles

- You choose the type of rate to use for your direct interorganization transfers.

Use the Personal Profiles Values window to enter:

- Type of rate

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Profiles

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(Help) Oracle Financial Applications > Oracle General Ledger > Profile Options

Review Question

Review Question

Types of exchange rates include the following:

- 1. Spot**
- 2. Corporate**
- 3. Regular**
- 4. Delivery**
- 5. 1 and 2**

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Review Question

Review Question

Types of exchange rates include the following:

1. Spot
2. Corporate
3. Regular
4. Delivery
5. 1 and 2

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Agenda

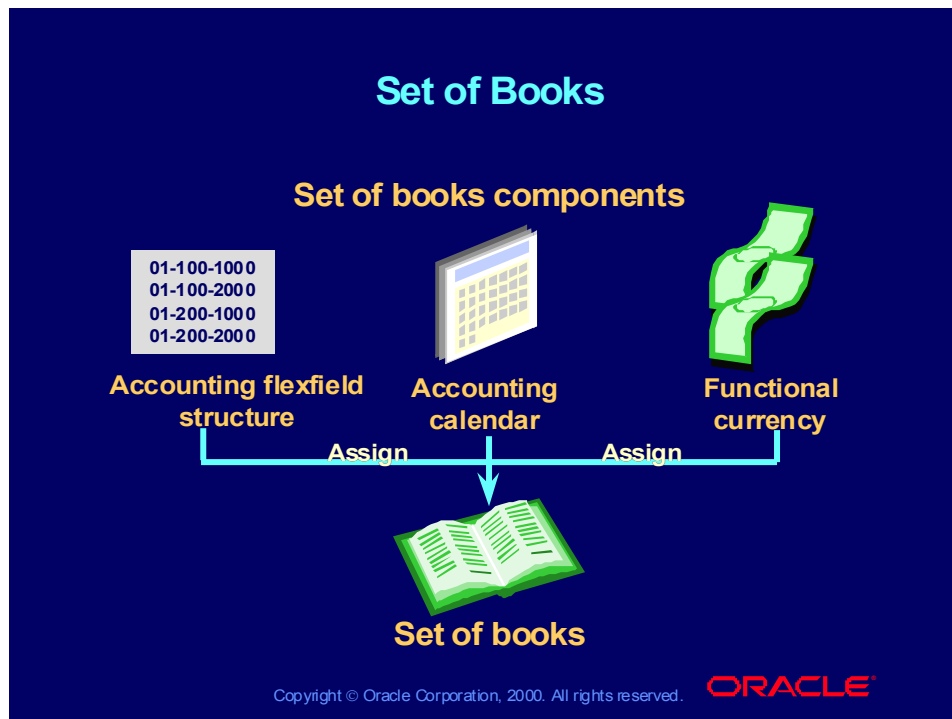
Agenda

- Overview of Fiscal Period and Controls for Oracle Inventory
- Functional Currency and Currency Controls
- General Ledger Chart of Accounts
- Accounting Periods
- Exchange Rates
- **Set of Books**

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Set of Books



Set of Books

Define a Set of Books

- Define a set of books by defining and grouping an accounting flexfield structure, an accounting calendar, and a currency.
 - Define a chart of accounts with proprietary accounts to record asset, liability, owners' equity, revenue, and expense transactions.
 - Define an accounting calendar that has the sequence and duration of accounting periods.
 - Select a functional currency, or base currency, for each set of books.

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Set of Books

- If intercompany balancing is allowed, Journal Import automatically balances your inventory and work-in-process entries by balancing account segments and by creating a balancing entry in Oracle General Ledger.
- Every inventory organization needs a set of books, which may be shared by many organizations.

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Set of Books

Set of Books

Use the Set of Books window to enter:

- A Set of Books

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Financials > Books

(N) INV Setup > Financials > Books

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(Help) Oracle Financial Applications > Oracle General Ledger >
Setting Up General Ledger > Defining Sets of Books >
Defining Sets of Books

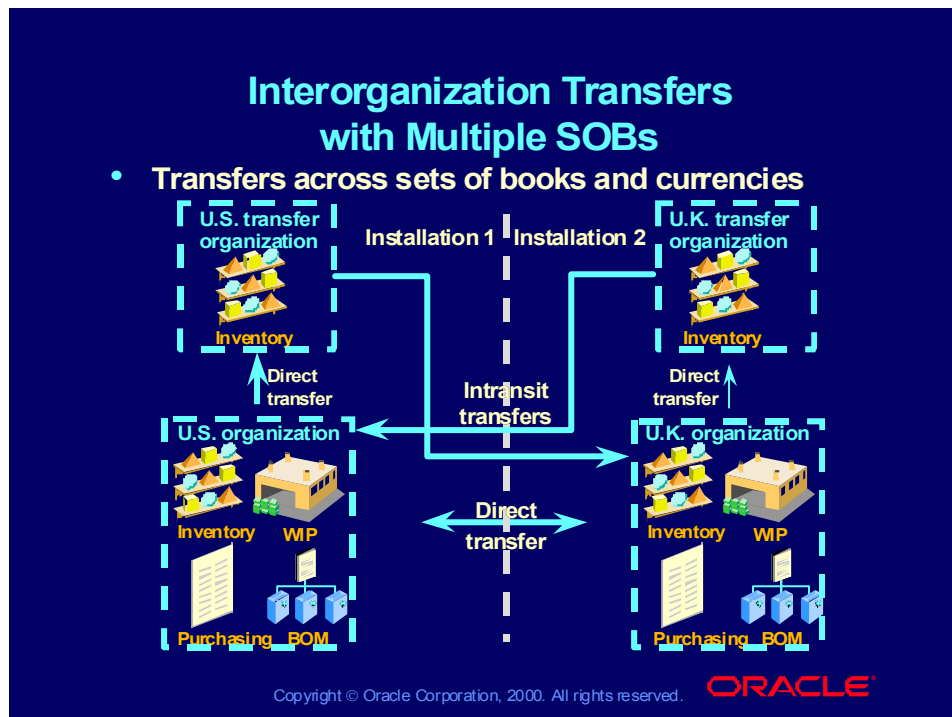
Interorganization Transfers Across Sets of Books

- The interorganization direct transfer supports transfers from any set of books, even if the currency is different, as long as the chart of accounts is the same. However, you cannot use the intransit interorganization transfer or internal requisition. These transactions use receiving functionality from Oracle Purchasing, and Purchasing supports only one set of books at a time.
- To perform an intransit interorganization transfer from one set of books to another, you need to perform a combination of two transactions: a direct transfer and an intransit transfer.

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Interorganization Transfers with Multiple SOBs



Set of Books: Customization

Customization

- Customization is required to perform transfers across installations.

No.	Business Organization	Set of Books	Functional Currency	Chart of Accounts
1	US	US	USD	STD
2	US Transfer	UK	GBP	STD
3	UK	UK	GBP	STD
4	UK Transfer	US	USD	STD

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Review Question

What controls are determined by the set of books that you assign your organization?

- 1. Chart of accounts**
- 2. Functional currency**
- 3. Available fiscal periods**
- 4. Balance of inter-company journals**
- 5. All of the above**

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Review Question

Review Question

What controls are determined by the set of books that you assign your organization?

1. Chart of accounts
2. Functional currency
3. Available fiscal periods
4. Balance of inter-company journals
5. All of the above

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Summary

In this lesson, you should have learned how to:

- **Describe your functional currency and currency controls**
- **Define your general ledger chart of accounts**
- **Describe your accounting periods**
- **Define your daily and period exchange rates**
- **Define your set of books**

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Practice 1-1 Overview

Practice 1-1 Overview

This practice covers the following topics:

- **Discussing general ledger cost controls**

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Practice 1-1

Practice 1-1

Short Answer Questions

1. How would you set up your organizations to transfer across sets of books and currencies using the intransit transfer type?
2. Should your inventory organizations use different sets of books when integrated with Oracle Financials?

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Practice 1-1 Solution

Short Answer Questions

1. How would you set up your organizations to transfer across sets of books and currencies using the intransit transfer type?

- a. You set up two separate installations and a custom interface.
- b. You set up a transfer organization, associated with the shipping organization, that uses the set of books and currency of the receiving organization.
- c. You perform a direct transfer from the shipping organization to the transfer organization, and then perform an intransit transfer from the transfer organization to the receiving organization.

2. Should your inventory organizations use different sets of books when integrated with Oracle Financials?

No, because Oracle Purchasing, Oracle Order Entry, and Oracle Receivables have only one set of books per installation.

Practice 1-1

Practice 1-1

Business Scenario

3. Why does Oracle Cost Management use the same periods as Oracle General Ledger?

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Practice 1-1 Solution

Business Scenario

3. Why does Oracle Cost Management use the same periods as Oracle General Ledger?

Transactions are date-stamped. If you have a transaction in Purchasing, Inventory, or WIP that falls in an open period, that period must also be open in GL. Then, during the period close process, the posting transaction will be reflected correctly. You should set up procedures in the organization to make sure transactions are processed on a timely basis.

Guided Practice 1-2 Overview

This practice covers the following topics:

- **Opening accounting periods**
 - **Oracle Inventory uses accounting periods to group material and work in process transactions for accounting purposes.**
 - **An accounting period must be open for you to complete a transaction; that is, the transaction date you enter must fall within the beginning and ending dates you define for the period.**

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Guided Practice 1-2: Opening Accounting Periods

Guided Practice 1-2: Opening Accounting Periods

To open an existing accounting period:

Manufacturing and Distribution Manager Responsibility

(N) CST Accounting Close Cycle > Inventory Accounting Periods

(N) INV Accounting Close Cycle > Inventory Accounting Periods

1. Navigate to the Inventory Accounting Periods window.

2. Review information about the period:

- **Status:** Displays status of an accounting period as Future, Open, Closed, Processing, or Error.
- **Period:** Displays the name of the period.
- **Num:** Displays the number indicating the order of the period within the calendar year.

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**(Help) Oracle Financial Applications > Oracle General Ledger >
Setting Up General Ledger > Calendars >
Opening and Closing Periods**

Guided Practice 1-2: Opening Accounting Periods

Guided Practice 1-2: Opening Accounting Periods

- **Year:** Displays the calendar year containing the accounting period.
 - **From:** Displays the beginning date of the period.
 - **To:** Displays the ending date of the period.
 - **Close Date:** Displays the date on which you closed the period.
3. Select a period with a status of Future.
 4. Choose the Change Status button.
 5. Choose the OK button to open the period.

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Guided Practice 1-3 Overview

This practice covers the following topics:

- Entering daily rates
- Entering period rates

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Guided Practice 1-3: Entering Daily Rates

Guided Practice 1-3: Entering Daily Rates

To enter a daily conversion rate:

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Financials > Currencies > Daily Rates

General Ledger, Vision Operations (USA) Responsibility

(N) GL Setup > Currencies > Rates > Daily

1. **Navigate to the Daily Rates window.**
2. **Select AUD (Australian dollar) as the From-Currency.**
3. **USD defaults as the To-Currency.**
4. **Today's date defaults as the date.**
5. **Select Daily as the Conversion Type.**
6. **Enter .7793 as the conversion rate.**
7. **Save your work.**

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(Help) Oracle Financial Applications > Oracle General Ledger > Multi-Currency > Entering Daily Rates

Guided Practice 1-3: Entering Period Rates

Guided Practice 1-3: Entering Period Rates

To enter a period rate:

**Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Financials > Currencies > Period Rates**

1. **Navigate to the Period Rates window.**
2. **USD defaults as the From-Currency.**
3. **Select AUD as the To-Currency.**
4. **Select Actual as the Balance Type.**
5. **Select Jun01 as the accounting Period.**
6. **Enter .775 as the Period-Average rate.**
7. **Enter .780 as the Period-End rate.**
8. **General Ledger displays the revaluation rate.**
9. **Save your work.**

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(Help) Oracle Financial Applications > Oracle General Ledger > Multi-Currency > Entering Period Rates

11i Describing Organizational Cost Controls

Chapter 4

11i Describing Organizational Cost Controls

11i Describing Organizational Cost Controls

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Objectives

After completing this lesson, you should be able to do the following:

- **Describe your system controls for Oracle Cost Management**
- **Describe your inventory organization controls**
- **Determine your cost control level**
- **Determine your costing method**
- **Define your general ledger transfer option**
- **Define your organization-level default and system accounts**
- **Define your interorganization transfer information**

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Agenda

Agenda

- **Overview of Setting Up System Controls for Costing**
- Inventory Organization Controls
- Cost Control Level
- Costing Method
- General Ledger Transfer Option
- Organization-level Default and System Accounts
- Interorganization Transfer Information

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Overview



Overview

Setting Up System Controls for Costing

- Inventory organization controls
- Cost control level
- Costing method
- General ledger transfer option
- Organization-level default and system accounts
- Interorganization transfer information

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- **Inventory Organization Controls**
- Cost Control Level
- Costing Method
- General Ledger Transfer Option
- Organization-level Default and System Accounts
- Interorganization Transfer Information

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Inventory Organization Controls

Organization

- Before you use Oracle Inventory, you define one or more organizations.
- Organizations describe distinct entities in your company.
- Organizations may include separate manufacturing facilities, warehouses, distribution centers, and branch offices.
- You can have a multi-org, multi-SOB environment.

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Inventory Organization Controls

- Use the Organization window to assign the set of books to your inventory organization.

Manufacturing and Distribution Manager Responsibility
(N) INV Setup > Organizations > Organization

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(Help) Oracle Manufacturing Applications > Oracle Inventory > Setting Up > Inventory Structure > Creating an Organization

Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- Inventory Organization Controls
- **Cost Control Level**
- Costing Method
- General Ledger Transfer Option
- Organization-level Default and System Accounts
- Interorganization Transfer Information

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Cost Control Level

- The item attributes **Costing Enabled** and **Inventory Asset** determine how costs are maintained for all of your organizations.
 - Set the control level to **Item** if you want to share standard costs.
 - Set the control level to **Item/Organization** to maintain costs in each organization.
 - The **Costing Enabled** and **Inventory Asset** controls must be set at the same level, either **Item** or **Item/Organization**.
- In a multi-org, multi-SOB environment, you set the control level to **Item/Organization** to independently maintain costs in each organization.

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Cost Control Level

Sharing Costs

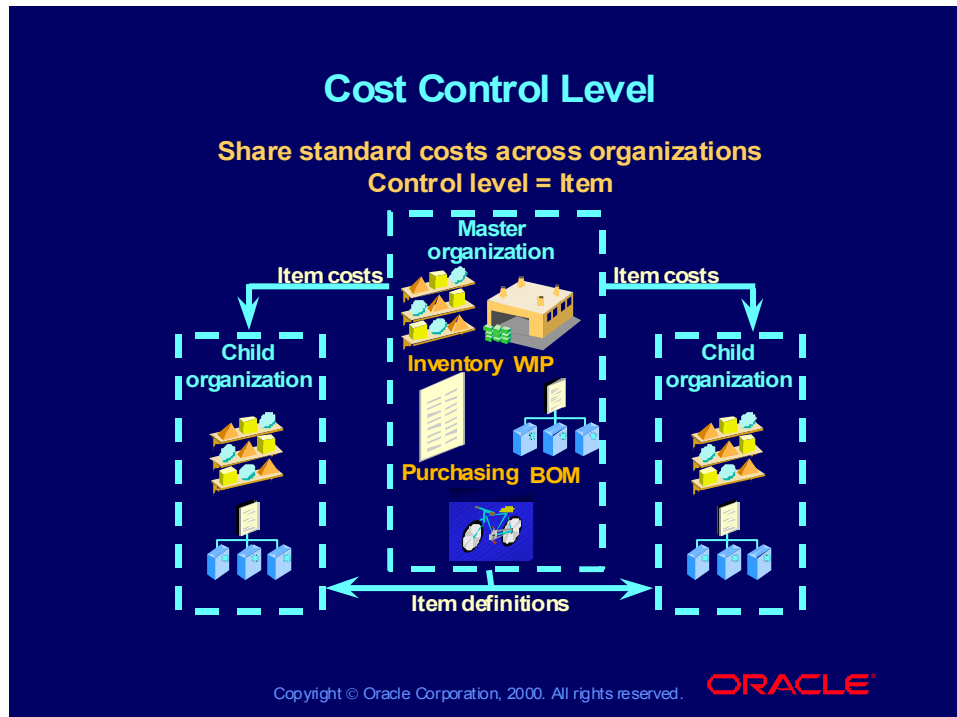
Sharing costs is available only for standard costing and only for inventory organizations without Oracle Work in Process parameters. (The cost rollup cannot share resource costs across organizations.) You can share standard costs and have an average cost organization as its own master.

If you share standard costs, you keep all item costs in the master cost organization, and you cannot access the various cost definition windows in the child organizations, such as the Item Costs, Mass Edit, and Copy Cost windows.

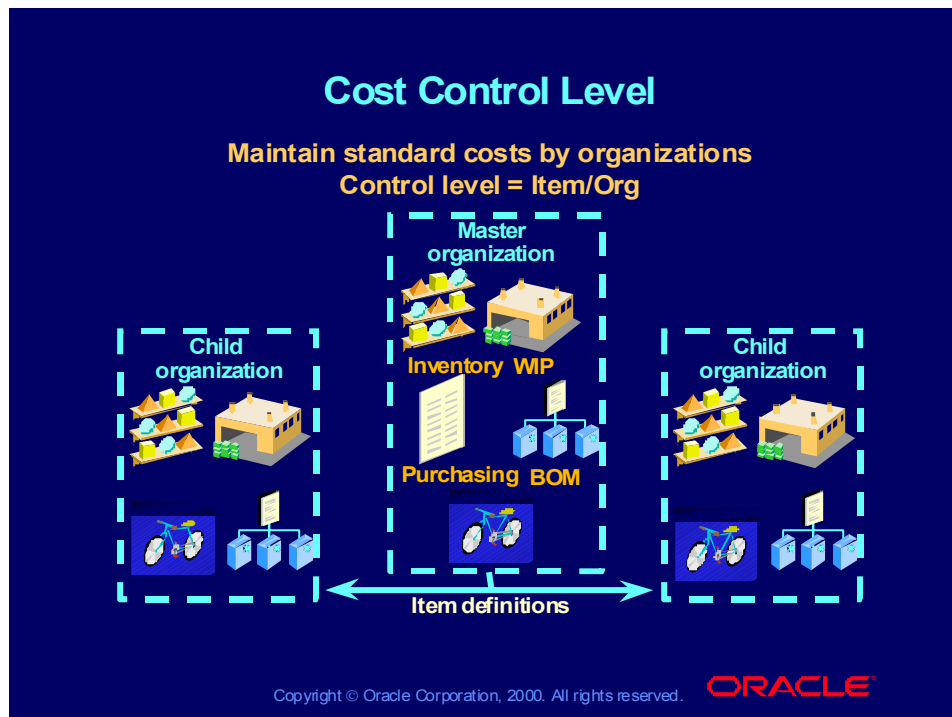
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Cost Control Level



Cost Control Level



Review Question

Review Question

Set the control level to Item if you want to share standard costs. Set the control level to Item/Organization to maintain costs in each organization.

- 1. True**
- 2. False**

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Review Question

Review Question

Set the control level to Item if you want to share standard costs. Set the control level to Item/Organization to maintain costs in each organization.

- 1. True**
- 2. False**

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Cost Control Level: Attribute Names

- Costing Enabled
- Inventory Asset Value
- Cost of Goods Sold Account
- Include in Rollup
- Standard Lot Size



Organizational cost controls

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Cost Control Level: Attribute Names

Costing Enabled

- **Checked** means the item may be costed and is visible on all reports and inquiries.
- **Unchecked** means the item is not used for any costing purpose. It does not appear on any cost inquiry or report, including the following:
 - Inventory Value report
 - Item Cost reports
 - Item Cost inquiries

You cannot change this item attribute if there is a quantity onhand.

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Cost Control Level: Attribute Names

Inventory Asset Value

Checked means the item is an asset and can have a cost.

Unchecked means the item is an inventory expense item and cannot have a cost.

Each item may have a different valuation status by cost type. Do not confuse inventory expense items with expense destination types in Oracle Purchasing.

Cost of Goods Sold Account

The profit and loss (income statement) account that defines the item's default COGS account.

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Cost Control Level: Attribute Names

Include in Rollup

Checked means the item is included in the cost rollup for the parent assembly.

Unchecked means the item is *not* included in the parent assembly's cost.

This control is defaulted to the bill of materials.

Standard Lot Size

The standard lot size is used when calculating unit costs for subelements with a lot basis type. Do not confuse the Costing Standard Lot Size with the Lead Time Lot Size. The Lead Time Lot Size defaults from the Standard Lot Size, but they may be different.

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Review Question

Review Question

When Costing Enabled and Inventory Asset Value are checked, the item is an asset and may be costed.

- 1. True**
- 2. False**

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Review Question

Review Question

When Costing Enabled and Inventory Asset Value are checked, the item is an asset and may be costed.

- 1. True**
- 2. False**

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Defining Item Attribute Controls

Defining Item Attribute Controls

Use the Item Attribute Controls window to set:

- A control level for an attribute which applies to all items
- A status control option for each status attribute

Manufacturing and Distribution Manager Responsibility
(N) INV Setup > Items > Attribute Controls

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(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Item Setup and Control >
Defining Item Attribute Controls

Defining Item Attribute Controls

Defining Item Attribute Controls

- If the control level is set to Item, use the Master Item window to enter the attribute values for all organizations.

Manufacturing and Distribution Manager Responsibility
(N) INV Items > Master Item > (B) Find > OK > (T) Costing

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(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Item Setup and Control >
Defining Item Attribute Controls

Defining Item Attribute Controls

- If the control level is set to Item/Organization, use the Organization Item window to enter or update the Item/Organization-level attribute values for items within the organization.

Manufacturing and Distribution Manager Responsibility
(N) INV Items > Organization Item > (B) Find > OK > (T) Costing

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Organization Parameters: Entering a Master Organization

Organization Parameters: Entering a Master Organization

Entering a Master Organization to Create the Organization Hierarchy

- Enter the master organization for your items in the Inventory Parameters tab.
- Oracle Inventory allows only a single-level master organization hierarchy. If you use only a single organization, the master organization is the same as the current organization.

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Organization Parameters: Entering a Master Organization

Organization Parameters: Entering a Master Organization

Use the Organization Parameters window to enter:

- A master organization

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments >
Organization Parameters > (T) Inventory Parameters

(N) INV Setup > Organization > Parameters >
(T) Inventory Parameters

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**(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Inventory Structure >
Defining Organization Parameters >
Defining Default Inventory Parameters**

Review Question

Review Question

Oracle Inventory allows only a single-level master organization hierarchy. If you use only a single organization, the master organization is the same as the current organization.

- 1. True**
- 2. False**

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Review Question

Review Question

Oracle Inventory allows only a single-level master organization hierarchy. If you use only a single organization, the master organization is the same as the current organization.

- 1. True**
- 2. False**

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Organization Parameters: Costing Information

- The costing organization displayed in the Costing Information tab of Organization Parameters is based on the control level that you set for the item attributes Costing Enabled and Inventory Asset.
- The master organization is displayed if the control level is set to Item. All standard cost organizations use the costs from the item master organization.
- The current organization is displayed if the control level is set to Item/Organization. All organizations maintain their own item costs.
- Average cost organizations always maintain item costs at the organization level.

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Organization Parameters: Costing Information

Organization Parameters: Costing Information

Use the Organization Parameters window to:

- View costing information
- Choose a costing method
- Enter a General Ledger Transfer Option
- Enter a default material subelement for faster cost entry
- Enter default valuation accounts

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments >
Organization Parameters > (T) Costing Information

(N) INV Setup > Organization > Parameters >
(T) Costing Information

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Review Question

Review Question

You use the Costing Information tab in the Organization Parameters window to:

- 1. Choose a costing method**
- 2. Enter a General Ledger Transfer Option**
- 3. Enter a default material subelement**
- 4. Enter default valuation accounts**
- 5. All of the above**

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Review Question

Review Question

You use the Costing Information tab in the Organization Parameters window to:

1. Choose a costing method
2. Enter a General Ledger Transfer Option
3. Enter a default material subelement
4. Enter default valuation accounts
5. All of the above

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- Overview of Setting Up System Controls for Costing
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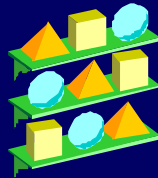
Organization Parameters: Costing Method

Organization Parameters: Costing Method

- **Costing method:** Choose a costing method in the Organization Parameters window.
- **Changing methods:** You can change the costing method only if no onhand inventory exists.



Costing method



Standard



Average

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Costing Method: Standard Costing

- Values your inventory using predefined item costs that are fixed for a specified period of time.
- Component costs (material costs) are defined using the projected average acquisition costs and associated indirect costs (material overhead) over the specified period of time.
- Assembly costs are rolled up using bills of material and routings. Bills of material are used to determine the component cost of an assembly.
- Routings are used to apply both internal (resource) and external (outside processing) conversion costs as well as indirect costs (overhead) to assemblies.

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Costing Method: Average Costing

- Values your inventory using weighted average item costs derived from transaction costs.
- Component costs (material costs) are defined as you receive items into inventory, re-weighting the average unit cost with the transaction value. In certain instances, you also re-weight the average unit cost when you issue from inventory.
- Assembly costs are a weighted average of the cost of all resources and material used.
- Routings are used to apply both internal (resource) and external (outside processing) conversion costs as well as indirect costs (overhead) to assemblies.

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Organization Parameters: General Ledger Transfer Options

Organization Parameters: General Ledger Transfer Options

Subledger Transactions

DR:	01-100-1000	100.00	
CR:	01-200-2000		150.00
DR:	01-300-3000	100.00	
CR:	01-100-1000		150.00

Transfer Detail to GL

DR:	01-100-1000	100.00	
CR:	01-200-2000		150.00
DR:	01-300-3000	100.00	
CR:	01-100-1000		150.00

Transfer Summary to GL

DR:	01-300-3000	150.00	
CR:	01-200-2000		100.00
CR:	01-100-1000		50.00

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Organization Parameters: General Ledger Transfer Options

Organization Parameters: General Ledger Transfer Options

Transfer Detail to GL

- This option governs how you transfer your inventory and work-in-process accounting entries to the Oracle General Ledger interface table.
- If you do not select the Transfer Detail to GL check box, entries are summarized by transfer date, GL batch, account, and journal category.
- If you select the Transfer Detail to GL check box, entries are not summarized and transferred in detail.
- Transfer Detail to GL is not usually selected. Selecting it may produce too much detail in GL.

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Review Question

Review Question

The option to transfer detail to the general ledger governs how you transfer your inventory and work-in-process accounting entries to the Oracle General Ledger interface table.

Selecting it may produce too much detail in GL.

- 1. True**
- 2. False**

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Review Question

Review Question

The option to transfer detail to the general ledger governs how you transfer your inventory and work-in-process accounting entries to the Oracle General Ledger interface table.

Selecting it may produce too much detail in GL.

1. True
2. False

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Agenda

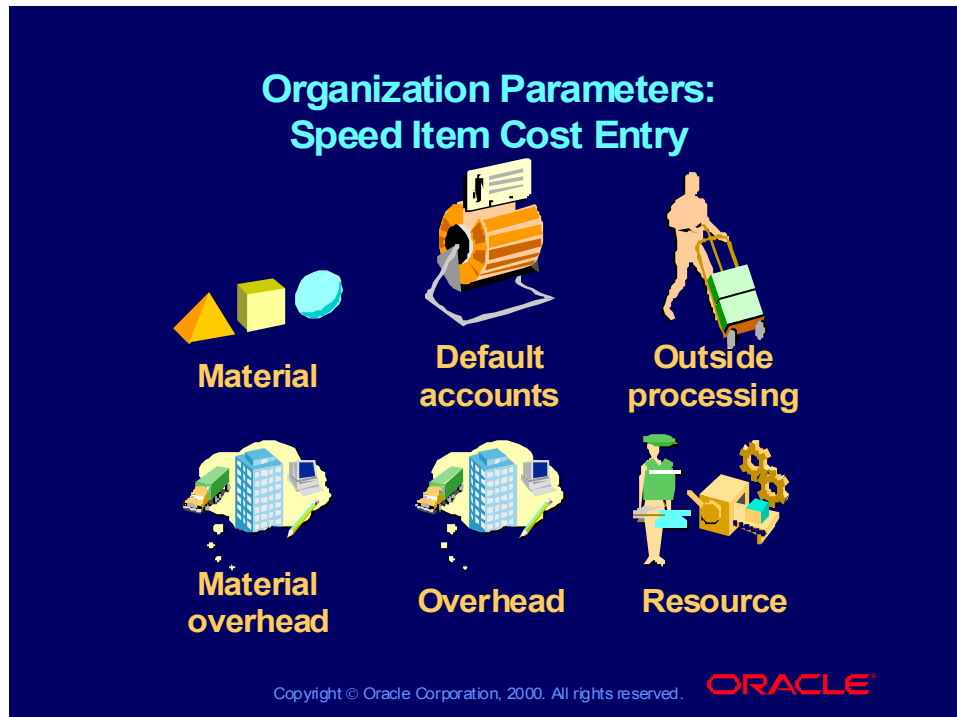
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Organization Parameters: Speed Item Cost Entry



Organization Parameters: Speed Item Cost Entry

Defining Default Material Subelement

- For faster cost entry, define a default material subelement in the Costing Information tab in the Organization Parameters window. Oracle Inventory uses the default information in the Item Costs window. You need enter only the subelement amount and your item cost is defined.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Define your default valuation accounts.

Default Accounts: The valuation accounts and expense account are used as default accounts when you define your subinventories.

Material Account: The material account is required for all organizations. Material costs are the raw material component costs at the lowest level of the assembly.

For asset items, the material account is used as the default requisition account when you create purchase requisitions from MRP, min-max, or organization-level reorder point planning. When you receive the purchase order, however, you use the appropriate valuation or expense account.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Outside Processing Account: Outside processing costs represent work performed by a supplier on a discrete job or repetitive schedule.

Material Overhead Account: Material overhead or burden costs are the costs required to bring items into or out of inventory locations.

Overhead Account: Overhead costs are resource or department overhead.

Resource Account: Resource costs are direct service costs required to manufacture products.

Expense Account: Used to record the value of items issued to a non-tracked and/or expense subinventory.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Define your default receiving, profit and loss, and average cost accounts.

Purchase Price Variance (PPV) Account: PPV is calculated only for inventory purchases (destination type equals inventory). PPV is used only with standard costing and is recognized as a period expense on your income statement.

PPV = (PO Price – Standard Cost) * Quantity Received

Invoice Currency Variance: You set up the invoice currency variance accounts in the Oracle Payables Financials Options window, Accounting option, Exchange Rate Gains and Losses fields.

Invoice Currency Variance = (Invoice Exchange Rate – PO Exchange Rate) * Quantity Invoiced

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Invoice Price Variance (IPV) Account: Oracle Payables supports system-generated accounting entries for invoice price variance, for both invoice currency variance and invoice price variance.

Invoice Price Variance = (Invoice Price – PO Price in Functional Currency) * Quantity Invoiced

IPV is calculated only for inventory purchases (destination type equals inventory). Flexbuilder creates the purchase order distribution invoice price variance account and uses the organization account as the source.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

The Inventory AP Accrual Account: This account is the liability account for inventory purchase order receipts that have not been matched in Payables.

Encumbrance Account: This account is used to record the reservation of funds at the time you create purchase requisitions or approve purchase orders. Government agencies use encumbrance accounting.

Sales Account: When you define your items without a template, this account is defaulted to the sales account of the item.

Cost of Goods Sold Account: This account is defaulted to the item cost of goods sold account if no template is used when defining the item.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Average Cost Variance Account

If you use average costing and allow negative inventory balances, this account represents the cumulative errors caused by issuing inventory before performing receipts. When your inventory balances are negative, the next transaction uses this account to balance the debits and credits until the onhand balance is greater than zero.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Average Costing and Subinventory Example

	Subinv 1 Account A	Subinv 2 Account B	Subinv 1 Quantity	Subinv 2 Quantity
1	100		+10	
2		200		+10
3	150		-10	
Period End	-----			
	50	200	0	10 @ 15 = 150

Transactions:

1. PO Receipt to Subinv 1 10 units at 10 AUC = 10
 2. PO Receipt to Subinv 2 10 units at 20 AUC = 15
 3. Issue From Subinv 1 10 units at 105 AUC = 15
- (AUC = Average Unit Cost)

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Average Costing

If you use average costing, the material account at the organization level is always used for all inventory transactions and the GL inventory balance.

Average costs are maintained at the organization level, not the subinventory level; therefore, all inventory flows in and out of a single material account.

If the subinventory accounts were used for posting, your GL account balances would not equal your perpetual inventory as shown in the example on the previous page.

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

- The mandatory accounts vary depending on your costing method.

Mandatory Account	Standard Costing	Average Costing
Material Account	√	√
Accounts Payable Accrual	√	√
Expense	√	√
Invoice Price Variance	√	√
Sales	√	√
Cost of Goods Sold	√	√
Purchase Price Variance	√	N/A
Average Cost Variance	N/A	√

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Organization Parameters: Organization-Level Default and System Accounts

Organization Parameters: Organization-Level Default and System Accounts

Use the Organization Parameters window to enter:

- Other accounts

(N) CST Setup > Account Assignments >
Organization Parameters > (T) Other Accounts

(N) INV Setup > Organization > Parameters > (T) Other Accounts

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Review Question

Review Question

For faster cost entry, define a default material subelement in the Costing Information tab in the Organization Parameters window. Oracle Inventory uses the default information in the Item Costs window. You need enter only the subelement amount and your item cost is defined.

- 1. True**
- 2. False**

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Review Question

Review Question

For faster cost entry, define a default material subelement in the Costing Information tab in the Organization Parameters window. Oracle Inventory uses the default information in the Item Costs window. You need enter only the subelement amount and your item cost is defined.

1. True
2. False

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Organization Parameters: Interorganization Information

Organization Parameters: Interorganization Information

Default Accounts

- Simplify your interorganization setup and specify default accounts in the Organization Parameters window.

Interorganization Information

- These transfer charge options are defaults for your specific organization-to-organization transfer parameters on the Shipping Networks window.

Interorganization Transfer Charge

- You may record intercompany profit and other transfer charges.

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Organization Parameters: Interorganization Information

Organization Parameters: Interorganization Information

Default Accounts for the Shipping Organization

- **Transfer credit:** This account is credited for intercompany profit and other transfer charges. It represents a reduction of expense.
- **Receivable:** This is an asset account that represents charges due from the receiving organization. This account should balance to the interorganization payable account of the receiving organization.

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Organization Parameters: Interorganization Information

Default Accounts for the Receiving Organization

- **Payable:** This is a liability account that represents charges due to the shipping organization. This account should balance to the interorganization receivable account of the shipping organization.
- **Purchase price variance (for standard cost organizations only):** This is an expense account used to record the difference between the standard cost of the receiving organization and the standard or average cost of the sending organization.

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Organization Parameters: Interorganization Information

Intransit Inventory

- This asset account is used for intransit relationships only. When an average cost organization owns the inventory, this account defaults from the material account of the organization.

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Organization Parameters: Interorganization Information

Organization Parameters: Interorganization Information

Use the Organization Parameters window to enter:

- Default interorganization transfer charges
- Optional default inter-organization transfer accounts

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments >
Organization Parameters > (T) Inter-org Information

(N) INV Setup > Organization > Parameters >
(T) Inter-org Information

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Review Question

Review Question

In order to simplify your interorganization setup, you can specify default accounts in the Organization Parameters window.

- 1. True**
- 2. False**

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Review Question

Review Question

In order to simplify your interorganization setup, you can specify default accounts in the Organization Parameters window.

1. True
2. False

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Agenda

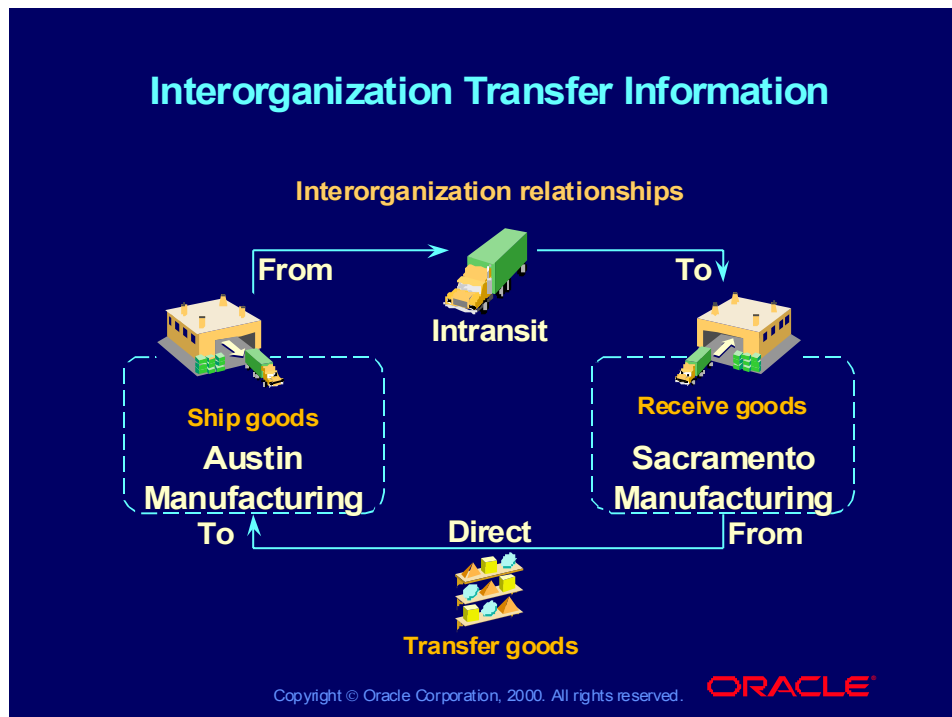
Agenda

- Overview of Setting Up System Controls for Costing
- Inventory Organization Controls
- Cost Control Level
- Costing Method
- General Ledger Transfer Option
- Organization-level Default and System Accounts
- **Interorganization Transfer Information**

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Interorganization Transfer Information



Interorganization Transfer Information

Unique Relationship

- Define a relationship between organizations. Each relationship is unique to the From and To organizations.

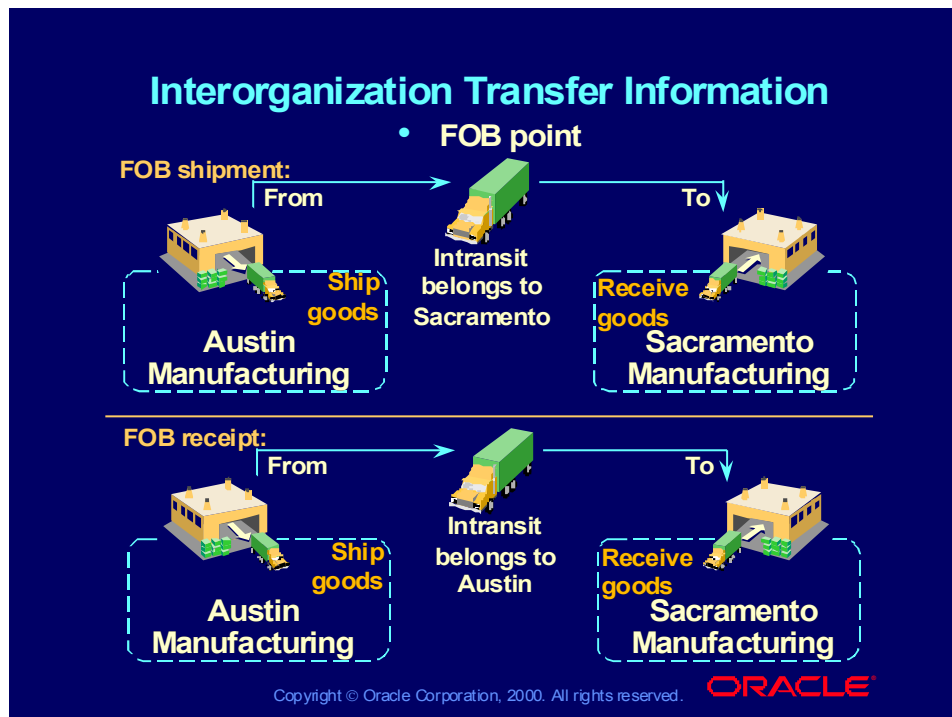
Transfer Type

- *Direct* transfer means that items move directly from the shipping organization to the receiving organization.
- *Intransit* transfer means that items move to intransit inventory first.

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Interorganization Transfer Information



Interorganization Transfer Information

FOB Point

- The FOB point is used for intransit inventory shipments and determines the ownership of the intransit goods.
- A *receipt* FOB point indicates that the item belongs to the shipping organization until it is received.
- A *shipment* FOB point indicates that the item belongs to the receiving organization as soon as it is shipped.

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Shipping Network Interorganization Transfer Accounts

Shipping Network Interorganization Transfer Accounts

- These accounts default from the interorganization accounts that you defined for your organization parameters.
- The transfer credit and receivable accounts default from the shipping organization parameters. The payable and purchase price variance accounts default from the receiving organization parameters.
- If FOB point is set to receipt, the intransit account defaults from the shipping organization parameters. If FOB point is set to shipment, the intransit account defaults from the receiving organization parameters.

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Shipping Network Interorganization Transfer Accounts

Shipping Network Interorganization Transfer Accounts

Use the Shipping Network window to enter:

- The From and To organizations and to see the unique relationship between them

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments > Shipping Network >
(B) Open

(N) INV Setup > Organizations > Shipping Network > (B) Open

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Review Question

Review Question

A direct transfer means that items move to intransit inventory from the shipping organization.

- 1. True**
- 2. False**

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Review Question

Review Question

A direct transfer means that items move to intransit inventory from the shipping organization.

- 1. True**
- 2. False**

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Summary

In this lesson, you should have learned how to:

- **Describe your system controls for Oracle Cost Management**
- **Describe your inventory organization controls**
- **Determine your cost control level**
- **Determine your costing method**
- **Define your general ledger transfer option**
- **Define your organization-level default and system accounts**
- **Define your interorganization transfer information**

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Practice 1-1 Overview

Practice 1-1 Overview

This practice covers the following topics:

- **Discussing organizational cost controls**

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Practice 1-1

Practice 1-1

Short Answer Questions

1. What control level do you set for the Costing Enabled and Inventory Asset item attributes to enable sharing costs?
2. Why is the organization material account used for all transactions for an average costing organization?
3. What does the FOB point determine for intransit transfers?

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Practice 1-1 Solution

Short Answer Questions

1. What control level do you set for the Costing Enabled and Inventory Asset item attributes to enable sharing costs?

You set the item attribute control level to Item.

2. Why is the organization material account used for all transactions for an average costing organization?

Because item unit costs are maintained at the organization level, and if different accounts were used by subinventory, your inventory balances would not reconcile to their valuation accounts.

3. What does the FOB point determine for intransit transfers?

The FOB point specifies when ownership of the material changes.

Practice 1-1

Practice 1-1

Business Scenario

- You have an enterprise structure consisting of multiple manufacturing and distribution facilities nationwide. In your manufacturing facilities, you are interested in maintaining standard costing while in your distribution centers, you are considering average costing. Discuss what implication these interests have in regard to setting up the cost control level within your enterprise structure.

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Practice 1-1 Solution

Business Scenario

You have an enterprise structure consisting of multiple manufacturing and distribution facilities nationwide. In your manufacturing facilities, you are interested in maintaining standard costing while in your distribution centers, you are considering average costing. Discuss what implication these interests have in regard to setting up the cost control level within your enterprise structure.

Discuss how the setup of cost controls at the Org level will facilitate the ability to have different costs for the same item within different organizations.

Guided Practice 1-2 Overview

Guided Practice 1-2 Overview

This practice covers the following topics:

- **Defining item attribute controls**

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Guided Practice 1-2: Defining Item Attribute Controls

Guided Practice 1-2: Defining Item Attribute Controls

To define item attribute controls:

Manufacturing and Distribution Manager Responsibility

(N) INV Items > Organization Item > (B) Find > OK > (T) Costing

1. Navigate to the Organization Item window to the Costing tab, and find item AS18947.
2. Select these attributes:
 - Costing Enabled
 - Inventory Asset Value
 - Include in Rollup
3. Enter 01-535-5110-0000-000 as a cost of goods sold account and enter 300 as a standard lot size.
4. Save your work.

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11i Describing Financial Cost Controls

Chapter 5

11i Describing Financial Cost Controls

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Objectives

After completing this lesson, you should be able to do the following:

- **Describe your system controls for Oracle Cost Management**
- **Describe your subinventory accounts and controls**
- **Describe your receiving options and controls**
- **Describe your units of measure**
- **Define your categories for product-line costing**
- **Define your account aliases**
- **Describe your cost security profiles**

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Agenda

Agenda

- **Overview of Setting Up System Controls for Costing**
- Subinventory Accounts and Controls
- Receiving Options and Controls
- Units of Measure
- Categories for Product-line Costing
- Account Aliases
- Cost Security Profiles

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Overview



Overview

Setting Up System Controls for Costing

- Subinventory accounts and controls
- Receiving options and controls
- Units of measure
- Categories for product-line costing
- Account aliases
- Cost security profiles

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- **Subinventory Accounts and Controls**
- Receiving Options and Controls
- Units of Measure
- Categories for Product-line Costing
- Account Aliases
- Cost Security Profiles

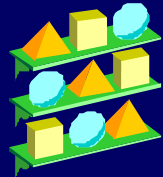
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Subinventory Accounts and Controls

Subinventory Accounts and Controls

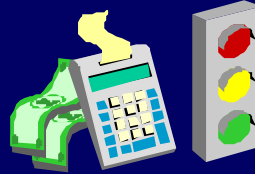
- Specify name and type of subinventory.



Subinventory



Accounts



Cost controls

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Subinventory Accounts and Controls

Quantity Tracked

Specify if you want to maintain quantity information for the subinventory. Typically, you do not track onhand quantities for low-value items. If you do not want to track quantities, do not select the check boxes for Quantity Tracked, Reservable, Nettable, Include in ATP, and Asset Subinventory.

Asset Inventory

Specify if you want the value of asset items maintained in the subinventory to be carried on your balance sheet as an asset. Non-asset subinventories are not valued. If an asset item is transferred into an expense subinventory, its value is immediately charged to expense.

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Subinventory Accounts and Controls

Expense Tracked Subinventories

- You can use expense-tracked subinventories to expense items that you do not want to value in inventory but do want to track onhand quantities.
- You can receive various items into an expense subinventory, and over time the cost of the items may change. Therefore, for most transactions, Oracle Inventory does not create any accounting entries for movement out of expense-tracked subinventories.

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Subinventory Accounts and Controls

Expense Tracked Subinventories

- You can use expense subinventories for replenishment subinventory and sales office demonstration inventory and to hold consignment inventory owned by another company.
- For consignment inventory, you can create a PO for the item at zero price, receive into a non-asset subinventory, and then do a miscellaneous issue to an expense account when consumed.

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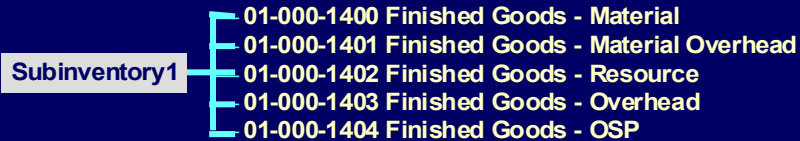
Subinventory Accounts and Controls

Subinventory Accounts and Controls

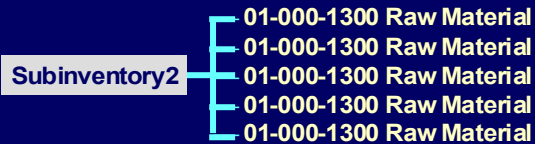
- How you enter your accounts determines the number of accounting transactions.

Subinventory Accounts

Maximum number of accounting entries:



Maximum number of accounting entries:



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Subinventory Accounts and Controls

Subinventory Valuation Accounts

- If you use different accounts for each cost element, you increase the number of accounting entries.
- If you use the same account for each cost element, your accounting entries are combined by account, and you minimize the number of accounting entries. For example, the same miscellaneous receipt to Subinventory2 creates the following accounting entry:

Dr. 01-000-1300 270.00
Cr. 01-700-7100 270.00

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Subinventory Accounts and Controls

Subinventory Accounts and Controls

If you use different accounts for each cost element, you increase the number of accounting entries. For example, you perform a miscellaneous receipt from an expense account (01-700-7100) to Subinventory1. You receive a quantity of one. The elemental cost breakdown of the item and accounting entries follow:

Material	100.00	Dr. 01-000-1400	100.00
Material overhead	10.00	Dr. 01-000-1401	10.00
Resource	50.00	Dr. 01-000-1402	50.00
Overhead	100.00	Dr. 01-000-1403	100.00
Outside processing	10.00	Dr. 01-000-1404	10.00
		Cr. 01-700-7100	270.00

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Subinventory Accounts and Controls

Default Valuation Accounts

- Oracle Inventory displays the accounts you defined in the Organization Parameters window as the default valuation accounts.

Encumbrance Account

- If you use encumbrance controls in Oracle Purchasing, the subinventory encumbrance account is used by Purchasing for the purchase order distributions.

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Subinventory Accounts and Controls

Expense Account

- When you receive an asset item to an expense subinventory or an expense item to an asset subinventory, the following hierarchy is used to determine the charge account:
 - The subinventory expense account is charged, if one exists.
 - If the subinventory does not have an expense account defined, the item expense account is charged.
 - If the item does not have an expense account, the organization-level expense account is charged.

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Subinventory Accounts and Controls

Subinventory Accounts and Controls

Use the Subinventories window to enter:

- Subinventory names
- Parameters
- Accounts

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments > Subinventories > (B) New

(N) INV Setup > Organizations > Subinventories > (B) New

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(Help) Oracle Manufacturing Applications > Oracle Inventory > Setting Up > Inventory Structure > Defining Subinventories

Review Question

Review Question

If an asset item is transferred into an expense subinventory, its value is not charged to expense.

- 1. True**
- 2. False**

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Review Question

Review Question

If an asset item is transferred into an expense subinventory, its value is not charged to expense.

- 1. True**
- 2. False**

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- Subinventory Accounts and Controls
- **Receiving Options and Controls**
- Units of Measure
- Categories for Product-line Costing
- Account Aliases
- Cost Security Profiles

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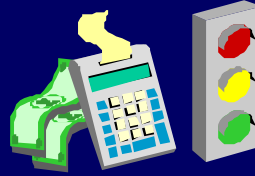
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Receiving Options and Controls

- If you use Oracle Purchasing, you need to define your expense accrual account and other controls.



**Expense accrual
account**



Cost controls

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Receiving Options and Controls

Accruals

- An accrual is an accounting entry that is made to recognize liability for the value of items received, but the invoice has not yet been matched and approved in AP.

Accrue Expense Items

- You may choose to accrue non-inventory expense items at period end or upon receipt. Most commercial (non-government) installations accrue non-inventory expense items (expense destinations) at period end. Reasons to accrue at receipt include using encumbrances or budgetary control with encumbrances.

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Receiving Options and Controls

Accrue Inventory Items

- Inventory items are always accrued upon receipt.

Expense AP Accrual Account

- Enter the liability account to use as the offset account for noninventory expense items.

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Receiving Options and Controls

Issues with Accruing Expense Items upon Receipt

- You have more entries to reconcile in your AP accrual accounts. You should reclassify the expense portion of your Receiving Inspection account balance at period end.
- Use the Receiving Value Report by Destination Account to do this.
- Avoid this step by receiving all noninventory expense items as direct receipts.

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Receiving Options and Controls

Use the Purchasing Options window to enter:

- Accrual of noninventory expense items at period end or upon receipt
- Accrual of inventory items upon receipt
- Liability account

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments > Purchasing Options >
(T) Accrual

(N) PUR Setup > Purchasing > Purchasing Options > (T) Accrual

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**(Help) Oracle Manufacturing Applications > Oracle Purchasing >
Setting Up > Purchasing Options > Defining Accrual Options**

Review Question

Review Question

Inventory items are always accrued upon receipt.

- 1. True**
- 2. False**

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Review Question

Review Question

Inventory items are always accrued upon receipt.

- 1. True**
- 2. False**

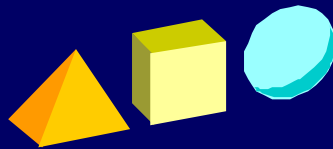
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Noninventory versus Inventory Items

Noninventory versus Inventory Items

- With Oracle Purchasing and Oracle Inventory, you have two types of expense items:
 - Noninventory expense Items
 - Inventory expense Items



Expense items

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Noninventory Expense Items

With Oracle Purchasing, you can purchase items for noninventory items such as office supplies or capital equipment. These items use an expense destination type for the purchase order distribution information. You can inspect these purchasing items in receiving, but you cannot deliver these items into inventory.

If you accrue your expenses at time of receipt, all accounting entries for the receipt and delivery of these expense items occur within Purchasing. Unless you use encumbrance accounting, however, it is not recommended that you accrue expense purchases when you receive. You normally accrue your expense receipts at month end, using the Receipt Accruals process within Oracle Purchasing or Oracle Payables.

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Inventory Expense Items

You also have inventory expense items. These are items you can stock in a subinventory without any value. Examples include lubricants, consumables, and other types of free stock. Inventory expense items, like noninventory expense items, do not hold a unit cost in Oracle Cost Management.

Inventory expense items use an inventory destination type for the purchase order distribution information. You can deliver these inventory expense items from Receiving into either expense or asset subinventories.

You always accrue these types of inventory expense items when you receive. The Accrual Reconciliation Report reconciles your perpetual accruals with the corresponding Oracle Payables accounting entries.

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Review Question

Review Question

You always accrue inventory expense items that use an inventory destination type for the purchase order distribution information upon receipt.

- 1. True**
- 2. False**

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Review Question

Review Question

You always accrue inventory expense items that use an inventory destination type for the purchase order distribution information upon receipt.

- 1. True**
- 2. False**

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- Subinventory Accounts and Controls
- Receiving Options and Controls
- **Units of Measure**
- Categories for Product-line Costing
- Account Aliases
- Cost Security Profiles

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Units of Measure

- Define units of measure (UOM) for tracking, moving, storing, and counting items. Each item defined and transaction performed must have a unit of measure.

Define multiple UOM classes



Define multiple UOMs for each class



Define intraclass UOM conversions



Define interclass UOM conversions

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Units of Measure

Costing Implications

- Item costs are based on the item's primary unit of measure.
- Units of measure are used to define your resources on your routing steps.
- You can move or count items in units of measure other than their primary unit of measure. Oracle Inventory converts the transaction value to the primary unit of measure.

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Review Question

Review Question

Item costs are not based on the item's primary unit of measure but on the transaction unit of measure.

- 1. True**
- 2. False**

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Review Question

Review Question

Item costs are not based on the item's primary unit of measure but on the transaction unit of measure.

1. True
2. False

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
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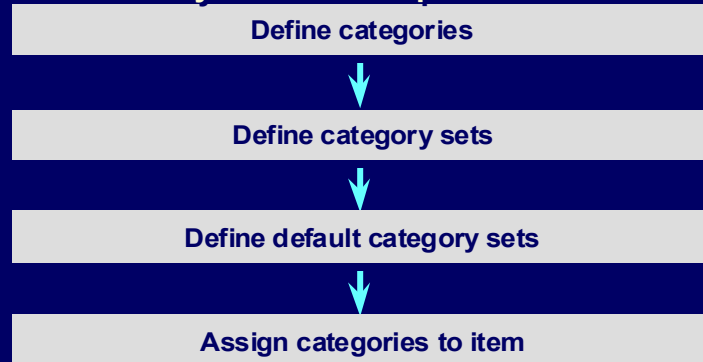
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Categories for Product-Line Costing

Categories for Product-Line Costing

You can use categories to perform product-line costing. By defining categories by product line, you can associate your items with product lines.



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Categories for Product-Line Costing

Reporting

- You can sort or select most inventory cost reports by category:
- Inventory Value Report
- Intransit Value Report
- Receiving Value Report
- Elemental Inventory Value Report
- Standard Cost Adjustment reports
- Transaction Distribution reports
- Transaction Historical Summary
- Item Cost reports

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Categories for Product-Line Costing

Cost Processes

- All major cost processes use category as a selection criterion:
- Cost Rollup
- Cost Update
- Mass Edits
- Copy Cost Type

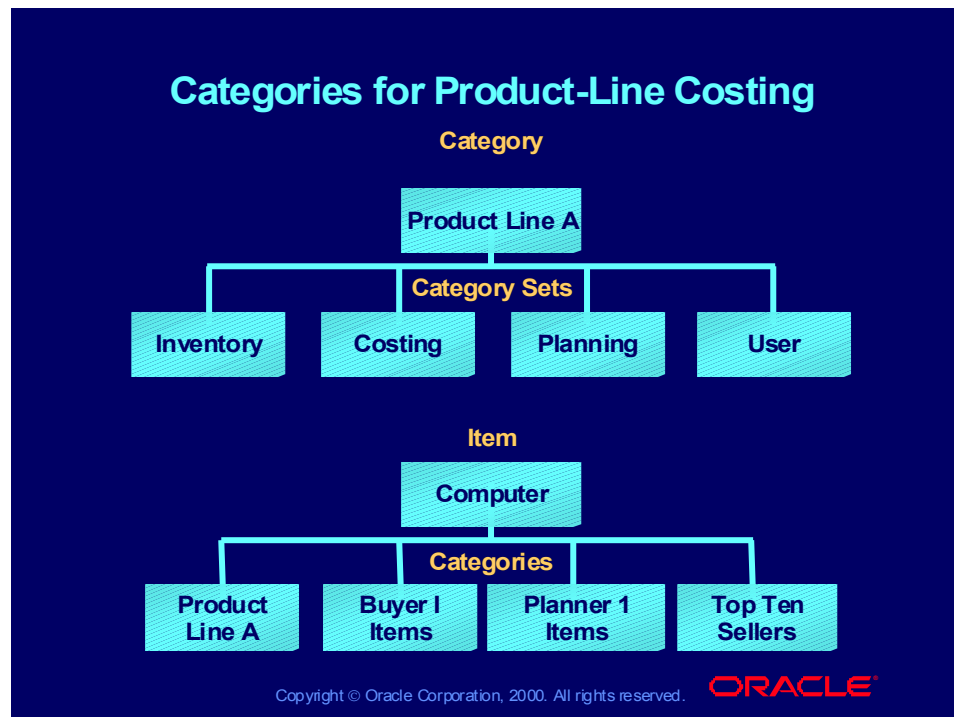
Relationships

- Each category can exist in many category sets. Each item can exist in many categories. Each item/category/category set combination is unique.

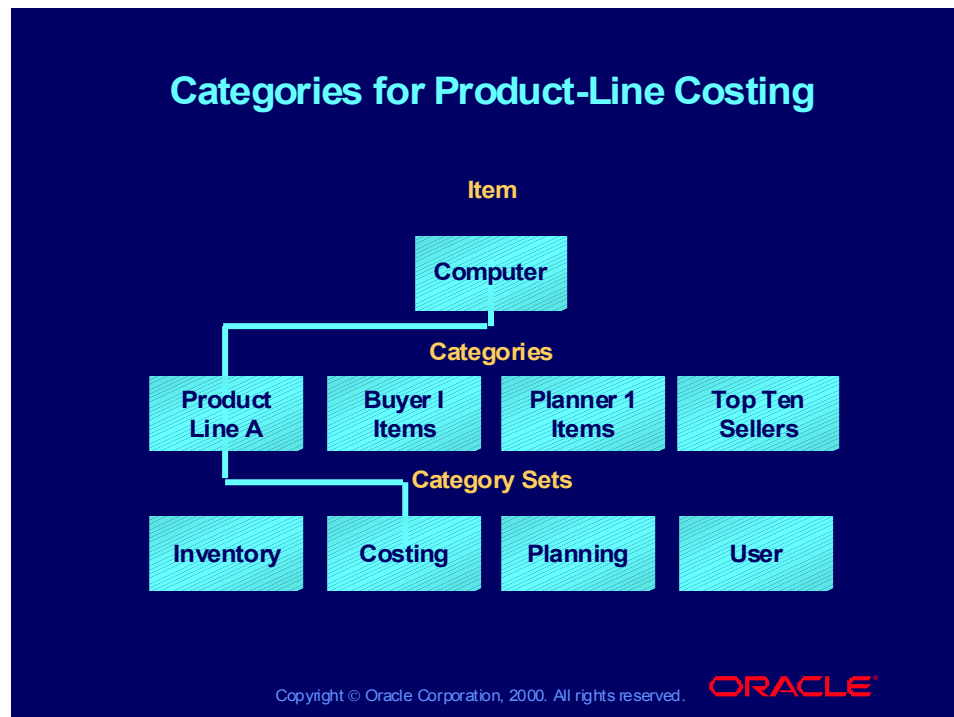
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Categories for Product-Line Costing



Categories for Product-Line Costing



Categories for Product-Line Costing

Use the Categories window to enter:

- Categories

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Categories > Category codes

(N) INV Setup > Items > Categories > Category codes

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Categories for Product-Line Costing

Defining Category Accounts

- You can use the **Category Accounts Summary** window to define, query, and update category valuation and expense accounts.
- If your current organization is a standard costing organization, you can define category accounts at the category and optionally subinventory level.
- If your current organization is an average costing organization you must define category accounts at the cost group or category level.
- You can only define category accounts for categories that belong to the default category set for the product line functional area.

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Caution

The category accounts defined in this window are only used if product line accounting has been and implemented. If product line accounting is implemented, the category accounts, not the item subinventory accounts are used when transactions are entered.

Categories for Product-Line Costing

Use the **Category Accounts** window to enter:

- **Category accounts**

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Account Assignments > Category Accounts

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Categories for Product-Line Costing

Defining Default Category Sets

- You have to define a default category set for each functional area. Oracle Inventory has seven predefined functional areas, including one for costing.
- By defining categories by product line for the default costing category set, you can associate your items with product lines.
- Oracle Inventory displays the default category sets throughout the appropriate application as the default in the category set fields.

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Categories for Product-Line Costing

Categories for Product-Line Costing

Use the Default Category Sets window to:

- Select the category set to use as the default for the functional area

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Categories > Default Category Sets

(N) INV Setup > Items > Categories > Default Category Sets

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(Help) Oracle Manufacturing Applications > Oracle Inventory > Setting Up > Item Categories > Defining Default Category Sets

Categories for Product-Line Costing

Group Categories into Category Sets

- When you enable an item in a functional area, the item is assigned to the default (mandatory) category set of the functional area.
- You can override the default category of the category set. In addition, you can manually assign your item to an unlimited number of category sets.
- You can assign an item to one category within each category set.

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Categories for Product-Line Costing

Categories for Product-Line Costing

Use the Category Sets window to:

- Enter category sets
- Assign items to categories

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Categories > Category Set

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(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Item Categories > Defining Category Sets

Categories for Product-Line Costing

Categories for Product-Line Costing

Use the Category Assignment window to:

- Assign an item to multiple categories

Manufacturing and Distribution Manager Responsibility

(N) INV Items > Master Items > (B) Find > (M) Tools > Categories

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(Help) Oracle Manufacturing Applications > Oracle Inventory > Items
> Assigning Items to Categories

Review Question

Review Question

You can use categories to perform product-line costing. By defining categories by product line, you can associate your items with product lines.

- 1. True**
- 2. False**

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Review Question

Review Question

You can use categories to perform product-line costing. By defining categories by product line, you can associate your items with product lines.

- 1. True**
- 2. False**

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- Subinventory Accounts and Controls
- Receiving Options and Controls
- Units of Measure
- Categories for Product-line Costing
- **Account Aliases**
- Cost Security Profiles

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Account Aliases

Easily Recognized Name or Label

- An account alias is
 - A reference to a frequently used account number combination.
 - An easily recognized name or label representing a general ledger account number.
- You can view, report, and reserve against an account alias. During a transaction, you can use the account alias instead of an account number to refer to the account.

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Account Aliases

Avoiding Accounting Mistakes

- During miscellaneous issue and receipt transactions, you can use an account alias instead of an account number. Examples:
 - Scrap
 - Engineering expense

Reporting

- You can request material distribution reports by account alias.

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Account Aliases

Account Aliases

Use the Account Aliases window to enter:

- Account aliases

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Account Assignments > Account Aliases
(N) INV Setup > Account Aliases

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(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Transaction Setup > Defining Account Aliases

Review Question

Review Question

An account alias is

- 1. A reference to a frequently used account number combination**
- 2. An easily recognized name or label representing a general ledger account number**
- 3. All of the above**

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Review Question

Review Question

An account alias is

1. A reference to a frequently used account number combination
2. An easily recognized name or label representing a general ledger account number
3. All of the above

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Agenda

Agenda

- Overview of Setting Up System Controls for Costing
- Subinventory Accounts and Controls
- Receiving Options and Controls
- Units of Measure
- Categories for Product-line Costing
- Account Aliases
- **Cost Security Profiles**

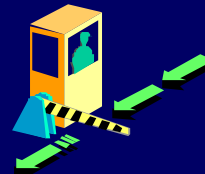
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Cost Security Profiles

Update System Profile Options Window

- Use cost profiles to control access to your costs.
- You cannot change cost security profiles using the Personal Profiles Values window; your system administrator must do this using the Update System Profile Options window.



Security

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Cost Security Profiles

CST: Average Costing Option

Use this profile to gain access to average costs if you use average costing.

CST: Maintain Cost Privilege and CST: View Cost Privilege

The function security feature in AOL is used to control access to windows that change or view item, resource, and overhead unit costs.

For viewing, access to reports with cost accounting data are controlled by user responsibility.

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Cost Security Profiles

CST: Cost Rollup—Wait for Table Locks

Use this profile to control whether the cost rollup waits for another user or program to free the information that needs to be modified by the cost rollup.

- No means the Cost Rollup errors out after ten attempts to access the information.
- Yes means the Cost Rollup waits until the desired information is available.

CST: Cost Update Debug Level

Use this profile to control the number of messages and the amount of debug information that the Cost Update program writes to the log file.

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Cost Security Profiles

Site-Level Profile for Exchange Rate Conversions

CST: Exchange Rate Type

Use this profile to control the exchange rate type used for the Margin Analysis Report. The two period rate choices are period average rate and period end rate.

When using a foreign currency for the Margin Analysis Report, you need to specify the exchange rate type. For reporting P&L results, different countries use different financial standards. For example, U.S. companies convert using the period average rate, and Australian companies use the period end rate.

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Cost Security Profiles

Cost Security Profiles

Use the Update Systems Profiles Options window to:

- Enter cost security profiles

Use the Personal Profile Values window to:

- View cost security profiles

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Profiles

(N) INV Setup > Profile > Personal

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(Help) Oracle Manufacturing Applications > Oracle Inventory >
Setting Up > Oracle Inventory Profile Options

Review Question

Review Question

You use cost profiles to control access to your costs.

You cannot change cost security profiles using the Personal Profiles Values window; your system administrator must do this using the Update System Profile Options window.

- 1. True**
- 2. False**

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Review Question

You use cost profiles to control access to your costs.

You cannot change cost security profiles using the Personal Profiles Values window; your system administrator must do this using the Update System Profile Options window.

- 1. True**
- 2. False**

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Summary

In this lesson, you should have learned how to:

- **Describe your system controls for Oracle Cost Management**
- **Describe your subinventory accounts and controls**
- **Describe your receiving options and controls**
- **Describe your units of measure**
- **Define your categories for product-line costing**
- **Define your account aliases**
- **Describe your cost security profiles**

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Practice 1-1 Overview

This practice covers the following topics:

- **Discussing financial cost controls**

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Practice 1-1

Short Answer Questions

1. How do you set up product-line costing?
2. How do you use non-asset subinventories?
3. Is it possible to track quantities but not value?
4. What reclassifying journal entry should be made if you accrue expense items upon receipt and do not use direct receipts for your expense items?
5. How do you control access to your costs?

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Practice 1-1 Solution

1. First, you define a category for each product line. Then, you assign the categories to a category set. Finally, you group your items into the categories.
2. You would use non-asset subinventories for expense items that you do not want to value in inventory or to hold consignment inventory owned by another company.
3. Yes, by defining a subinventory location and setting the Qty Tracked field to Yes and the Asset Inventory field to No.
4. You should prepare an accrual entry to reclassify the expense portion of your Receiving Inspection account balance, using the Receiving Value Report by Destination Account.
5. Use the cost security profiles to control access to windows that change or view item, resource, and overhead costs. You control access to other reports and inquiries that have cost accounting information by responsibility.

Practice 1-1

Practice 1-1

Business Scenario

- You have been costing by product line to establish profitability trends. You would like to continue to do this and ask that an Oracle solution be presented to allow you to continue this practice.

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Practice 1-1 Solution

Business Scenario

Discuss how the use of categories and category sets will help facilitate product-line costing by setting up product-line category sets with appropriate categories to reflect each product line. Explain how all the account information can be set up for each category, and that as product line transactions are completed, costs are logged that can later be viewed and analyzed.

Guided Practice 1-2 Overview

Reviewing Cost Setup and Controls

Use the Seattle organization for all activities, and choose the Manufacturing and Distribution Manager responsibility. The navigation path here is provided for convenience only and can be used to note the navigation path used in the Oracle demonstration database. In an actual installation, navigation paths may differ because the software is configured to your specific business requirements.

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Guided Practice 1-2

1. Determine the cost control level for this installation.

a. Are costs maintained at the item level or at the organization level?

Costs are maintained at the organization level.

b. What does this tell you about the cost of the same item in different organizations?

The same item could have different costs in different organizations.

Use the Item Attribute Controls window to determine at which level costs are maintained.

Manufacturing and Distribution Manager Responsibility

(N) INV Setup > Items > Attribute Controls

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Guided Practice 1-2

2. Review the subinventories defined in Seattle.

Use the Subinventories Summary window to view subinventories that are defined in Seattle. Scroll to the right and observe that some inventories are quantity tracked and some are asset subinventories.

Manufacturing and Distribution Manager Responsibility

(N) INV Setup > Organizations > Subinventories > (M) View > Find All

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Guided Practice 1-2

- a. Does the finished goods subinventory (FGI) use the same accounts for all cost elements, or does it use different accounts?
 - The FGI subinventory uses different accounts for all cost elements.
- b. What implication does this have for the entries that will be posted to the general ledger?
 - Individual entries are posted for each element.

Use the Subinventories window to view the FGI subinventory that is defined in Seattle.

Manufacturing and Distribution Manager Responsibility

(N) INV Setup > Organizations > Subinventories >

(M) View > Find All > FGI > (T) Accounts

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Guided Practice 1-2

3. What category set is the default for costing purposes?

- Inv.Items, the Inventory Category Set, is the default category set for costing purposes.

Use the Default Category Sets window to:

- View the category set that is the default for costing purposes.

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Categories > Default Category Sets

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Guided Practice 1-2

4. Review your cost profiles, and ensure that you have authority to both view and maintain cost information. Notify the instructor if you do not.
 - Query the profiles CST: Maintain Cost Privilege and CST: View Cost Privilege.

Use the Personal Profile Values window to:

- View cost security profiles

Manufacturing and Distribution Manager Responsibility

(N) INV Setup > Profile > Personal

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11i Describing WIP Cost Controls

Chapter 6

11i Describing WIP Cost Controls

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Objectives

After completing this lesson, you should be able to describe the costing implications of:

- WIP parameters
- WIP accounting classes

Agenda

Agenda

- **Overview of Setting Up WIP Controls for Costing**
- **WIP Parameters**
- **WIP Accounting Classes**

1-3

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Overview

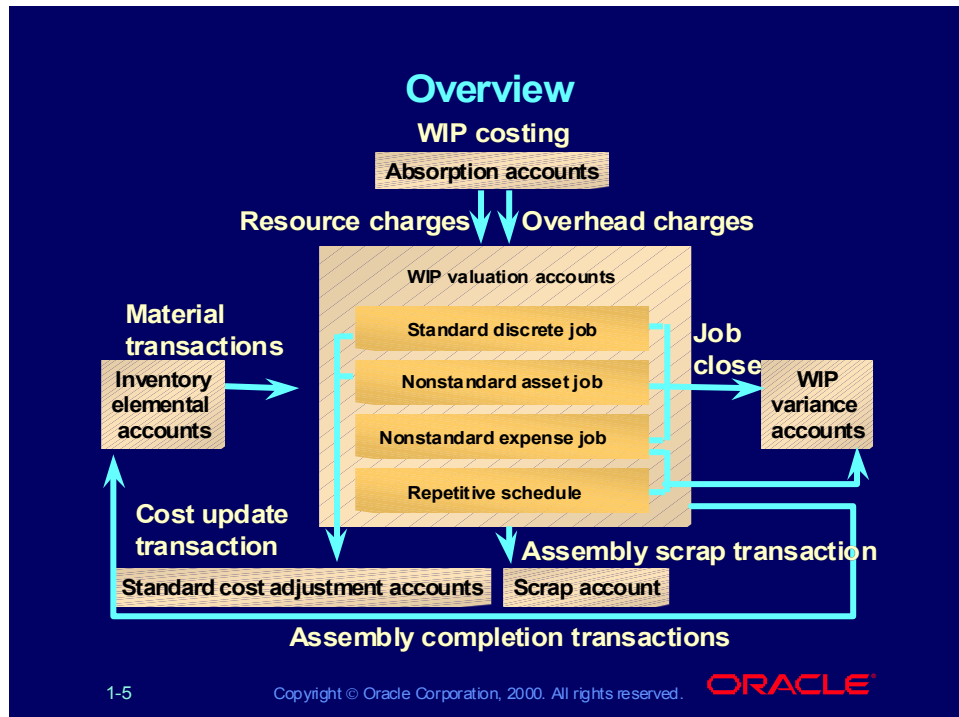
Setting Up WIP Controls for Costing

- WIP parameters
- Default WIP accounting classes
- Recognition of repetitive variances and scrap account required

WIP Costing

- WIP valuation is maintained on a perpetual basis with job and schedule balances equal to your accounting balances.

Overview



Agenda

Agenda

- Overview of Setting Up WIP Controls for Costing
- **WIP Parameters**
- WIP Accounting Classes

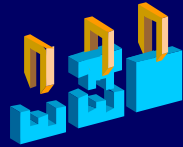
1-6

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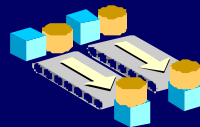
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Job Costing Versus Period-Based Costing

Job Costing Versus Period-Based Costing



**Job
costing**



**Period-based
costing**

1-7

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Job Costing Versus Period-Based Costing

Tracking Costs

You have two methods to track costs in WIP:

- **Job costing**
- **Period-based costing**

Job Costing

- **Job costing is a method of collecting and reporting costs for each discrete job. This method includes costs in due to material, resource, and overhead transactions, and costs out due to completions, scrap, and variances. It is used for standard and nonstandard asset discrete jobs.**

Job Costing Versus Period-Based Costing

Period-based Costing

- **Period-based costing is a method of collecting and reporting costs by period rather than by some other method such as by discrete jobs. This method is used primarily in costing repetitive schedules and nonstandard expense discrete (for example, prototype) jobs.**

Differences

- **Job costing maintains values across periods and recognizes variances at job close.**
- **Period-based costing zeros out value at the end of each period.**

1-9

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Review Question

Review Question

You have two methods to track costs in WIP:

- 1. Job costing and period-based costing**
- 2. Inventory costing and WIP costing**
- 3. Production costing and facility costing**
- 4. None of the above**

1-10

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Review Question

Review Question

You have two methods to track costs in WIP:

- 1. Job costing and period-based costing**
- 2. Inventory costing and WIP costing**
- 3. Production costing and facility costing**
- 4. None of the above**

1-11

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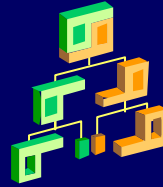
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This-Level and Previous-Level Costing

This-Level and Previous-Level Costing



**This-level
costs =
Routing costs**



**Previous-level
costs =
BOM costs**

1-12

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This-Level and Previous-Level Costing

Charges to Work in Process

- All charges to work in process are recorded as this-level or previous-level costs.

This-Level Costs = Routing Costs

- This-level costs are the costs incurred to convert the components into the finished assembly. These costs are charged through resource, outside processing, and overhead transactions.
- Standard this-level costs are the routing costs of the assembly. These costs are relieved from work in process when an assembly is completed to inventory.

1-13

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This-Level and Previous-Level Costing

Previous-Level Costs = Bill of Material Costs

- Incurred previous-level costs (actual quantity at standard cost) represent the total cost of the components issued, including the component's resource, outside processing, and overhead cost elements.
- Standard previous-level costs (standard quantity at standard cost) are the bill of material cost of the assembly, including the component's resource, outside processing, and overhead cost elements.

Review Question

Review Question

All charges to work in process are recorded as BOM costs:

- 1. True**
- 2. False**

1-15

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Review Question

Review Question

All charges to work in process are recorded as BOM costs:

1. True
2. False

1-16

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WIP Parameters: Repetitive Variance Timing

- Work-in-process parameters determine when variances are recognized for repetitive schedules.
- You choose when to recognize repetitive variances.
 - All Schedules Option
 - Completed—No Charges/Cancelled Schedules Option



Variances

WIP Parameters: Repetitive Variance Timing

All Schedules Option

- This option zeros out the balances of all repetitive schedules at the end of a period. It expenses all value remaining in the schedule, including the cost of any assemblies that may be in process but not yet complete.

Completed—No Charges/Cancelled Schedules Option

- This option recognizes variances for schedules with a status of Complete—No Charges Allowed or Cancelled. It is identical to the method used for Discrete Standard and Non-Standard asset jobs. It leaves total value in all other schedules, including any variances that may have occurred to date.

1-18

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WIP Parameters: Repetitive Variance Timing

WIP Parameters: Repetitive Variance Timing									
Recognize Period Variances All Schedules Option									
	Stores Inventory		WIP		Finished Goods		Variance		
1.		1500	1500						
2a.		2500	2500						
2b.		100	100						
3.				3600	3600				
4.				500			500		Period 1
5.				400	400				Period 2
6.			400					400	

• Variance includes value of remaining 10 assemblies to be completed.

1-19

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WIP Parameters: Repetitive Variance Timing

WIP Parameters: Repetitive Variance Timing

Example of Recognize Period Variances using the All Schedules Option

Assumptions

Scheduled to build 100 of Assy1 in period 1.

Item	Op	Std Cost
Assy1		\$40.00
Comp1	10	\$15.00
Comp2	20	\$25.00

WIP Parameters: Repetitive Variance Timing

Transactions

- 1. Complete 100 of Assy1 from Op10—Pulls 100 Comp1 at \$15.00.**
- 2a. Complete 100 of Assy1 from Op20—Pulls 100 Comp2 at \$25.00.**
- 2b. Issue additional Comp2—Quantity of 4 at \$25.00.**
- 3. Complete 90 of Assy1 from Op30 to Finished Goods.**
- 4. Close period 1—Zeros out balance of schedule.**
- 5. Complete 10 of Assy 1 from Op30 to Finished Goods.**
- 6. Close period 2—Zeros out balance of schedule.**

1-21

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WIP Parameters: Repetitive Variance Timing

WIP Parameters: Repetitive Variance Timing					
Recognize Period Variances Completed—No Charges/Cancelled Schedules Option					
	Stores Inventory	WIP	Finished Goods	Variance	
1.	1500	1500			
2a.	2500	2500			
2b.	100	100			
3.			3600	3600	

5.			400	400	Period 1
6.			100	100	Period 2

• Variance remains in WIP at period end.

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WIP Parameters: Repetitive Variance Timing

WIP Parameters: Repetitive Variance Timing

Example of Recognize Period Variances using the Completed—No Charges/Cancelled Schedules Option

Assumptions

Scheduled to build 100 of Assy1 in period 1.

Item	Op	Std Cost
Assy1		\$40.00
Comp1	10	\$15.00
Comp2	20	\$25.00

1-23

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WIP Parameters: Repetitive Variance Timing

WIP Parameters: Repetitive Variance Timing

Transactions

1. Complete 100 of Assy1 from Op10—Pulls 100 Comp1 at \$15.00.
- 2a. Complete 100 of Assy1 from Op20—Pulls 100 Comp2 at \$25.00.
- 2b. Issue additional Comp2—Quantity of 4 at \$25.00.
3. Complete 90 of Assy1 from Op30 to Finished Goods.
4. Close period 1—No accounting entries because schedule is not complete.
5. Complete 10 of Assy 1 from Op30 to Finished Goods (Status=Complete)
6. Close period 2—Zeros out balance of schedule.

1-24

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Review Question

Review Question

Work-in-process parameters determine when variances are recognized for repetitive schedules. You choose when to recognize repetitive variances.

- **All Schedules Option**
- **Completed—No Charges/Cancelled Schedules Option**

- 1. True**
- 2. False**

1-25

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Review Question

Review Question

Work-in-process parameters determine when variances are recognized for repetitive schedules. You choose when to recognize repetitive variances.

- All Schedules Option
- Completed—No Charges/Cancelled Schedules Option

1. True
2. False

WIP Parameters: Assembly Scrap Costing

- WIP parameters also determine when assembly scrap transactions are costed.
- You choose when to cost assembly scrap transactions:
 - Require Scrap Account—Checked
 - Require Scrap Account—Unchecked



Scrap

1-27

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WIP Parameters: Assembly Scrap Costing

Require Scrap Account—Checked

- This option relieves discrete jobs and schedules for the value of scrapped assemblies. You are required to enter a scrap account when you move an assembly into the Scrap intraoperation step. This option provides the most visibility to your scrap transactions.

Require Scrap Account—Unchecked

- A scrap account is not required when you move an assembly into the Scrap intraoperation step. The cost of the scrap remains in the job and is treated as a variance at job close.

1-28

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Defining WIP Parameters

Use the WIP Parameters window to enter when to:

- Recognize repetitive variances
- Cost assembly scrap transactions

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(N) WIP Setup > Parameters > (M) Repetitive

(N) WIP Setup > Parameters > (M) Move Transaction

Review Question

Review Question

When the option to Require Scrap Account is checked, the system relieves discrete jobs and schedules for the value of scrapped assemblies and provides the most visibility to your scrap transactions.

- 1. True**
- 2. False**

1-30

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Review Question

Review Question

When the option to Require Scrap Account is checked, the system relieves discrete jobs and schedules for the value of scrapped assemblies and provides the most visibility to your scrap transactions.

- 1. True**
- 2. False**

1-31

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Agenda

Agenda

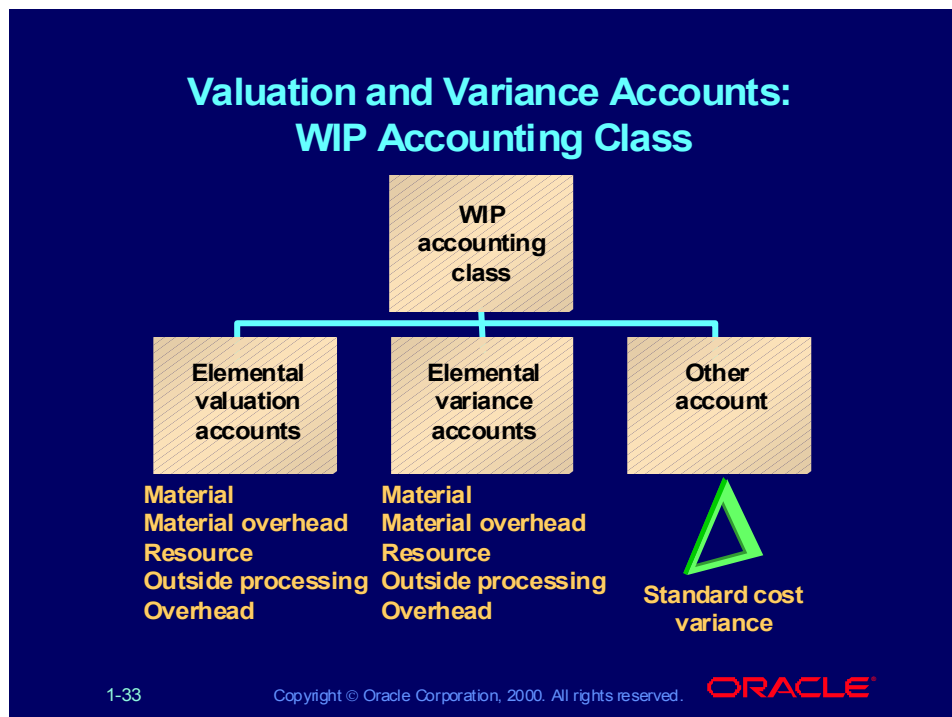
- Overview of Setting Up WIP Controls for Costing
- WIP Parameters
- WIP Accounting Classes

1-32

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Valuation and Variance Accounts: WIP Accounting Class



Valuation and Variance Accounts: WIP Accounting Class

Valuation and Variance Accounts: WIP Accounting Class

WIP Accounting Class

- Each job must reference a WIP accounting class.
- Each WIP accounting class includes the elemental valuation and variance accounts you use to cost production.
- Valuation accounts are charged when material is issued to, or when resources, outside processing, or overhead is earned by, a job or schedule. They are also relieved when assemblies are completed from a job or schedule.

1-34

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Valuation and Variance Accounts: WIP Accounting Class

Valuation and Variance Accounts: WIP Accounting Class

Separate Accounts Versus Grouping Cost Elements by Account

- All cost elements can be assigned the same account, or each cost element can be assigned a separate account. You can also group cost elements by using a combination of accounts.
- By grouping cost elements together, you reduce the number of accounting entries generated by each transaction, because the accounting entries are summarized by a unique cost element account.

1-35

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Valuation and Variance Accounts: WIP Accounting Class

Valuation and Variance Accounts: WIP Accounting Class

Charges to Jobs and Schedules

- All elemental accounts are charged when material is issued to a job or schedule, depending on the elemental cost structure of the item being issued.
- The resource account is charged when resources are earned by jobs or schedules.
- The outside processing account is charged when outside processing resources are earned by jobs or schedules.
- The overhead account is charged when overhead is earned by jobs or schedules.

1-36

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Valuation and Variance Accounts: WIP Accounting Class

Standard Relief from Jobs and Schedules

- **All elemental accounts are relieved when assemblies are completed from a job or schedule, depending on the elemental cost structure of the assembly.**
- **There are two types of variance accounts: the production variance accounts and the standard cost variance account.**

1-37

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Valuation and Variance Accounts: WIP Accounting Class

Production Variance Accounts

- For standard discrete or asset nonstandard jobs, the variance accounts are used to expense the residual value when you close the job.
- For repetitive schedules, the variance accounts are used to expense the residual value depending on your Recognize Period Variances parameter.
- All variances for previous level costs are recognized as material usage variance.
- All material overhead in work in process is a previous level cost.
- There is no material overhead variance account.

1-38

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Valuation and Variance Accounts: WIP Accounting Class

Valuation and Variance Accounts: WIP Accounting Class

Standard Cost Variance Account

- The standard cost variance account is used as the offset account by the cost update when it revalues standard discrete and asset nonstandard jobs.
- You cannot define a standard cost variance account for repetitive schedules and expense nonstandard jobs because they are not revalued by the cost update.

1-39

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Review Question

Review Question

All cost elements can be assigned the same account, or each cost element can be assigned a separate account. You can also group cost elements by using a combination of accounts.

By grouping cost elements together, you reduce the number of accounting entries generated by each transaction, because the accounting entries are summarized by a unique cost element account.

- 1. True**
- 2. False**

1-40

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Review Question

Review Question

All cost elements can be assigned the same account, or each cost element can be assigned a separate account. You can also group cost elements by using a combination of accounts.

By grouping cost elements together, you reduce the number of accounting entries generated by each transaction, because the accounting entries are summarized by a unique cost element account.

- 1. True**
- 2. False**

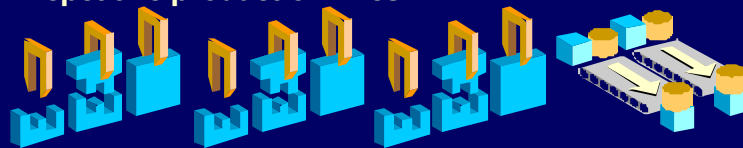
1-41

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WIP Accounting Classes

- Define at least one WIP accounting class for each of the three types of discrete production. Each job you create must reference a WIP accounting class, and each WIP accounting class must be assigned to one of the three types of jobs.
- Define repetitive accounting classes for your repetitive production lines.



**Standard
Discrete**

**Asset
Nonstandard**

**Expense
Nonstandard**

**Repetitive
Assembly**

1-42

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WIP Accounting Classes

Standard Discrete

- Use for your standard production.
- The net value of the job is carried across accounting periods.
- Recognize variances when the job status is changed to closed, no charges allowed.
- This-level material overhead is never charged into or relieved from the job but is earned as part of the completion transaction.

WIP Accounting Classes

Asset Nonstandard

- Use for nonstandard production, such as reworking or upgrading assemblies or prototype production.
- The net value of the job is carried across accounting periods.
- Recognize variances when the job status is changed to closed, no charges allowed.
- This-level material overhead is relieved from the job when an assembly is completed from a job. This-level material overhead is never earned as part of the completion transaction.

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WIP Accounting Classes

Expense Nonstandard

- Use to expense the net value in the job when you close the period.
- This-level material overhead is relieved from the job when an assembly is completed from a job. This-level material overhead is never earned as part of the completion

WIP Accounting Classes

Repetitive Assembly

- Use for your standard repetitive production lines.
- The net value of the schedule is either carried across accounting periods or it is charged to the variance accounts when you close the period, depending on the Recognize Period Variances parameter.
- This level material overhead is never charged into or relieved from the schedule but is earned as part of the completion transaction.

Defining WIP Accounting Classes

Defining WIP Accounting Classes

Use the WIP Accounting Classes window to enter:

- Discrete WIP accounting classes
- Repetitive WIP accounting classes

Manufacturing and Distribution Manager Responsibility

(N) CST Setup > Account Assignments > WIP Accounting Classes

(N) WIP Setup > WIP Accounting Classes

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**(Help) Oracle Manufacturing Applications >
Oracle Work in Process > Setting Up > WIP Accounting Classes**

Work-in-Process Costing Differences

Work-in-Process Costing Differences

- Oracle Cost Management values and recognizes variances differently depending on the type of accounting class, as shown in the table below.

Description of WIP Costing	Class: Nonstandard Expense	Class: Nonstandard Asset	Class: Standard Discrete	Class: Repetitive Schedules
Variance at period end	Yes			Optional*
Variance at job close	Yes	Yes	Yes	
Separate class accounts	Yes	Yes	Yes	Yes
Zero balance at period end	Yes			Optional
Final status—closed	Yes	Yes	Yes	
Final Status—complete/canceled				Yes
Earn material overhead at completion			Yes	Yes

1-48

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Review Question

Review Question

The three types of discrete production include:

- 1. Standard Discrete**
- 2. Asset Nonstandard**
- 3. Expense Nonstandard**
- 4. All of the above**
- 5. None of the above**

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Review Question

Review Question

The three types of discrete production include:

1. Standard Discrete
2. Asset Nonstandard
3. Expense Nonstandard
4. **All of the above**
5. None of the above

1-50

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Summary

In this lesson, you should have learned how to describe the costing implications of:

- **WIP parameters**
- **WIP accounting classes**

Practice 1-1 Overview

This practice covers the following topics:

- **Discussing WIP cost controls**

Practice 1-1

Short Answer Questions

1. What are the costing implications of setting the Recognize Period Variances option to All Schedules?
2. When are scrap transactions accounted for when the Require Scrap Account check box is selected? When it is cleared?
3. Why do you not define a material overhead variance account when you define your WIP accounting classes?
4. For what is the standard cost variance account used? For which WIP accounting classes do you define a standard cost variance account?

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Practice 1-1 Solution

1. The total value of all open schedules is written off to the variance accounts at each period end, including any inventory in progress. This can lead to fluctuations in variances from period to period if your production levels and cycles vary.
2. When the Mandatory Scrap flag is set to Yes, scrap transactions are valued at the time of the transaction and use the account you enter as the offset account.

When the Mandatory Scrap flag is set to No, scrap transactions are valued at the time you close the job or schedule and use the accounting class variance accounts.
3. Material overhead is never charged to WIP. Any material overhead variance included in the previous level costs is recognized as material variance (as are all previous level variances). All this level material overhead is earned at the overhead standard rate or amount as assemblies are completed to inventory.
4. The standard cost variance account for discrete jobs and asset nonstandard jobs is used as the offset account by the cost update when revaluing WIP.

Practice 1-1

Business Scenario

5. You currently use a standard costing method with your legacy system but you are curious to know how Oracle's average costing might be beneficial in bringing you closer to actual costs for valuing your inventory. One of the issues you currently face is the tedious task of evaluating standard costs on a consistent basis to ensure accurate profitability.

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Practice 1-1 Solution

5. Discuss how Oracle's Cost module can support the moving average method of costing by re-weighting the average unit cost as goods are received into inventory. Illustrate how receiving items into inventory can revalue the average cost by dividing the cumulative value of all transactions by the cumulative transaction quantity for an item. Example: I receive 100 pieces of item X into inventory at \$5.00 each. My current inventory value is \$500.00. I then receive 100 more pieces of item X into inventory at \$3.00 each. My new inventory quantity is 200 pieces at an average cost of \$4.00 per piece.

Practice 1-2 Overview

This practice covers the following topics:

- **Defining WIP accounting classes for standard costing**

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Guided Practice 1-2: Defining WIP Accounting Classes for Standard Costing

Guided Practice 1-2: Defining WIP Accounting Classes for Standard Costing

To define accounting classes in a standard costing organization:

Manufacturing and Distribution Manager Responsibility

(N) WIP Setup > WIP Accounting Classes

1. **Navigate to the WIP Accounting Classes window.**
2. **Enter a unique accounting Class name: akdiscrete (put your initials as the first two letters)**
3. **Enter its description: My discrete job class**
4. **Select Standard Discrete as an accounting class Type. The options are Standard Discrete, Repetitive Assembly, Asset Non-standard, and Expense Non-standard.**
5. **Optionally, enter the Inactive On date.**

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Guided Practice 1-2: Defining WIP Accounting Classes for Standard Costing

Guided Practice 1-2: Defining WIP Accounting Classes for Standard Costing

5. In the Accounts tabbed region, select the general ledger accounts for each required Valuation and Variance account. Enter the following valuation accounts and variance accounts:

	Valuation accounts	Variance accounts
Mat	01-000-1410-0000-000	01-520-5310-0000-000
MOH	01-000-1420-0000-000	
Res	01-000-1440-0000-000	01-520-5312-0000-000
OSP	01-000-1450-0000-000	01-520-5370-0000-000
OVH	01-000-1430-0000-000	01-520-5330-0000-000
Std Cost		01-520-5390-0000-000

6. Save your work.

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Guided Practice 1-3 Overview

This practice covers the following topics:

- **Defining WIP accounting classes for average costing**

Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

To define accounting classes in an average costing organization:

Manufacturing and Distribution Manager Responsibility

(N) WIP Setup > WIP Accounting Classes

- 1. Navigate to the WIP Accounting Classes window.**
- 2. Enter a unique accounting Class name: akdiscrete (put your initials as the first two letters)**
- 3. Enter its description: My discrete job class**
- 4. Select Standard Discrete as an accounting class Type. The options are Standard Discrete, Repetitive Assembly, Asset Non-standard, and Expense Non-standard.**
- 5. Optionally, enter the Inactive On date.**

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Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

5. In the Accounts tabbed region, select the general ledger accounts for each required Valuation and Variance account. Enter the following valuation accounts and variance accounts:

	<u>Valuation accounts</u>	<u>Variance accounts</u>
Mat	01-000-1410-0000-000	01-535-5310-0000-000
MOH	01-000-1420-0000-000	
Res	01-000-1440-0000-000	01-535-5312-0000-000
OSP	01-000-1450-0000-000	01-535-5370-0000-000
OVH	01-000-1430-0000-000	01-535-5330-0000-000

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Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

Guided Practice 1-3: Defining WIP Accounting Classes for Average Costing

- 6. In the Average Costing region, select System Calculated as the Default Completion Cost Source. The options are System Calculated and User Defined.**
- 7. If you select the System Calculated as your default completion cost source, select Use Actual Resources as the System Option. The options are Use Actual Resources and Use Predefined Resources.**
- 8. Leave Cost Type blank. You only need to choose a cost type if the Default Completion Cost Source parameter is User Defined.**
- 9. Save your work.**

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11i Summary of Implementing and Setup for Cost Management

Chapter 7

11i Summary of Implementing and Setup for Cost Management

11i Summary of Implementing and Setup for Cost Management

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Objectives

After completing this course, you should have learned how to do the following:

- **Describe general ledger cost controls**
- **Describe organizational cost controls**
- **Describe financial cost controls**
- **Describe work-in-process (WIP) cost controls**

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Agenda Summary

Agenda Summary

- Describing general ledger cost controls
- Describing organizational cost controls
- Describing financial cost controls
- Describing work-in-process (WIP) cost controls

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11i Overview of Costing Information

Chapter 8

11i Overview of Costing Information

11i Overview of Costing Information

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Objectives

After completing this course, you should be able to do the following:

- **Define cost types**
- **Describe cost elements**
- **Define item costs**
- **Define resource and overhead costs**

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Agenda

Agenda

- **Defining Cost Types**
- **Describing Cost Elements**
- **Defining Item Costs**
- **Defining Resource and Overhead Costs**




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Overview

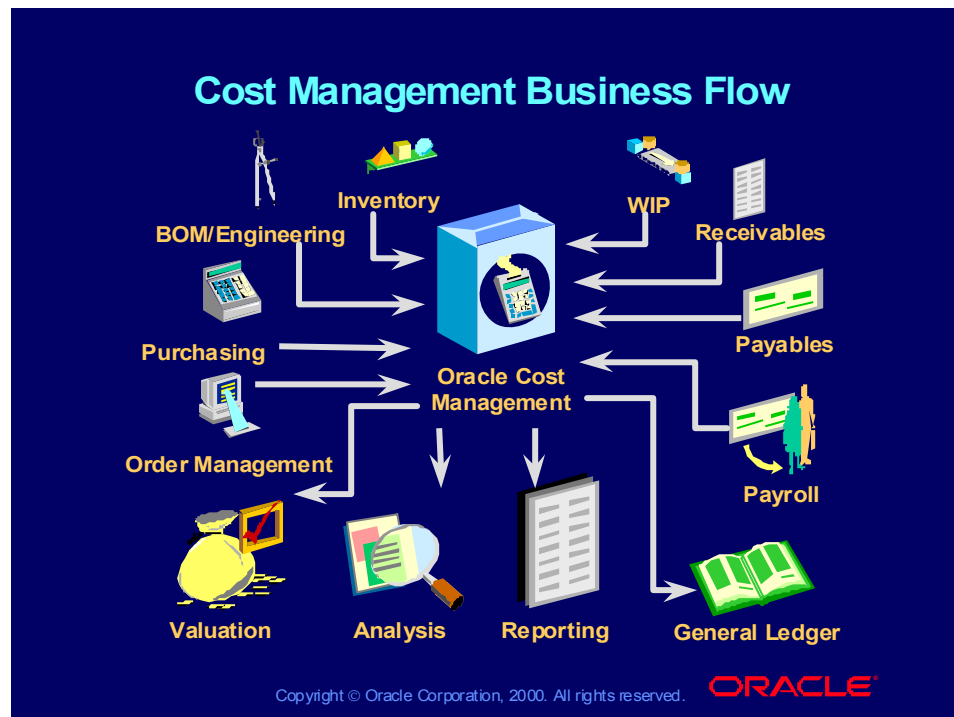
Overview

Cost types, Cost elements

Item costs	Resource costs	Overhead costs
		

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Cost Management Business Flow



Integrated Application Suite

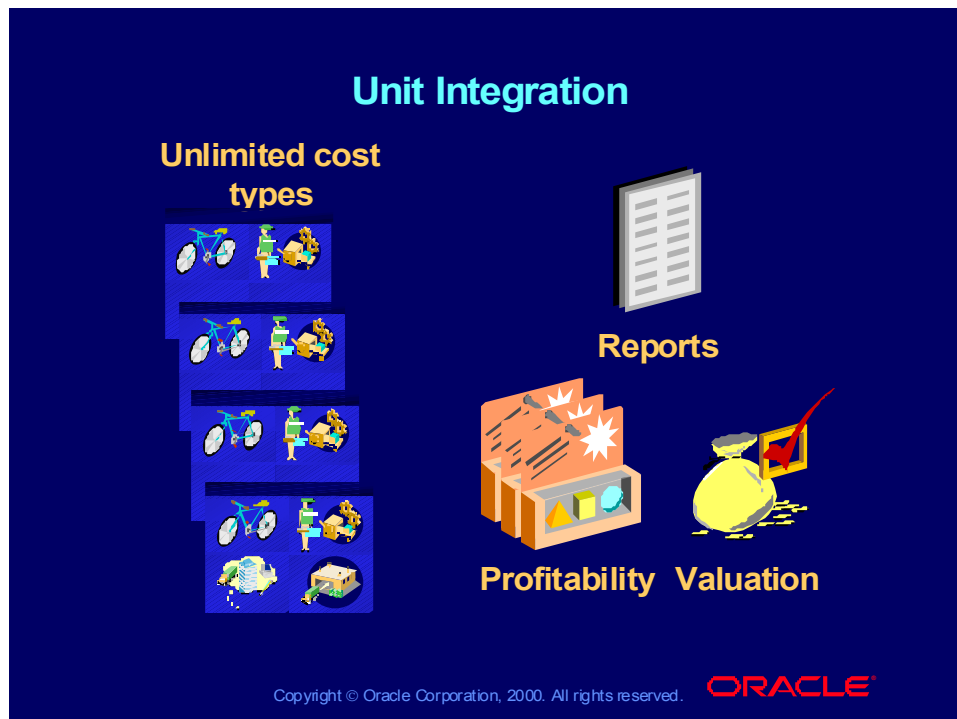
All Oracle Manufacturing and Financial Applications comprise an integrated suite of business applications.

Oracle Cost Management (OCM) provides financial analysis and reporting of cost transactions. In OCM, you cost products, value inventory in stores and in work-in-process, and run simulation reports to analyze costs and profits. You pass cost information to many applications and transfer accounting activity to your general ledger at any time.

In Oracle Bills of Material/Oracle Engineering, you create product structures, routings, resources, standard operations, and departments used in product costing. In Oracle Inventory, you define the organizational structure/cost environment where you process material transactions and maintain perpetual inventory values using either standard or average costing. In Oracle WIP, you enter WIP transactions and maintain perceptual WIP inventory values using either standard or average costing.

In Oracle Order Management, you enter customer orders and shipments. In Oracle Receivables, you enter product sales information. In Oracle Purchasing, you open purchase orders, establish purchase order unit prices, receive material, and handle outside processing charges. In Accounts Payable, you pay actual invoice unit prices on purchase order fulfillment. In Payroll, you set up employees that work in your organization.

Unit Integration



11i Defining Cost Types

Chapter 9

11i Defining Cost Types

11i Defining Cost Types

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Objectives

After completing this lesson, you should be able to do the following:

- **Identify cost types available under different costing methods**
- **Set up cost type controls for inventory and manufacturing**
- **Set up cost type controls for engineering**
- **Define cost types**

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Agenda

Agenda

- **Overview**
- Identify Cost Types Available Under Different Costing Methods
- Set up Cost Type Controls for Inventory and Manufacturing
- Set up Cost Type Controls for Engineering
- Define Cost Types

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Overview

- Oracle Cost Management (OCM) holds item, resource and overhead costs by cost type.

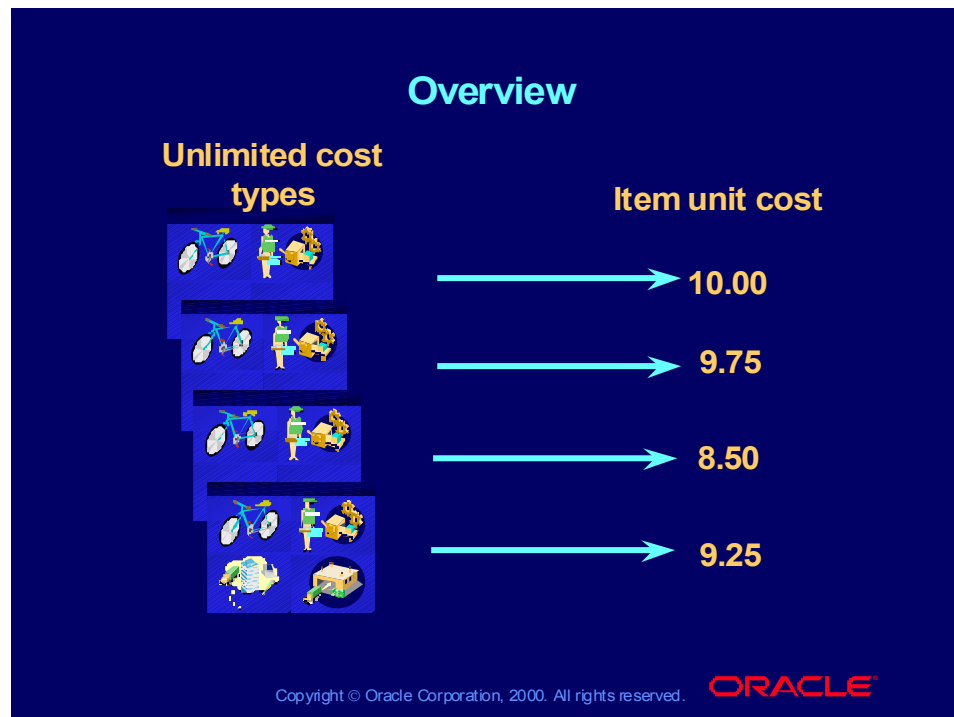
Cost types



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Overview



Agenda

Agenda

- Overview
- **Identify Cost Types Available Under Different Costing Methods**
- Set up Cost Type Controls for Inventory and Manufacturing
- Set up Cost Type Controls for Engineering
- Define Cost Types

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Unlimited Cost Types

OCM supports an unlimited number of cost types.

- **Cost types give you the ability to create unlimited sets of costs.**
- **Use cost types for simulation and budgeting purposes by creating unlimited sets of product costs. Each cost type has its own items and specific cost controls for the items.**
- **Run item cost and comparison reports by cost type. Copy from one cost type to another, and mass edit a cost type. Change the name of any cost type.**
- **Frozen, Average, and Pending cost types are seeded when you install; you can define as many others as you wish.**

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Unlimited Cost Types

Definition

- A cost type is a set of costs uniquely identified by name. You can define and update an unlimited number of simulation or unimplemented cost types. Each cost type has its own set of cost controls.

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Predefined Cost Types

Frozen Standard Costs: This cost type is used to value transactions and inventory balances for organizations that use standard costing. This cost type is not available for organizations using average costing.

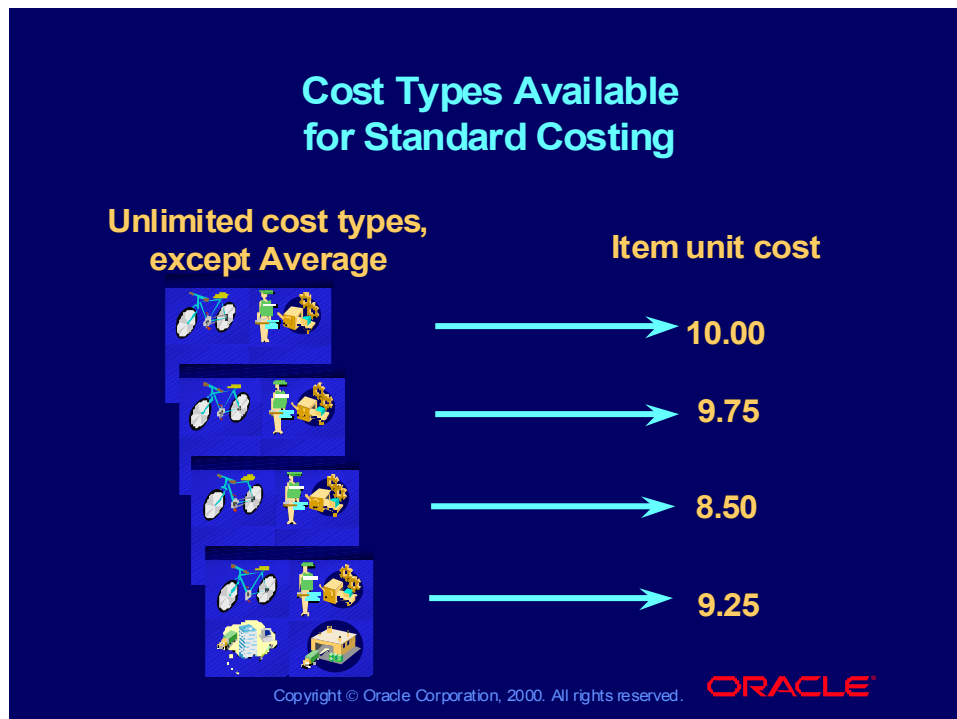
Average Costs: This cost type is used to value transactions and inventory balances for organizations that use average costing. This cost type is not available for organizations using standard costing.

User-Defined Cost Types: Use all other cost types for any purpose: cost history, product cost simulation, or development of future frozen costs. These costs are not implemented (not frozen) costs. Transfer costs from all other cost types to update the Frozen cost type.

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Cost Types Available for Standard Costing



Cost Types Available for Standard Costing

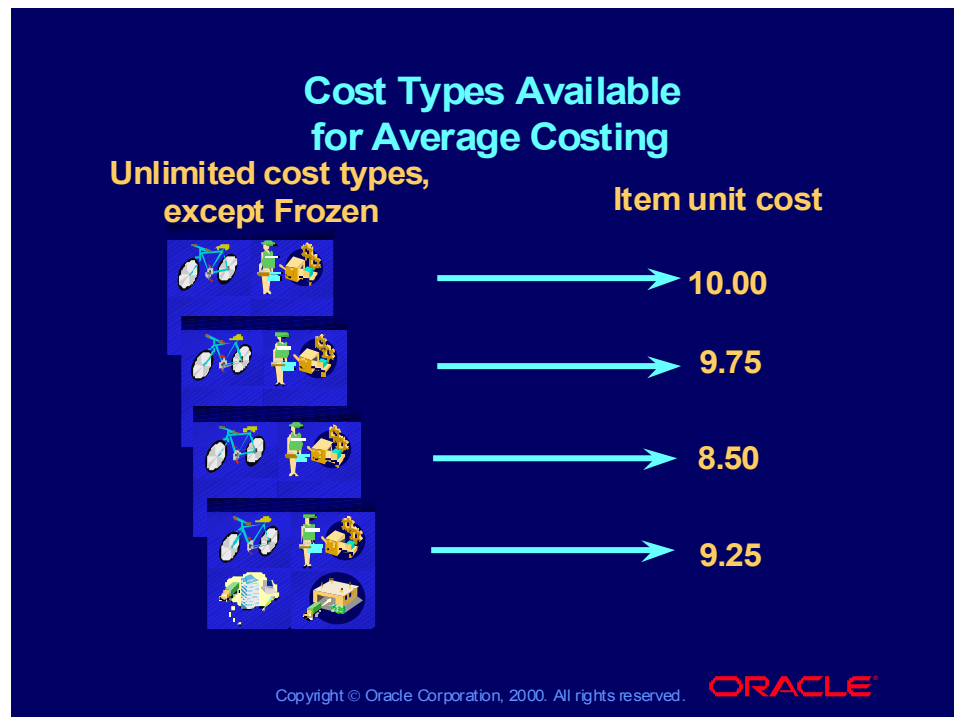
Cost Types Available for Standard Costing

Under standard costing you can roll up costs and update costs from any cost type, except the Average cost type.

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Cost Types Available for Average Costing



Cost Types Available for Average Costing

Cost Types Available for Average Costing

- Under average costing you can use any cost type, except Frozen.
- Use the Average cost type for inventory valuation and transaction costing. The Average cost type holds the current average unit cost of items onhand in inventory and is used to value transactions such as issues and transfers out.

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Cost Types Available for Average Costing

- In addition, in your inventory organization parameters, you designate one of your user-defined cost types as your average rates cost type. Initially define resource and overhead rates and material overhead rates/amounts in the average rates cost type. These rates will be used to cost transactions from that point in time forward until you change or update them.
- Update costs in the average cost type only by using the average cost update routine. A history is kept of all such update transactions.

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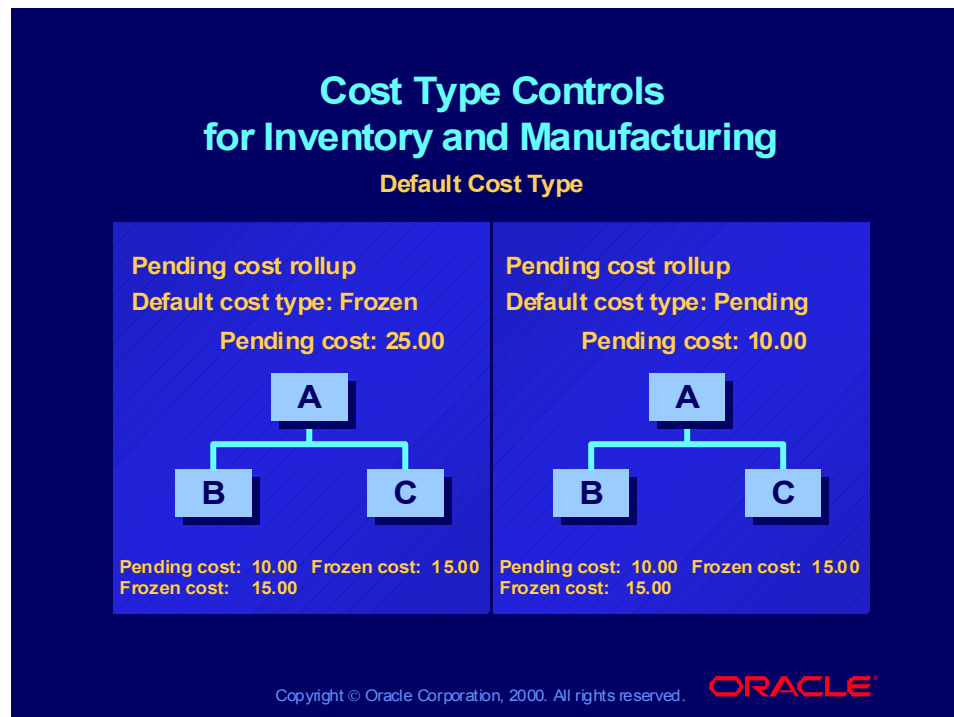
Agenda

- Overview
- Identify Cost Types Available Under Different Costing Methods
- **Set up Cost Type Controls for Inventory and Manufacturing**
- Set up Cost Type Controls for Engineering
- Define Cost Types

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Cost Type Controls for Inventory and Manufacturing



Cost Type Controls for Inventory and Manufacturing

For maximum flexibility, each cost type has its own set of cost controls.

Default Cost Type: Assign a default cost type to each cost type that you define. You can have a cost type default to itself.

In standard costing, the default cost type is the source of cost for items required by the cost rollup where costs do not currently exist for the cost type being rolled up. If you select to roll up Pending and the default cost type is Frozen, for items without a Pending cost, the Frozen costs will be used.

The default cost type is also used for the Inventory Value, Receiving Value, and Margin Analysis reports.

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Cost Type Controls for Inventory and Manufacturing

Controls to Limit Access to Your Cost Information

- **Select the Multi-Org check box when you want to share the cost type name across inventory organizations. (Costs cannot be shared across organizations in any case.)**
- **Clear the Allow Updates check box when you do not want to allow changes to the cost information in a cost type.**

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Agenda

Agenda

- Overview
- Identify Cost Types Available Under Different Costing Methods
- Set up Cost Type Controls for Inventory and Manufacturing
- **Set up Cost Type Controls for Engineering**
- Define Cost Types

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Cost Type Controls with Bills of Material

Available to Engineering: This control determines whether the cost type is available in Oracle Engineering.

Rollup Options

- **Component Yield:** This control determines whether component yield is included in assembly costs.
- **Snapshot Bills and Alternate:** This feature allows you to save bill information so that you can report your frozen indented costs later.

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Cost Type Controls with Bills of Material

- **Select the Snapshot Bills check box, and select a defined alternate name.**
 - **The cost rollup saves the current bills of material structure information into a specified alternate bill.**
 - **You need to keep the cost type used for the rollup.**
- **Select the Snapshot Bills check box for those cost types that you plan to use to update your frozen standards.**
- **Do not select the Snapshot Bills check box for all other cost types to minimize the impact on data storage.**

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Cost Type Controls with Bills of Material

- **Previous-Level Rollup Options:** Use the previous-level rollup options to limit the amount of cost information generated from a cost rollup.
 - If you do not select the element option, all previous-level costs are stored in the material cost element.
 - If you do not select other previous-level options, you obtain only summary information for that particular option.

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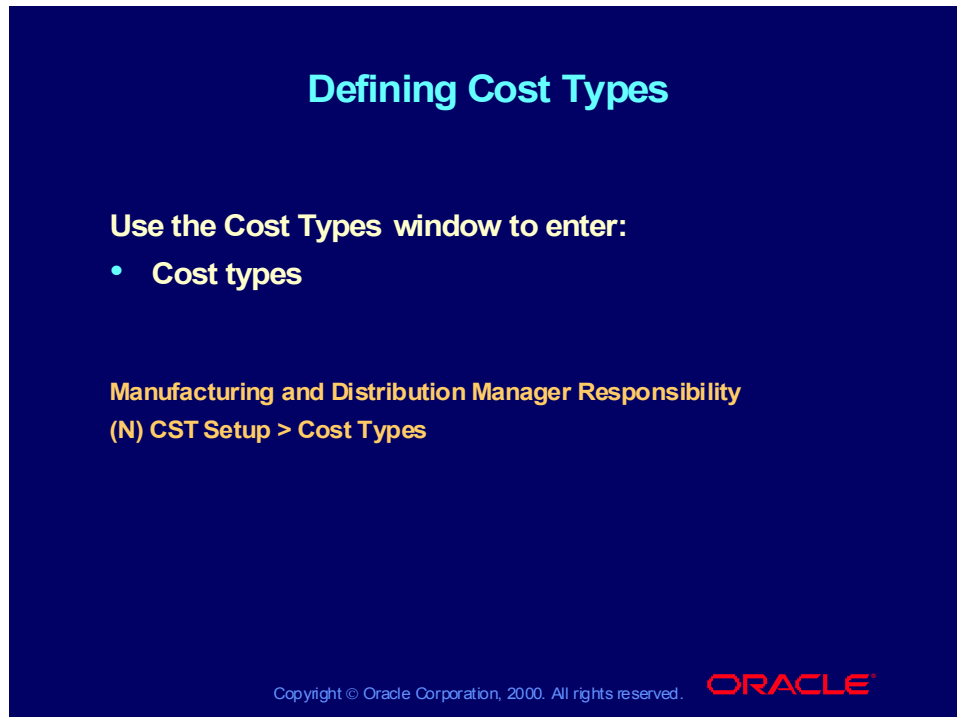
Agenda

- Overview
- Identify Cost Types Available Under Different Costing Methods
- Set up Cost Type Controls for Inventory and Manufacturing
- Set up Cost Type Controls for Engineering
- **Define Cost Types**

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Defining Cost Types



The screenshot shows a dark blue window titled "Defining Cost Types" in light blue text. Below the title, it says "Use the Cost Types window to enter:" followed by a bullet point "• Cost types". Further down, it lists "Manufacturing and Distribution Manager Responsibility" and "(N) CST Setup > Cost Types" in yellow text. At the bottom right is the Oracle logo, and at the bottom left is the copyright notice "Copyright © Oracle Corporation, 2000. All rights reserved."

**(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Setting Up > Steps >
Defining Cost Types**

Review Question

Review Question

OCM supports an unlimited number of cost types which give you the ability to create unlimited sets of costs.

- 1. True**
- 2. False**

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Review Question

Review Question

OCM supports an unlimited number of cost types which give you the ability to create unlimited sets of costs.

- 1. True**
- 2. False**

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Summary

In this lesson, you should have learned how to:

- **Identify cost types available under different costing methods**
- **Set up cost type controls for inventory and manufacturing**
- **Set up cost type controls for engineering**
- **Define cost types**

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Practice 1 Overview

Practice 1 Overview

This practice covers the following topics:

- **Using cost types**
- **Defining cost types**

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Practice 1-1

Short Answer Questions

Using cost types

1. For what is the default cost type used?
2. Why would you select to snapshot your bills?

Business Scenario

3. You are setting up Oracle Cost Management and you want to establish costs for the current year and forecast costs for the next three years. How would you set up Oracle Cost Management to accomplish this goal?

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Practice 1-1: Solution

1. The default cost type is the source of the item cost for items required by the update but not associated with the cost type being rolled up.
2. Use the snapshot bills to re-create a costed bill at a future date.
3. Set up two cost types, in addition to the frozen cost type already available. In one cost type, set up current year costs; in the second, set up forecast costs.

Guided Practice 1-2

In this practice, you will define a cost type in the Seattle Organization, M1; xx are your initials.

1. Navigate to the Cost Types window

Manufacturing and Distribution Manager Responsibility
(N) CST Setup > Cost Types

2. Enter Cost Type: xxpending

3. Enter Description: My cost type

4. Enter Default Cost Type: Frozen

5. Leave Inactive On blank and leave Multi-Org blank

6. Check Allow-Updates and Available to Engineering

7. Check all boxes in Rollup Options and in Previous Level Rollup Options and save your new cost type

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11i Describing Cost Elements

Chapter 10

11i Describing Cost Elements

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Objectives

Objectives

After completing this lesson, you should be able to do the following:

- Describe cost setup
- Explain cost elements, subelements and basis types



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Agenda

Agenda

- **Overview of Common Cost Setup**
- **Explain Cost Elements, Subelements and Basis Types**

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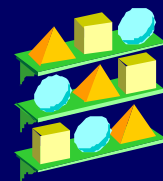
Overview

Common Cost Setup

- Cost elements
- Subelements
- Basis types
- Cost types

Inventory Cost Setup

- Material and material overhead subelements
- Material overhead defaults
- Item cost controls
- Item costs



Inventory

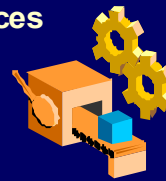
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Overview

Manufacturing Cost Setup

- Resource subelements and costs
- Overhead subelements
- Defining departments and associate resources
- Defining overhead rates by department
- Associating overheads with resources
- Defining routings
- Defining bills of material



Manufacturing

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Agenda

Agenda

- Overview of Common Cost Setup
- Explain Cost Elements, Subelements and Basis Types

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Cost Elements

There are five predefined cost elements. The number available for use depends on whether you use Oracle Inventory only or also Oracle Bills of Material.

Available with Oracle Bills of Material used in

- Standard costing.
- Average costing.



Available with Oracle Inventory used in

- Standard costing.
- Average costing.



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Cost Elements

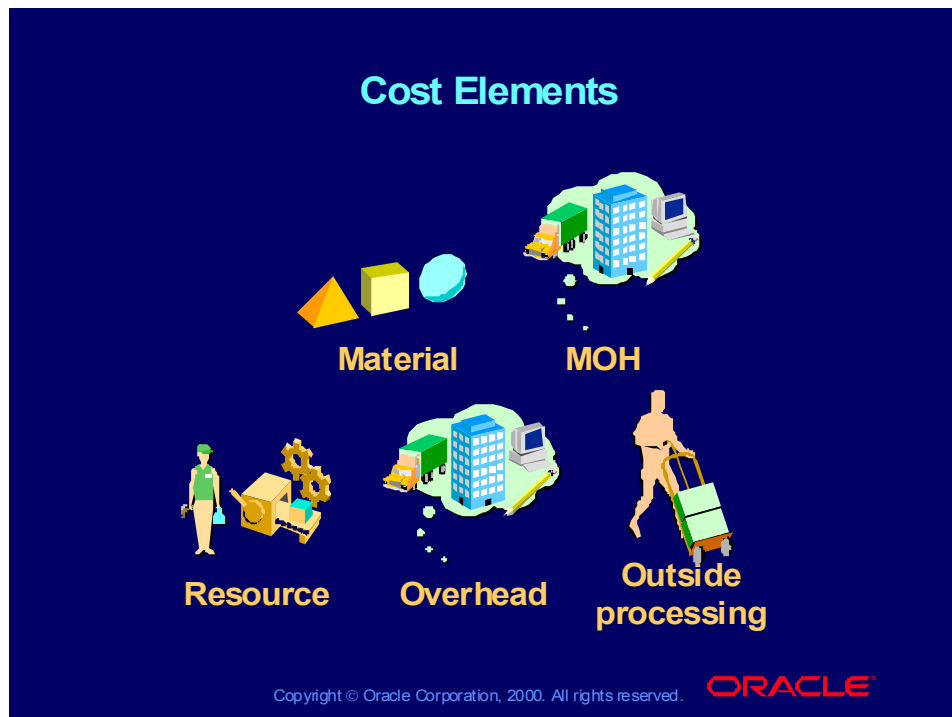
Available Cost Elements

- If you use average costing or standard costing, you can use all five of the predefined cost elements and as many subelements as necessary to satisfy your business needs.
 - If you use Oracle Bills of Material, use all five cost elements.
 - If you do not use Oracle Bills of Material, use two cost elements.

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Cost Elements



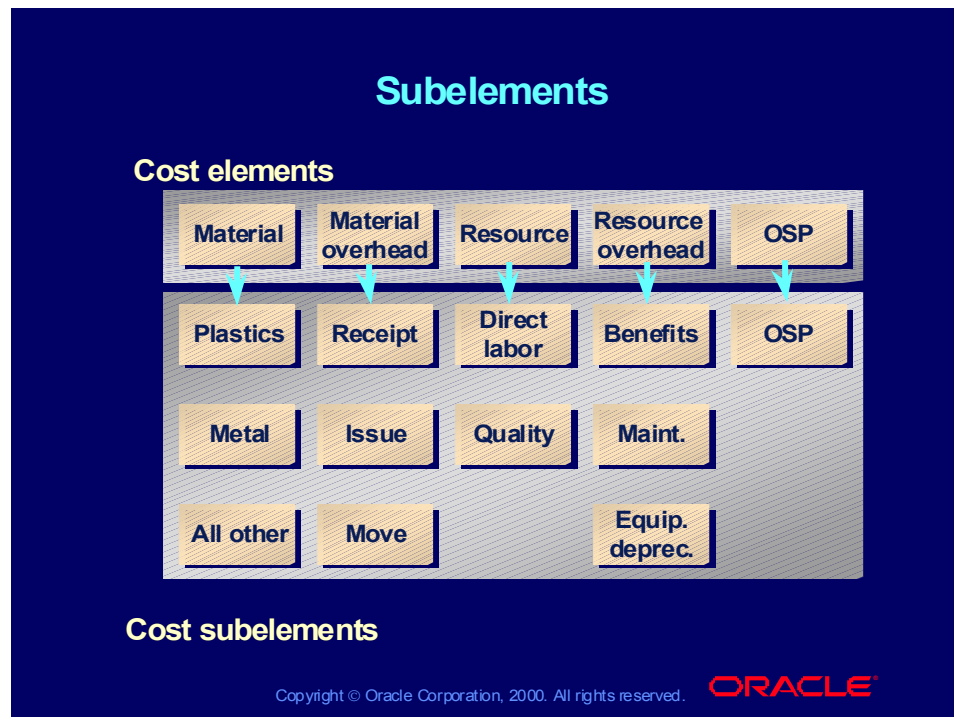
Cost Elements

- **Material:** Typically, this is the raw material/component cost of a product.
- **Material Overhead:** This is the overhead cost of material, calculated as a percentage of the material cost or as a fixed charge per item, lot, or activity.
- **Resource:** This is the direct cost of what is required to manufacture products. Resources are people (labor), machines, space, or miscellaneous things.
- **(Resource) Overhead:** This is the overhead cost of resource and outside processing. Overhead is used as a means to allocate indirect production costs.
- **Outside Processing:** This is the cost of the supplier resource.

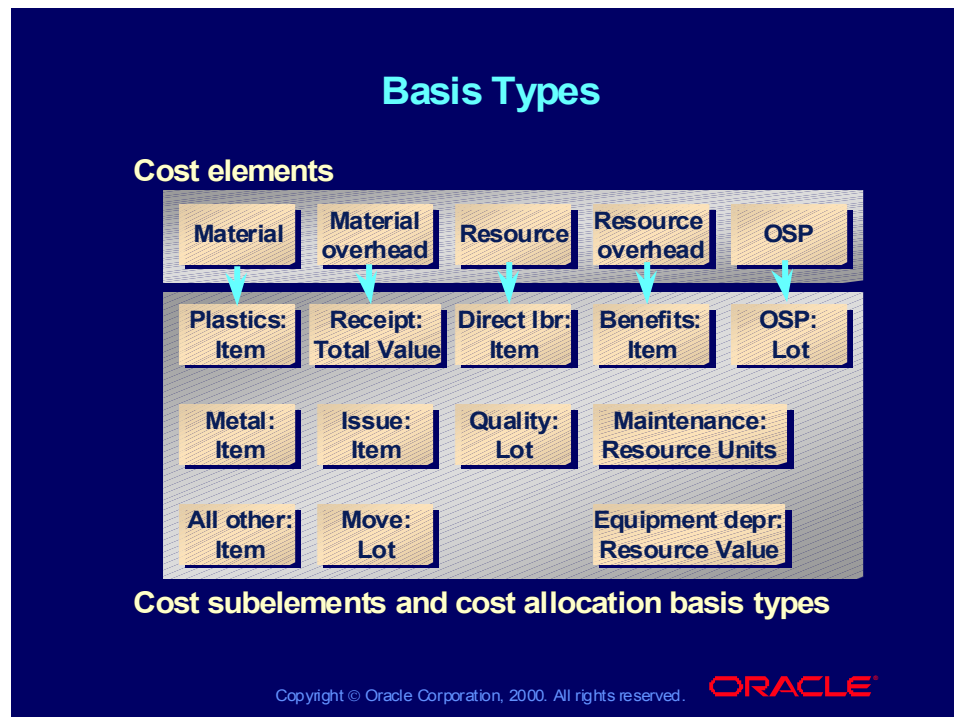
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Subelements



Basis Types



Subelements

- For each cost element, define as many subelements as necessary to satisfy your business needs. Subelements are a smaller classification of the cost elements.
- Decide how to analyze and track costs and to what detail.
 - For the five cost elements, you may have an unlimited number of subelements.
 - Multiple subelements give you greater item cost visibility and flexibility.

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Subelements

- **Define an unlimited number of cost subelements.**
 - **The system supports an unlimited number of user-defined cost subelements to capture costs at a level of granularity that you want.**
 - **Delineate cost subelements so that you can analyze performance in terms of labor, overhead, material, or other direct costs.**

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Review Question

Review Question

Which element listed below is not a cost element?

- 1. Material**
- 2. Material overhead**
- 3. Burden**
- 4. Resource**
- 5. Resource overhead**
- 6. Outside processing**

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Review Question

Review Question

Which element listed below is not a cost element?

1. Material
2. Material overhead
3. Burden
4. Resource
5. Resource overhead
6. Outside processing

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Basis Types

Basis Types

The following table details the basis types available for use with each subelement.

Allocation Charge Methods					
Basis Type	Subelement				
	Material	Material Overhead	Resource	OSP	Overhead
Item	✓	✓	✓	✓	✓
Lot	✓	✓	✓	✓	✓
Resource Units		✓			✓
Resource Value		✓			✓
Total Value		✓			

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Basis Types

Cost Allocation Basis

- Associate each subelement with a basis type that is used to determine the subelement cost per item.

Item

- You use the Item basis type to assign a fixed cost per item.
 - For material and material overhead subelements, you define a fixed amount per item.
 - For resource, outside processing, and overhead subelements, you define a fixed amount per item moved through an operation.

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Basis Types

Lot

- You use the Lot basis type to assign a lot charge per item or operation.
 - For material and material overhead subelements, the cost per item is calculated within each cost type as follows:
 $\text{Cost per item} = \text{Rate or amount} / \text{Item's costing lot size}$
 - For resource, outside processing, and overhead subelements, the cost per item is calculated within each cost type as follows:
 $\text{Cost per item} = \text{Routing usage} * \text{Rate or amount} * 1 / \text{Item's costing lot size}$

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Note

The costing lot size can be different from the planning lot size.

Basis Types

Resource Units

- You use the Resource Units basis type to allocate overhead to an item based on the number of resource units.
 - For material overhead and overhead subelements, the cost per item is calculated within each cost type as follows:
 $\text{Cost per item} = \text{Overhead rate} * \text{No. of resource units earned in routing operation}$
- An example is overhead based on the number of direct labor hours. Although you can develop an item cost for material overhead subelements based on resource units, it is not earned in WIP.

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Basis Types

Resource Value

- You use the Resource Value basis type to allocate overhead to an item based on a percentage of the resource value.
 - For material overhead and overhead subelements, the cost per item is calculated within each cost type as follows:
$$\text{Cost per item} = \text{Overhead rate} * \text{Resource value earned in the routing operation}$$
- An example is overhead based on the number of direct labor dollars. Although you can develop an item cost for material overhead subelements based on resource value, it is not earned in WIP.

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Basis Types

Total Value

- You use the Total Value basis type to allocate overhead to an item based on a percentage of the total value.
 - For material overhead subelements, the cost per item is calculated within each cost type as follows:
$$\text{Cost per item} = \text{Total cost} - \text{Material overhead earned at this level} * \text{Material overhead rate}$$
- The material overheads based on total value can be earned when you receive purchase orders or when you perform WIP completion transactions.

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Review Question

Review Question

Why do you associate a subelement with a basis type?

- 1. To use the chart of accounts**
- 2. To determine the subelement cost per item**
- 3. To hold the subelement on a base**
- 4. To hold basic cost information**
- 5. None of the above**

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Review Question

Review Question

Why do you associate a subelement with a basis type?

1. To use the chart of accounts
2. To determine the subelement cost per item
3. To hold the subelement on a base
4. To hold basic cost information
5. None of the above

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Summary

In this lesson, you should have learned how to:

- **Describe cost setup**
- **Explain cost elements, subelements and basis types**

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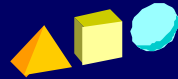
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Practice 1 Overview

Practice 1 Overview

This practice covers the following topics:

- Discussing cost elements



Material



Material Overhead



Resource



Overhead



Outside processing

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Practice 1-1

Practice 1-1

Short Answer Questions

1. Which of the cost elements are available only when you install Oracle Bills of Material?
 - a. Material
 - b. Material overhead
 - c. Resource
 - d. Outside processing
 - e. Overhead

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Practice 1-1: Solution

Short Answer Questions

1. Resource, outside processing and overhead are only available when you install Oracle Bills of Material.

Practice 1-2

Practice 1-2

2. Identify which basis types are available for use with each of the subelements.

Allocation Charge Methods					
Basis Type	Subelement				
	Material	Material Overhead	Resource	OSP	Overhead
Item					
Lot					
Resource Units					
Resource Value					
Total Value					

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Practice 1-2 Solution

Practice 1-2 Solution

2. Identify which basis types are available for use with each of the subelements.

Allocation Charge Methods					
Basis Type	Subelement				
	Material	Material Overhead	Resource	OSP	Overhead
Item	✓	✓	✓	✓	✓
Lot	✓	✓	✓	✓	✓
Resource Units		✓			✓
Resource Value		✓			✓
Total Value		✓			

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Practice 1-3

Business Scenario

3. You have decided that using the Oracle standard costing method is the appropriate way to go. You are interested in capturing the purchased cost for all purchased items since most of value added material costs are derived from purchased costs. Furthermore, you would like to break down the material costs of your final assemblies by how much is foreign material and how much is domestic material.

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Practice 1-3: Solution

Business Scenario

Discuss the fact that Oracle allows for the creation of multiple cost types beyond the already seeded types of Frozen, Average, and Pending. Explain how a new cost type of Current can be set up to capture those purchased costs that are needed. Discuss the significance of cost elements and subelements to facilitate defining a very detailed subset of the overall cost of the final assemblies.

