

Oracle Costing Information

Student Guide

Course Code 14613GC10
Edition 1.0
Month July 2000
Part Number M0-12045

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Preface

Profile

Before You Begin This Course

Before you begin this course, you should have the following qualifications:

- Thorough knowledge of basic MRP II and accounting concepts.
- Working experience with cost accounting activities in various different manufacturing environments.

Prerequisites

- Oracle Inventory Release 11
- Oracle Purchasing Release 11
- Oracle Bills of Material and Engineering Release 11 (if products are installed at your site)
- Oracle Work In Process Release 11 (if products are installed at your site)
- Oracle Planning Release 11
- Oracle General Ledger Release 11

How This Course Is Organized

Oracle Costing Information 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

Title	Part Number
<i>Oracle Inventory User's Guide Release 11i</i>	<i>A58270-01</i>
<i>Oracle Purchasing User's Guide Release 11i</i>	<i>A82912-01</i>
<i>Oracle Bill of Materials User's Guide Release 11i</i>	<i>A75087-01</i>
<i>Oracle Engineering User's Guide Release 11i</i>	<i>A75090-01</i>
<i>Oracle Work In Process User's Guide Release 11i</i>	<i>A75101-01</i>
<i>Oracle Cost Management User's Guide Release 11i</i>	<i>A75088-01</i>
<i>Oracle General Ledger User's Guide Release 11i</i>	<i>A82850-01</i>

Additional Publications

- System release bulletins
- Installation and user's guides
- *read.me* files
- Oracle Applications User's Group (OAUG) articles
- *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</code> (DOS), <code>\$FMHOME</code> (UNIX) 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 <code>LAST_NAME</code> 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

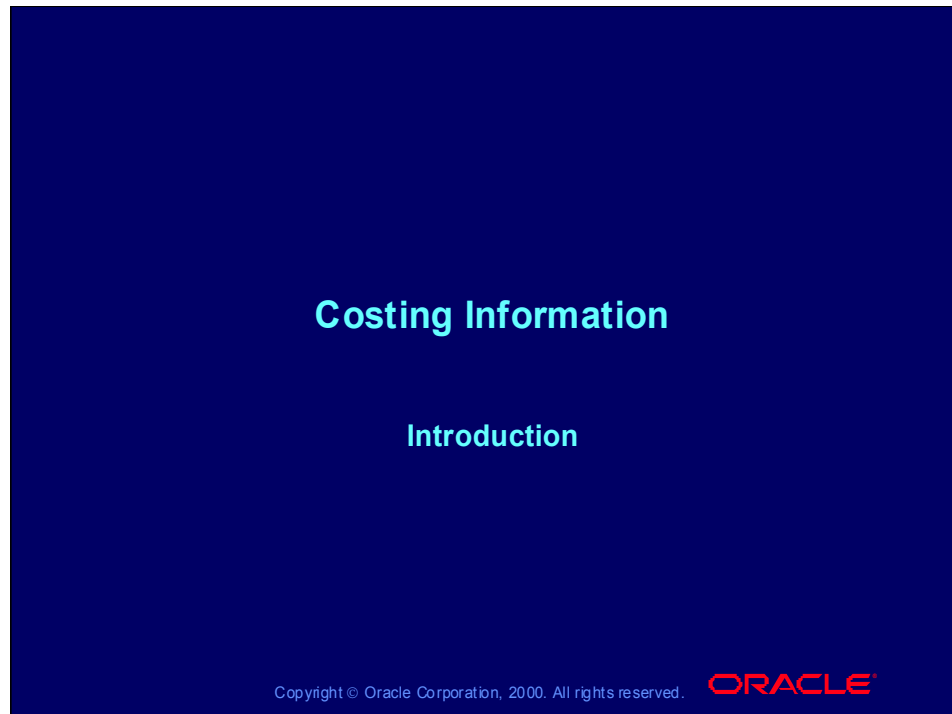
—represents the following sequence of actions:

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.

Oracle Costing Information Introduction

Chapter 1

Costing Information

**Notations:**

N = Navigator

T = Tab

M = Menu

I = Icon

H = Hyperlink

B = Button

Help = Oracle Applications Help System

Objectives

Objectives

After this course, you should be able to:

- **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

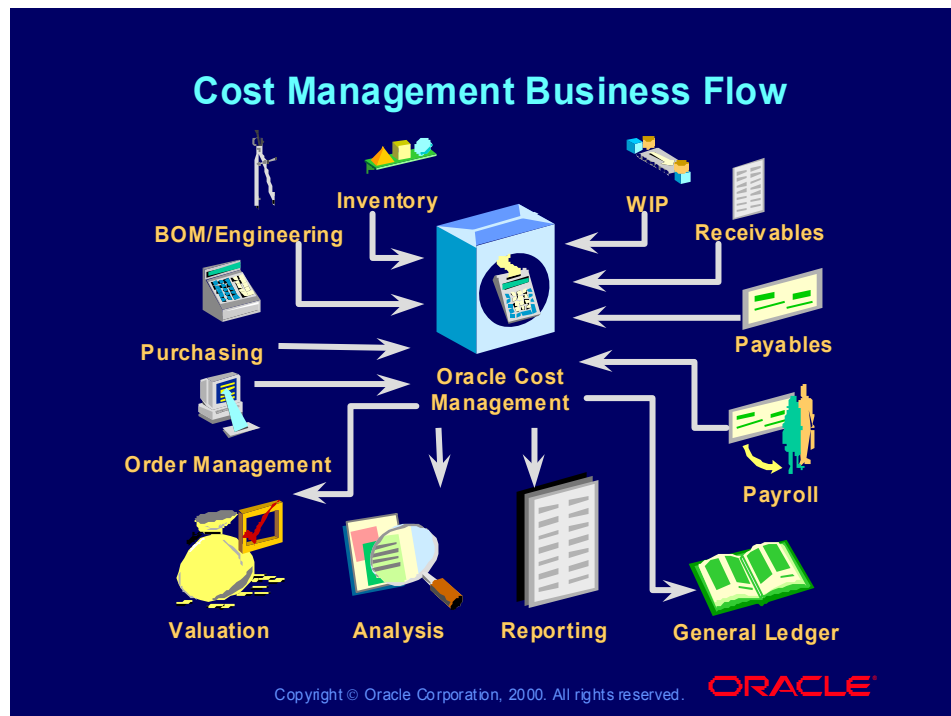
Overview

Cost types, Cost elements

Item costs	Resource costs	Overhead costs
		

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Cost Management Business Flow



Integrated Application Suite

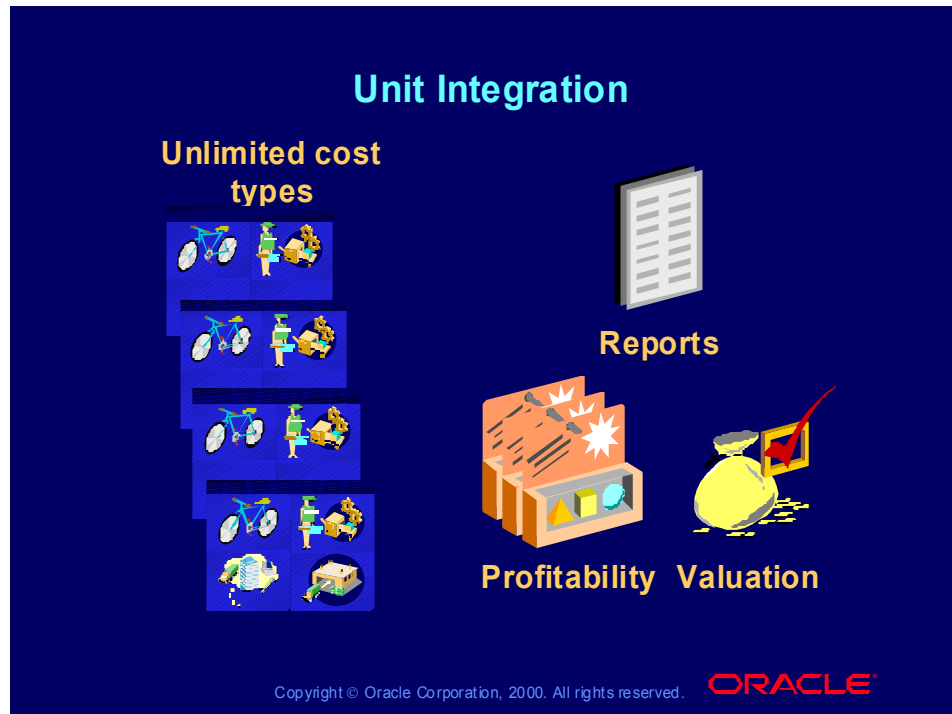
All Oracle Manufacturing and Financial Applications comprise an integrated suite of business applications.

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 fulfillments. In Payroll, you set up employees that work in your organization.

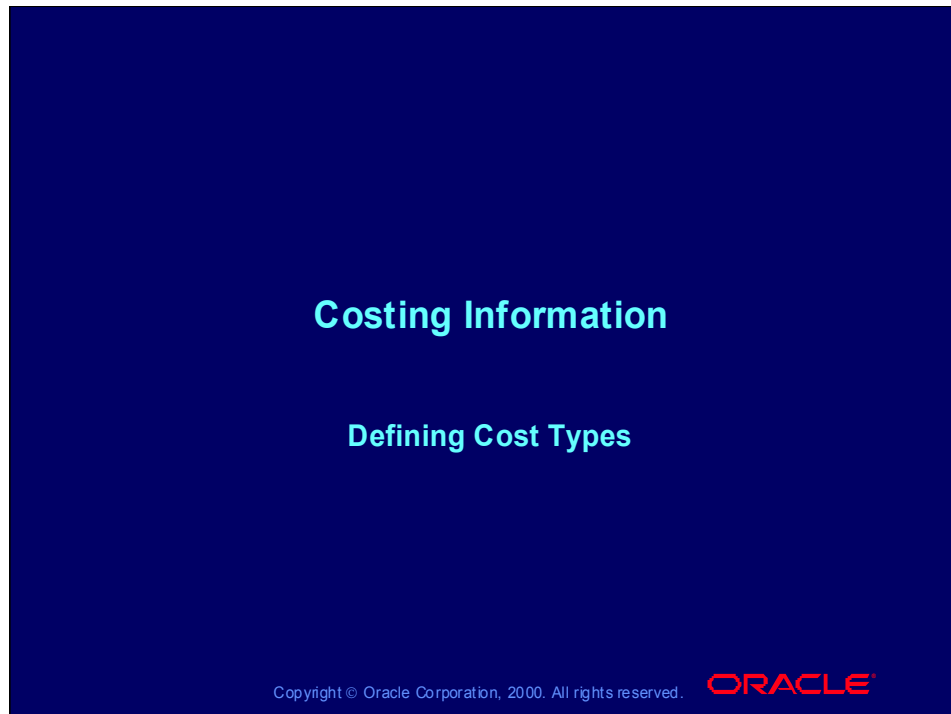
Unit Integration



Defining Cost Types

Chapter 2

Costing Information



Notations:

N = Navigator

T = Tab

M = Menu

I = Icon

H = Hyperlink

B = Button

Help = Oracle Applications Help System

Objectives

After this lesson, you should be able 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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Agenda

Agenda

- **Defining cost types**
- Describing cost elements
- Defining item costs
- Defining resource and overhead costs

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Overview

Overview

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

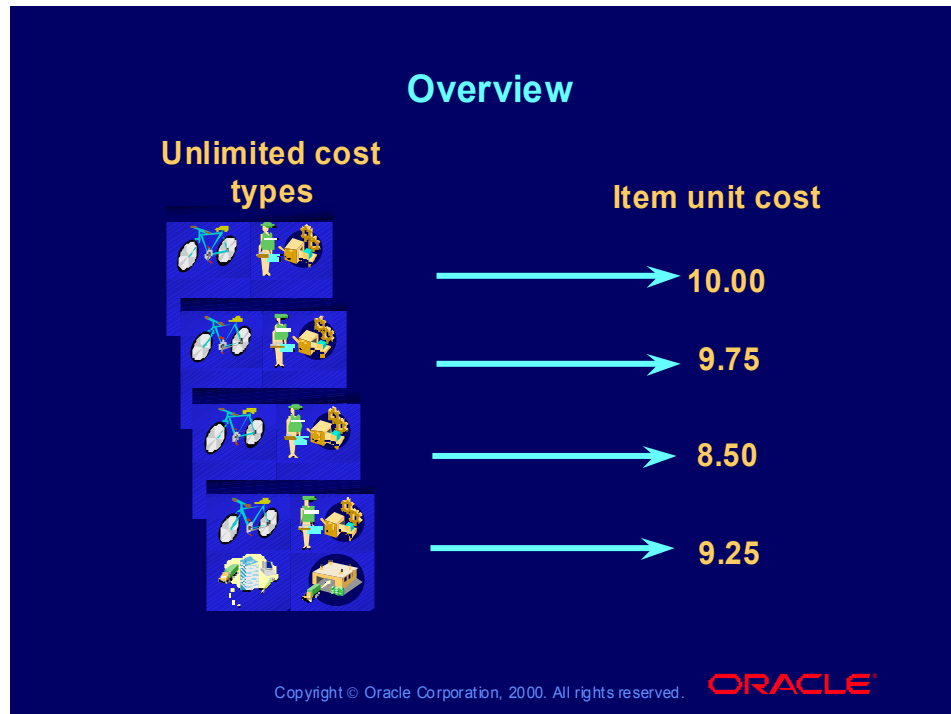
Cost types



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Overview



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.

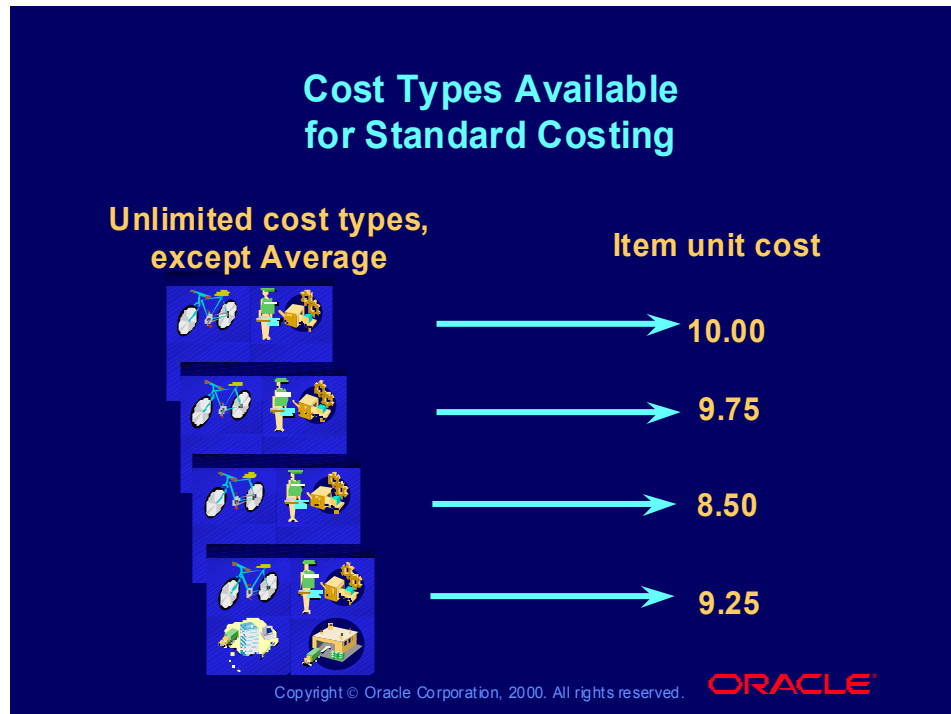
Average Costs: This cost type is used to value transactions and inventory balances for organizations that use average costing. This cost type is not available for organizations using standard costing.

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



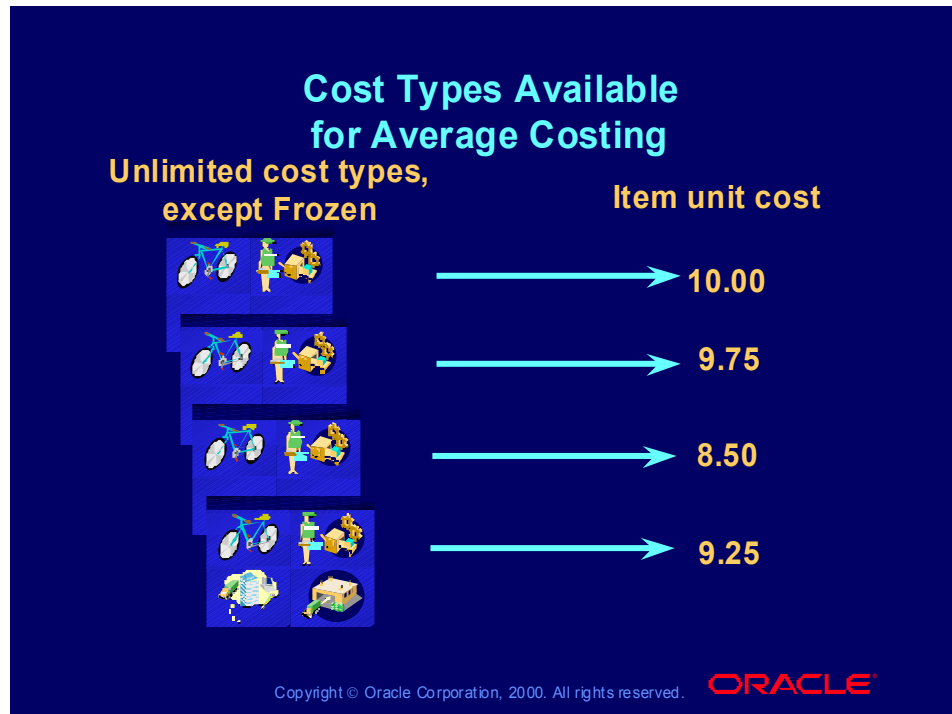
Cost Types Available for Standard Costing

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

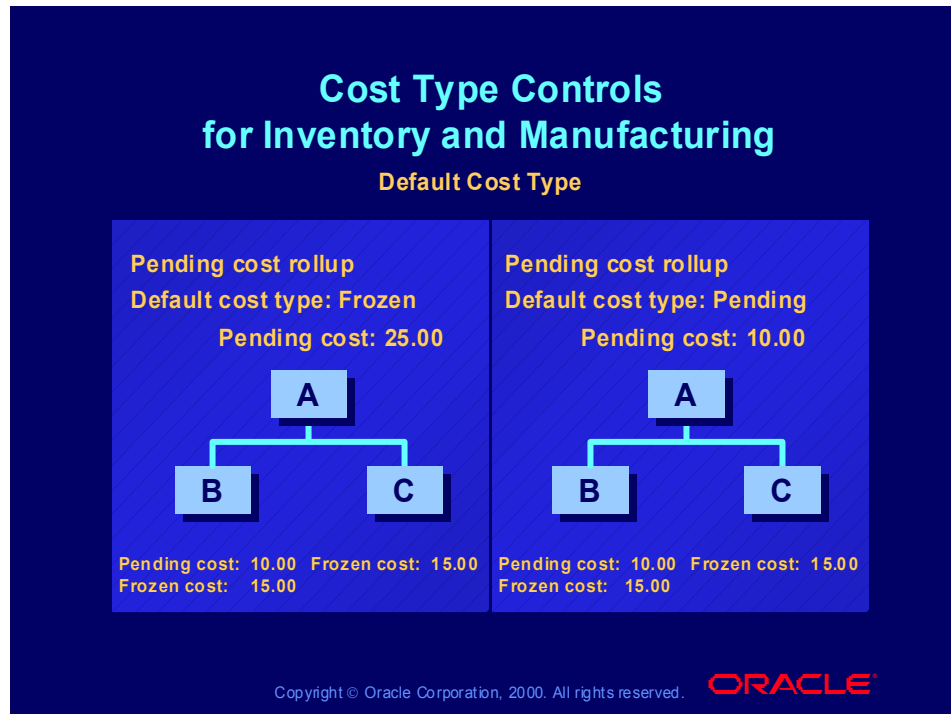
Cost Types Available for Average Costing

- 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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Cost Type Controls for Inventory and Manufacturing



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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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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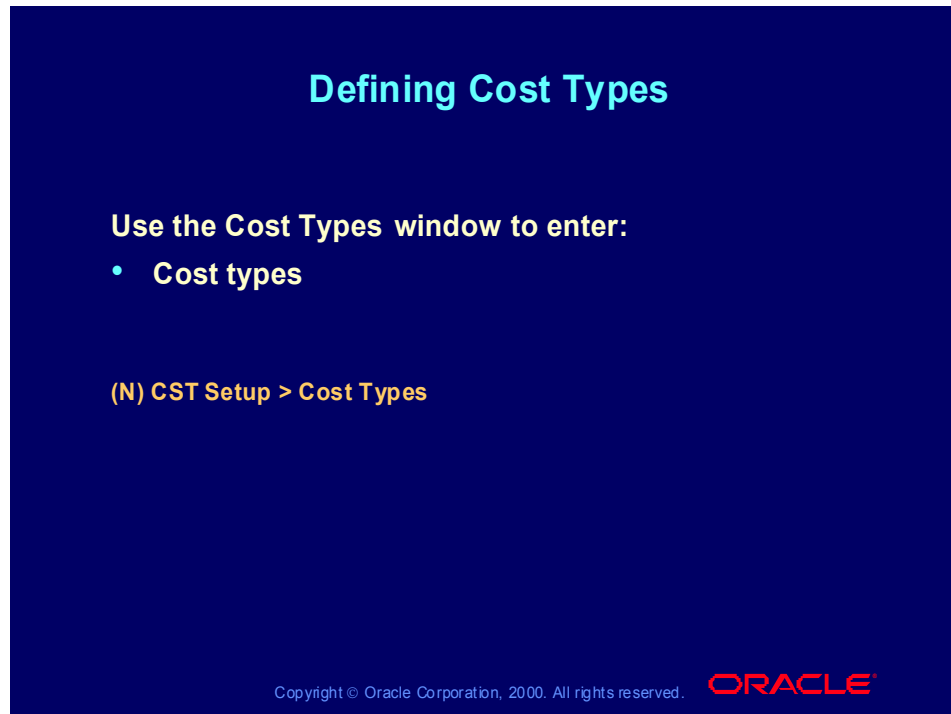
Cost Type Controls with Bills of Material

- **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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Defining Cost Types



**(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

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 Overview

This practice covers the following topics:

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

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Practice

Practice

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 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

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**
(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**

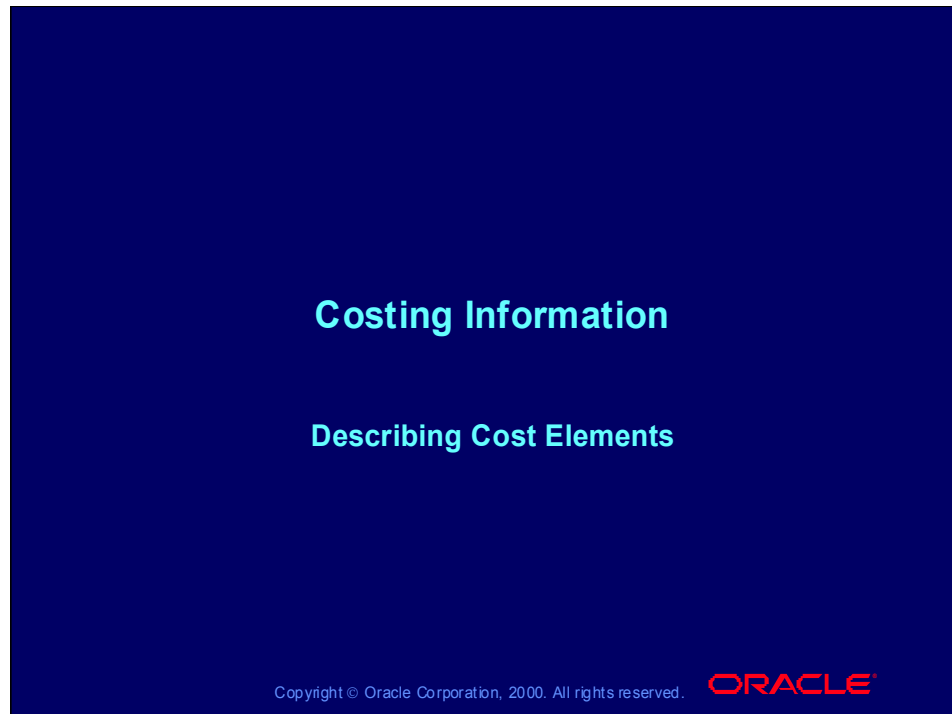
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Describing Cost Elements

Chapter 3

Costing Information



Notations:

N = Navigator

T = Tab

M = Menu

I = Icon

H = Hyperlink

B = Button

Help = Oracle Applications Help System

Objectives

Objectives

After this lesson, you should be able to:

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



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Agenda

Agenda

- Describing cost types
- **Defining cost elements**
- Defining item costs
- Defining resource and overhead costs

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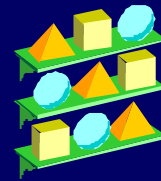
Overview

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

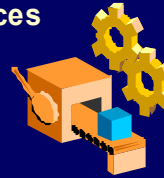
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Overview

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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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

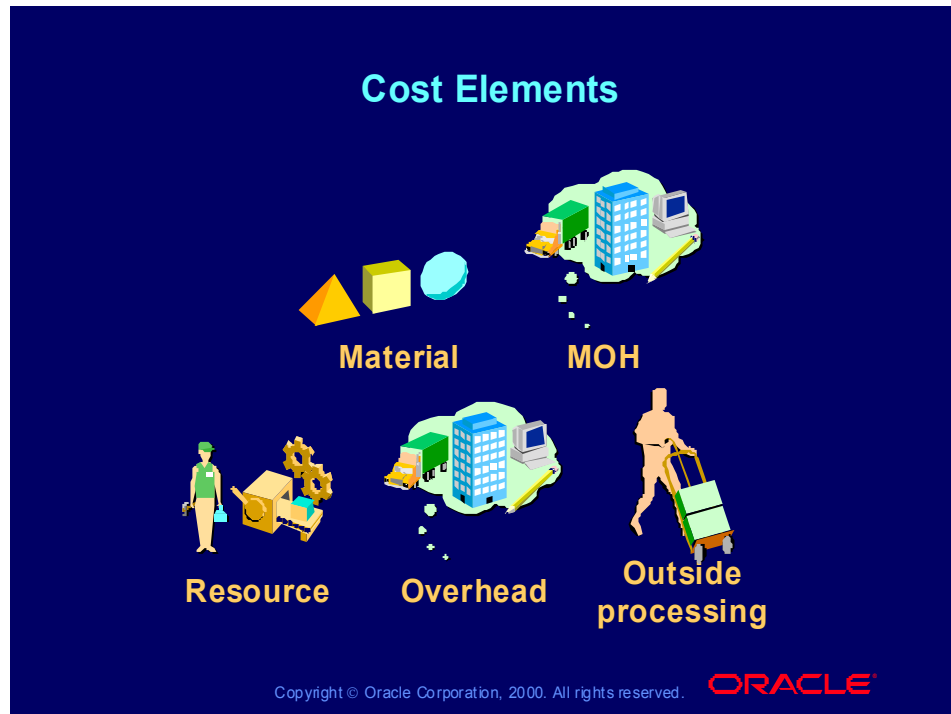
Available Cost Elements

- 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



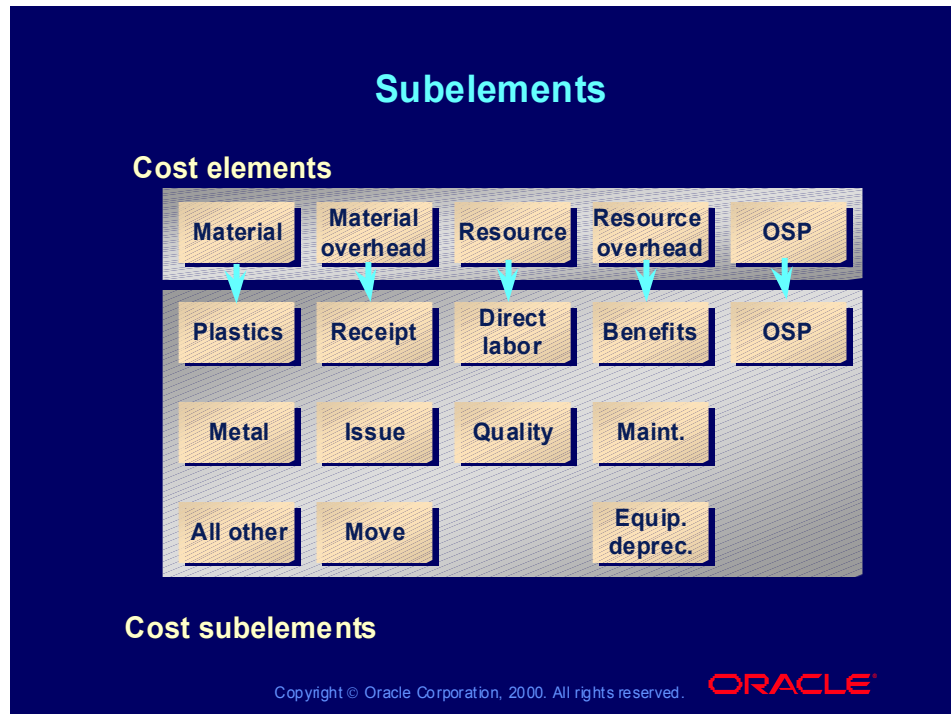
Cost Elements

- **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.

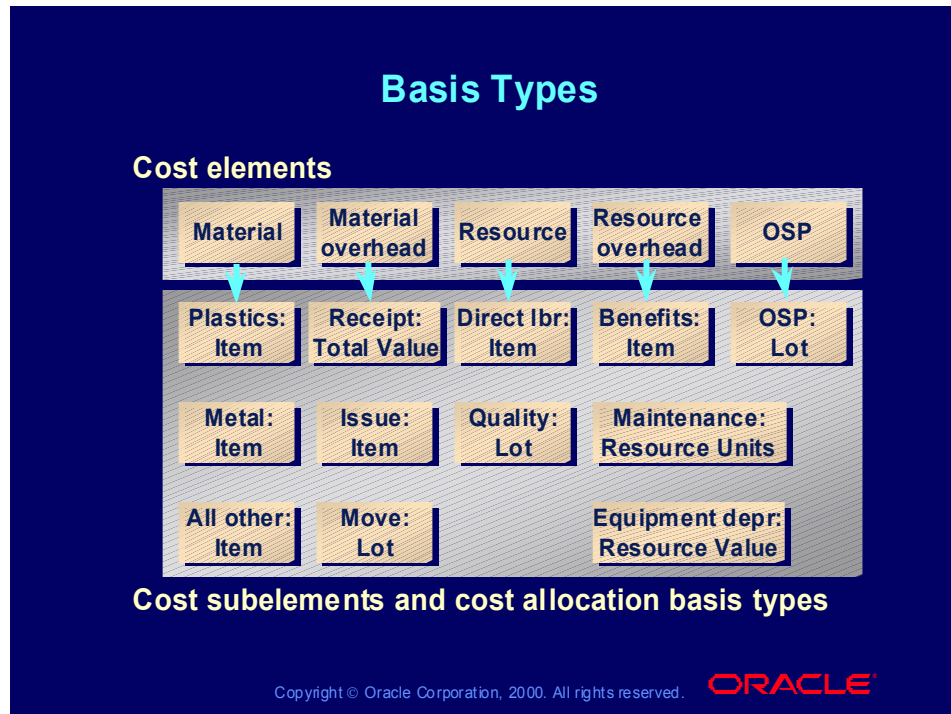
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Subelements



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

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

Summary

In this lesson, you should have learned how to:

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

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Practice Overview

Practice Overview

This practice covers the following topics:

- Discussing cost elements



Material



Material Overhead



Resource



Overhead



Outside processing

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Practice

Practice

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 Solution

Short Answer Questions

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

Practice

Practice

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 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

Practice

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 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.

Defining Item Costs

Chapter 4

Costing Information



Notations:

N = Navigator

T = Tab

M = Menu

I = Icon

H = Hyperlink

B = Button

Help = Oracle Applications Help System

Objectives

Objectives

After this lesson, you should be able to:

- Set up your product costs for the items you purchase
- Define material and material overhead subelements
- Setup your item cost controls
- Define item costs



Item costs



Material



MOH

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Agenda

Agenda

- Describing cost types
- Defining cost elements
- **Defining item costs**
- Defining resource and overhead costs

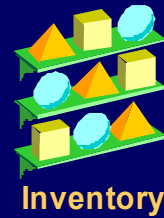
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Overview

Inventory cost setup

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



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Material Subelements

You use material subelements to classify your material costs.

- **You use material subelements when you define the material cost element of your items.**
- **You generally use one material subelement for each item.**
- **The system defaults the basis type when you define item costs to speed data entry.**
- **You assign a default basis type of Item or Lot.**

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Defining Material Subelements

Defining Material Subelements

Use the Material Subelements window to enter:

- Material subelements

(N) CST Setup > Subelements > Material

(N) INV Setup > Costs > Subelements > Material

Prerequisites

- To define, update, or delete cost information, the Material Subelements: Maintain security function must be included as part of the responsibility.

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(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Setting Up > Steps > Defining
Subelements > Defining Material Subelements

Material Overhead Subelements

- You define any number of material overhead subelements such as freight, purchasing, or customs, to classify your material overhead costs.
 - The system charges each one when you receive the item into inventory.
 - If you use Oracle Work in Process, you can also charge material overheads when you complete your assemblies.
- Material overhead is available for average costing and for standard costing.
- You use a separate absorption account for each material overhead subelement, if necessary.

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Material Overhead Subelements

Default Basis for Material Overhead Subelements

- The system defaults the basis type when you define item costs to speed data entry.
- You assign any basis type to the material overhead subelement.
- If you use Resource Units or Resource Value basis types for material overhead, be aware that they are used to determine your cost. You cannot earn material overhead in WIP because the resource is charged, resulting in work order variances.

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Defining Material Overhead Subelements

Defining Material Overhead Subelements

Use the Overheads window to enter:

- Material overhead subelements

(N) CST Setup > Subelements > Overheads

(N) INV Setup > Costs > Subelements > Overheads

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(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Setting Up > Steps > Defining
Subelements > Defining Overhead

Review Question

Review Question

Material overhead is available for average costing and for standard costing.

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

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Review Question

Review Question

Material overhead is available for average costing and for standard costing.

1. True
2. False

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Material Overhead Defaults

Default costs speed data entry when defining items.

- **You define and update default material overhead subelements and rates.**
- **When you define your items, these material overheads are defaulted into your frozen costs.**
 - **For buy items, enter material costs.**
 - **For make items, roll up costs.**
- **You define category-level and organization-level defaults for make, buy, and for all items.**
- **When you select category defaults, the material overhead default applies to items associated with that category for the costing category set.**

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Material Overhead Defaults

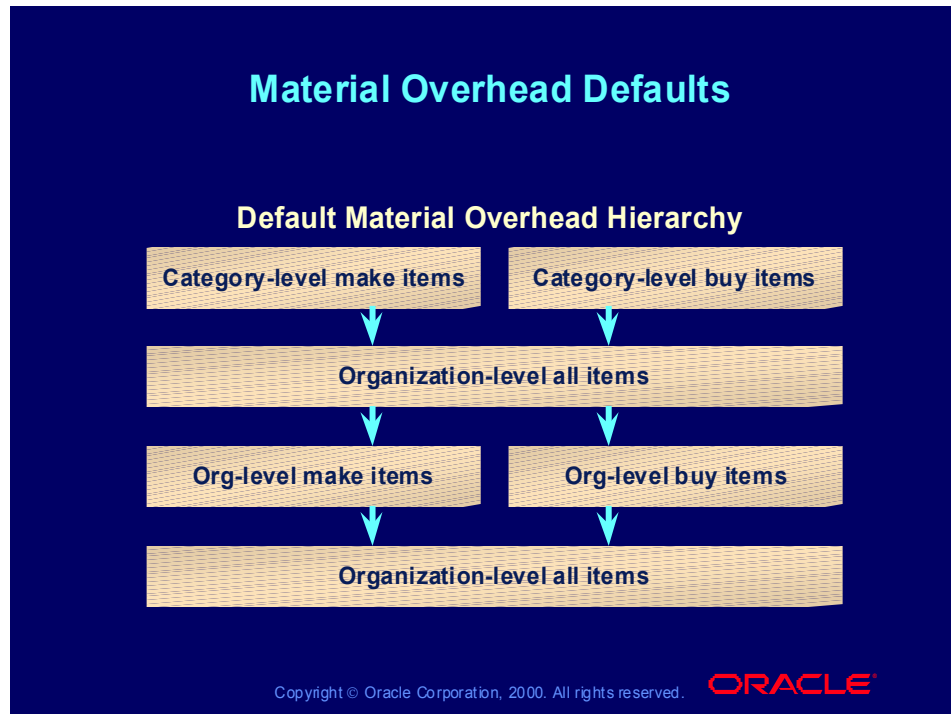
Define as Many or Few Defaults as You Need

- Define a default material overhead for all items at the organization-level to use the same material overhead for all items.
- You can use a material overhead subelement to define many defaults.
- You can define multiple defaults for each organization or category make item, buy item, and all items.
- You must be in the master cost organization to define material overhead defaults.

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Material Overhead Defaults



Material Overhead Defaults

Default Material Overhead Hierarchy with the Same Subelement

- When you define a subelement as a default at more than one level, the system uses the following hierarchy to determine which value you defined for the subelement to use:
 - Category-level defaults override the organization-level defaults.
 - Within a category or organization default, a default that matches the item's planning make/buy code overrides the All Items default.

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Material Overhead Defaults

- The system assigns an item to all defaults that it matches. For example:
 - You have specific defaults at the category-level for buy items for a subelement “inspection” and a general “admin” subelement defined at the organization-level for all items.
 - If you have an item with a planning code of “buy” with the same category as the subelement “inspection,” the item gets two default subelements, “inspection” and “admin.”

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Defining Material Overhead Defaults

Defining Material Overhead Defaults

Use the Material Overhead Defaults window to enter:

- **Material overhead subelement defaults**

(N) CST Setup > Subelements > Defaults

(N) INV Setup > Costs > Subelements > Defaults

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**(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Setting Up > Steps > Defining
Subelements > Defining Material Overhead Defaults**

Review Question

Review Question

An organization has unlimited material overhead defaults.

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

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Review Question

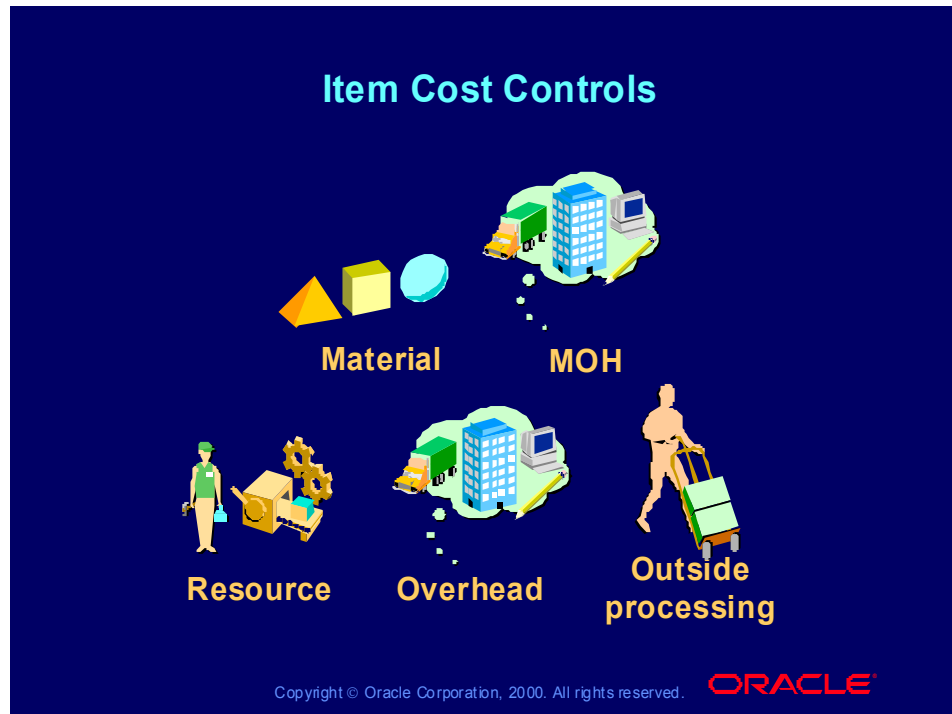
Review Question

An organization has unlimited material overhead defaults.

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

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Item Cost Controls



Item Cost Controls

Cost Controls by Cost Type

- Each item has separate cost controls by cost type. Under average costing, only the inventory asset control is used.

Selecting the Cost Type

- The Item Costs Summary window is multirecord by cost type. You select from the available cost types or choose a new cost type using the list of values.

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Item Cost Controls

The Default Cost Controls Check Box

- This check box controls whether the cost rollup uses the information from the default cost type or existing rolled-up costs.
- When checked, the cost rollup replaces any previously rolled-up costs and uses information from the default cost type and you cannot change your item controls or costs in this form.
- When not checked, the cost rollup still replaces any previously rolled-up costs, but it uses only information from the rolled-up cost type. This information includes any assembly material overheads and other user-entered costs.

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Item Cost Controls

The Inventory Asset Check Box

- This check box controls the valuation status for the item. If Inventory Asset is selected, the item is an asset and can have a cost. If the check box is not selected, the item is an inventory expense item and cannot have a cost.
- Under standard costing, you can change the inventory asset control for your frozen costs when you perform a standard cost update.
- Under average costing, you can change the inventory asset control for your average costs in the Items window, but only when the onhand quantity is zero.

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Item Cost Controls

Lot Size

- The lot size is the costing lot size for the item. Under standard costing, you change the frozen lot size using the standard cost update. Lot size does not apply to average costing.

The Based On Rollup Check Box

- This check box controls the cost rollup bills of material explosion. If you choose to have cost controls based-on-rollup, the item's structure is exploded during the cost rollup process. Otherwise, the cost rollup does not explode the structure. Based On Rollup is usually not selected for purchased items.

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Item Cost Controls

MFG Shrinkage Rate

- **Manufacturing shrinkage is used to calculate the shrinkage factor for the item. Used only in the cost rollup, this control does not apply to items that you purchase.**
- **The shrink factor is a derived number, representing the effect that the manufacturing shrinkage rate has on the cost of the item. The formula is $1 / (1 - \text{Mfg shrinkage rate})$.**

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Item Cost Controls

Entering Assembly Costs Manually

- You must first clear the Use Default Cost Controls check box. You can then enter additional costs while maintaining existing rolled-up costs.
- To manually enter resource or outside processing costs, you must ensure that the resource uses the organization's currency as its UOM. To do this, you set the resource type to Currency in the Resources window.

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Item Cost Controls

Avoiding Rolling Up Obsolete Items

- If you have obsolete items, clear the **Use Default Cost Controls** and the **Based On Rollup** check boxes (so the cost rollup then ignores the assembly).

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Viewing Item Cost Controls

Viewing Item Cost Controls

Use the Item Costs Details window to view:

- Item costs
- Item cost control information

(N) CST Item Costs > Item Costs Summary > Item Costs Details (B) Open

(N) INV Costs > Item Costs Summary > Item Costs Details (B) Open

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(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Item Costing > Viewing Item Costs

Review Question

Review Question

Each item has separate cost controls by cost type.

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

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Review Question

Review Question

Each item has separate cost controls by cost type.

1. True
2. False

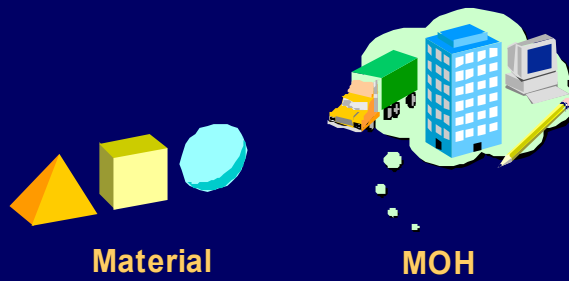
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Item Costs

Item Costs

- For your purchased items, enter your material and material overhead costs.



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Item Costs

Material Cost Input

- You use the Organization Parameters window to define a default material subelement. When you enter the material cost element, the cursor automatically moves to the Rate/Amount field.

Material Overhead Cost Input

- Use the Material Overhead Defaults window to define default material overhead rates. When you define item costs, the material overheads will default for the frozen cost type.

Negative Costs: For maximum flexibility, you can enter a negative item cost.

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Summary

Summary

In this lesson, you should have learned how to:

- Set up your product costs for the items you purchase
- Define material and material overhead subelements
- Setup your item cost controls
- Define item costs



Item costs



Material



MOH

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Practice Overview

This practice covers the following topics:

- **Reviewing an inventory cost setup**
- **Defining material subelements**
- **Defining material overhead**
- **Defining two purchased items, one subassembly and one final assembly**
- **Defining items and item costs**

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Practice

Practice

Short Answer Questions

1. If an item had both a category-level default material overhead and an organization-level default material overhead, which would be used?
2. Which item cost control allows the cost rollup to use the bill of material structure?
3. What are two things that you can do to speed the entry of material and material overhead costs?

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Practice Solution

1. Category-level defaults override organization-level defaults.
2. The based-on-rollup item cost control.
- 3 You can speed the entry of material and material overhead costs by defining a default material subelement in the Organization Parameters window and by defining default material overhead rates in the Material Overhead Defaults window.

Practice

Business Scenario

4. You have decided that you will establish all purchased item costs from historical data rather than rely on converting unreliable costs from your legacy system. You are concerned about the impact of inventory valuation since you have a large inventory of purchased goods. You currently capture material and material overhead costs for your purchased parts and would like to continue to do that.

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Practice Solution

4. Discuss the ability to directly input item frozen costs directly for each item given that the material and material overhead cost elements have been defined. Also discuss that once the costs have been updated and the inventory revalued, that upon transacting these parts, the frozen cost can no longer be directly updated and must be updated via a copy of another cost type to the frozen cost type.

Guided Practice: Defining Material Subelements

Guided Practice: Defining Material Subelements

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

1. Navigate to the Material Subelements window.
(N) CST Setup > Subelements > Material
2. Enter a material subelement name like xxmaterial.
3. Enter a description for your material subelement.
4. Leave default activity blank.
5. Select the default basis of Item for your material subelement.
6. Optionally, enter a date on which to inactivate your material subelement and save.

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Guided Practice: Defining Material Overhead

Guided Practice: Defining Material Overhead

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

1. Navigate to the Overheads window.
(N) CST Setup > Subelements > Overhead
2. Enter a name for material overhead like xxmatch.
3. Select Material Overhead as the cost element.
4. Enter the material overhead absorption account
01-520-5360-0000-000
5. Enter a default basis type of Total Value.
6. Leave default activity blank.
7. Optionally, enter a date on which to inactivate the material overhead and save.

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Guided Practice: Defining Material Overhead Defaults

Guided Practice: Defining Material Overhead Defaults

In this practice, you will establish defaults in the Seattle Organization, M1; xx are your initials.

1. Navigate to the Material Overhead Defaults window.
(N) CST Setup > Subelements > Defaults
2. Select Organization as the default level for the material overhead subelement and rate.
3. Enter xxmatoh, your material overhead subelement to assign to the current organization.
4. Select Buy Items as the item type.
5. Leave activity blank.
6. Select Total Value as a basis.
7. Save your work.

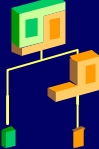
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Guided Practice: Defining Items and Item Costs

**Guided Practice:
Defining Items and Item Costs**

Define four items in the Seattle Organization, M1,
using xx as your initials. They are needed for the
following bill of material structure:



```
graph TD
    A[Final assembly  
(xxfinalassembly)] --> B[Subassembly  
(xxsubassembly)]
    A --> C[Purchased part 1  
(xxpurpart1)]
    B --> D[Purchased part 2  
(xxpurpart2)]
    B --> E[Purchased part 1  
(xxpurpart1)]
```

Bill of material structure

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Defining Four Items

You are free to use your imagination in assigning item numbers and descriptions with one rule: *Use your initials as the prefix of all your item numbers!* This will ensure that your data does not conflict with anyone else's, and it will facilitate processing and reporting by a range of item numbers.

Make sure that your end item and subassembly can be built in WIP.

Suggestion: Use the "Finished Good" template for the end item and subassembly; use the "Purchased Item" template for both the purchased components.

Remember to assign the items to the Seattle organization or to all organizations.

Guided Practice: Defining Items

Guided Practice: Defining Items

1. Navigate to the Master Item window to set up purchased part, xxpurpart1, where xx are your initials.

(N) INV Inventory Items > Master Items

2. Enter Item as xxpurpart1.

3. Enter description as My first purchased item.

4. From the Special Copy menu, use the purchased item template for the purchased part.

5. Under the Work in Process tab, set the supply type for the purchased part as Push and save.

6. Assign your purchased item to all organizations.

(N) INV Inventory Items > Master Items (M) Special > Organization Assignment (B) Assign All (T) Action > Save

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Guided Practice: Defining Items

Guided Practice: Defining Items

1. Navigate to the Master Item window to set up purchased part, xxpurpart2, where xx are your initials.

(N) INV Inventory Items > Master Items

2. Enter Item as xxpurpart2.

3. Enter description as My second purchased item.

4. From the Special Copy menu, use the purchased item template for the purchased part.

5. Under the Work in Process tab, set the supply type for the purchased part as Push and save.

6. Assign your purchased item to all organizations.

(N) INV Inventory Items > Master Items (M) Special > Organization Assignment (B) Assign All (T) Action > Save

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Guided Practice: Defining Items

Guided Practice: Defining Items

1. Navigate to the Master Item window to set up a sub-assembly , xxsubassembly, where xx are your initials.

(N) INV Inventory Items > Master Items

2. Enter Item as xxsubassembly.

3. Enter description as My subassembly.

4. From the Special Copy menu, use the sub-assembly template for the sub-assembly.

5. Under the Work in Process tab, set the supply type for the subassembly as Operation pull and save.

6. Assign your subassembly to all organizations.

(N) INV Inventory Items > Master Items (M) Special > Organization Assignment (B) Assign All (T) Action > Save

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Guided Practice: Defining Items

Guided Practice: Defining Items

1. Navigate to the Master Item window to set up a final assembly, xxfinalassembly, where xx are your initials.

(N) INV Inventory Items > Master Items

2. Enter Item as xxfinalassembly.

3. Enter description as My final assembly.

4. From the Special Copy menu, use the finished good template for the final assembly.

5. Under the Work in Process tab, set the supply type for the final assembly as Operation pull and save.

6. Assign your final assembly to all organizations.

(N) INV Inventory Items > Master Items (M) Special > Organization Assignment (B) Assign All (T) Action > Save

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Guided Practice: Defining Item Costs

Guided Practice: Defining Item Costs

1. Navigate to the Item Costs window to assign costs for your first purchased part in your cost type.
(N) INV Item Costs > Item Costs (B) Find xxpurpart1 in xpending
2. Select xxpurpart1 in xpending.
3. Enter your material cost element and subelement as xxmaterial. Leave activity blank.
4. Enter the basis of Item, enter \$5.00 as the rate and save your work.
5. Enter your overhead cost element and subelement as xxmatoh. Leave activity blank.
6. Enter the basis of Total Value, enter .25 as the rate and save your work.

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Guided Practice: Defining Item Costs

Guided Practice: Defining Item Costs

1. Navigate to the Item Costs window to assign costs for your second purchased part in your cost type.
(N) INV Item Costs > Item Costs (B) Find xxpurpart2 in xpending
2. Select xxpurpart2 in xpending.
3. Enter your material cost element and subelement as xxmaterial. Leave activity blank.
4. Enter the basis of Item, enter \$10.00 as the rate and save your work.
5. Enter your overhead cost element and subelement as xxmatoh. Leave activity blank.
6. Enter the basis of Total Value, enter .25 as the rate and save your work.

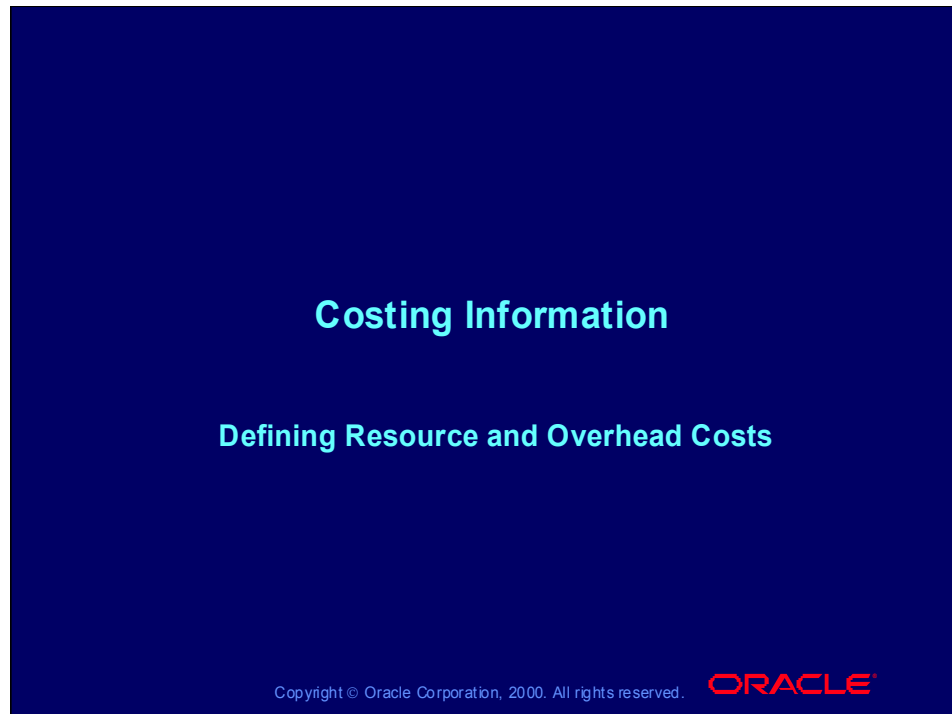
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Defining Resource and Overhead Costs

Chapter 5

Costing Information



Notations:

N = Navigator

T = Tab

M = Menu

I = Icon

H = Hyperlink

B = Button

Help = Oracle Applications Help System

Objectives

Objectives

After this lesson, you should be able to:

- **Set up product costs for the items that you make**
- **Define bills-of-material parameters**
- **Define resource and overhead subelements**
- **Define departments and associate resources**
- **Associate overheads with departments**
- **Assign overheads to resources**
- **Define bills of material**
- **Define routings**

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Agenda

Agenda

- Describing cost types
- Defining cost elements
- Defining item costs
- **Defining resource and overhead costs**

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Overview

Manufacturing cost setup

- Defining bills-of-material parameters
- 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

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BOM Parameters

Window Dependencies

- The list of values for subelement on the Item Costs window is automatically reduced to material and material overhead if you do not define BOM parameters. In addition, you can define only material overheads on the Overheads window, not routing-based overheads.

Use the BOM Parameters window to enter:

- Maximum number of levels for your bills
- Your configuration options
- Whether or not to include phantom costs

(N) BOM Setup > Parameters

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(Help) Oracle Manufacturing Applications >
Oracle Bills of Material > Setting Up >
Defining Bills of Material Parameters

Resource Subelements and Costs

Resource Subelements and Costs

- You define resource costs by creating resources, departments, bills, and routings with Oracle Bills of Material.
- Resources are labor, machines, and other production services used to make products.



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Defining Resources



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

Review Question

Review Question

You use the BOM Parameters window to enter the maximum number of levels for your bills.

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

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Review Question

Review Question

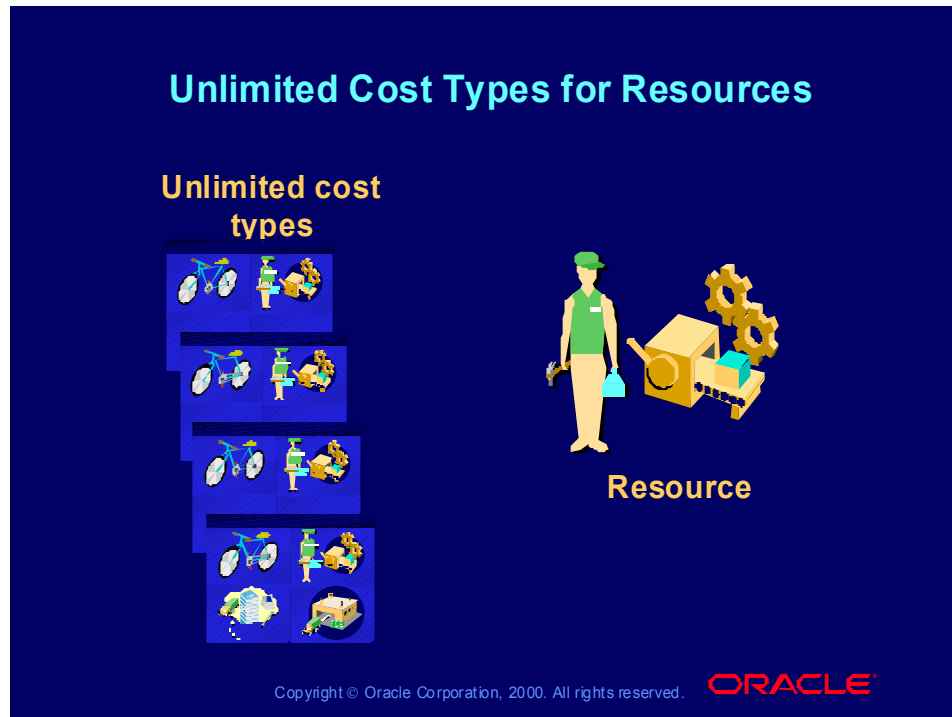
You use the BOM Parameters window to enter the maximum number of levels for your bills.

1. True
2. False

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Unlimited Cost Types for Resources



Unlimited Cost Types for Resources

Unlimited Cost Types for Resources

You can enter a fixed resource cost in two ways.

1. Enter a fixed charge on the routing operation.

Use this method when the resource cost varies by item. Set the resource type to currency and the UOM to your set of books currency. Enter 1 for the resource unit cost. Enter the currency amount in the routing operation. If you need to schedule the outside processing step, use another resource in the operation and set it to uncosted.

Fixed charge on routing = Resource unit cost (1) *
Resource amount on routing

Example 1: Item1 = 1 x .10 = .10 per unit

Example 2: Item2 = 1 x .20 = .20 per unit

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Example

The resource is a plating charge that costs .10 to plate item1 but .20 to plate item2 because item2 is larger.

Unlimited Cost Types for Resources

2. Enter a fixed charge for the resource unit cost.

Use this method when the resource cost is always the same, regardless of the item. Set the resource type to a type other than currency. Set the UOM to any UOM (the UOM does not matter). Enter the fixed amount in the resource unit cost. Enter 1 for the resource rate/amount in the routing operation

Fixed charge on resource = Resource unit cost x
Resource amount on routing (1)

Example 1: Item1 = .15 x 1 = .15 per unit

Example 2: Item2 = .15 x 1 = .15 per unit

The plating charge is fixed, regardless of the item being plated.

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Defining Resource Costs

Defining Resource Costs

Use the Resource Costs window to enter:

- Resource costs by cost type

(N) CST Setup > Subelements > Resources (B) Rates

(N) BOM Routings > Resources (B) Rates

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(Help) Oracle Manufacturing Applications >
Oracle Cost Management > Setting Up > Steps > Defining
Subelements > Defining Resources

Review Question

Review Question

You can enter a fixed resource cost in the following ways.

- 1. Enter a fixed charge on the routing operation**
- 2. Enter a fixed charge for the resource unit cost**
- 3. Enter a fixed charge from overhead**
- 4. All of the above**
- 5. 1 and 2**

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Review Question

Review Question

You can enter a fixed resource cost in the following ways.

- 1. Enter a fixed charge on the routing operation**
- 2. Enter a fixed charge for the resource unit cost**
- 3. Enter a fixed charge from overhead**
- 4. All of the above**
- 5. 1 and 2**

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Overhead Subelements

Overhead Subelements

- In standard costing and in average costing, you can use material overhead and overhead cost subelements to add indirect costs to item costs as either a percentage or a fixed amount.
- Each overhead subelement has a default basis, a default activity, and an absorption account.
- The overhead absorption account offsets the corresponding overhead cost pool in the general ledger.



Overhead

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Overhead Subelements

You can base the overhead charge on the number of resource units or on the percentage of resource value earned in the routing operation. Or you can set up move-based overheads where the rate or amount is charged for each item moved in an operation. To do this, use the Item or Lot basis types.

You can base the material overhead charge on the number of resource units or on the percentage of resource value. However, the material overhead charge is not earned in WIP. You can also base material overhead on a percentage of the total value, which is earned when you receive purchase orders or perform WIP completion transactions. Or you can use the Item or Lot basis types.

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Overhead Subelements

You can apply each of these subelements using different basis types for increased flexibility. Material overhead is earned when an item is received into inventory or completed from work in process. Overhead, based on resources, is earned as the assembly moves through operations in work in process.

Note: If you use Oracle Bills of Materials, you must first define the bill of material parameters to use the overhead cost element in the Overhead window. If the bills of material parameters are not set up, you only have access to material overhead cost element.

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Overhead Subelements

Basis types for move-based (fixed) overheads: Use the Item or Lot basis types for move-based overheads.

- **For Item basis, the overhead amount is charged for each item moved out of an operation**
- **Overhead amount charged to WIP = Overhead amount * Number of items moved out of operation**
- **Example: Item basis, overhead amount: 15.00, items moved: 100**
- **Overhead amount charged to WIP = $15.00 * 100 = 1,500.00$**

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Overhead Subelements

Basis types for move-based (fixed) overheads: Use the Item or Lot basis types for move-based overheads.

- **For Lot basis, the overhead amount is charged when the first item is moved into the operation.**
- **Overhead amount charged to WIP = Overhead amount * 1 lot**
- **Example: Lot basis, overhead amount: 15.00, items moved: 100**
- **Overhead amount charged to WIP = 15.00 * 1 = 15.00**

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Overhead Subelements

Basis types for resource-based (variable) overheads:
Use the Resource Value or Resource Units basis types for resource-based overheads.

- For Resource Value basis, the overhead rate is multiplied by the resource value earned in the operation
- Overhead amount charged to WIP = Overhead rate * Resource value
- Example: Resource value basis, overhead rate: 1.50, resource value: 50.00
- Overhead amount charged to WIP = $1.50 \times 50.00 = 75.00$

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Overhead Subelements

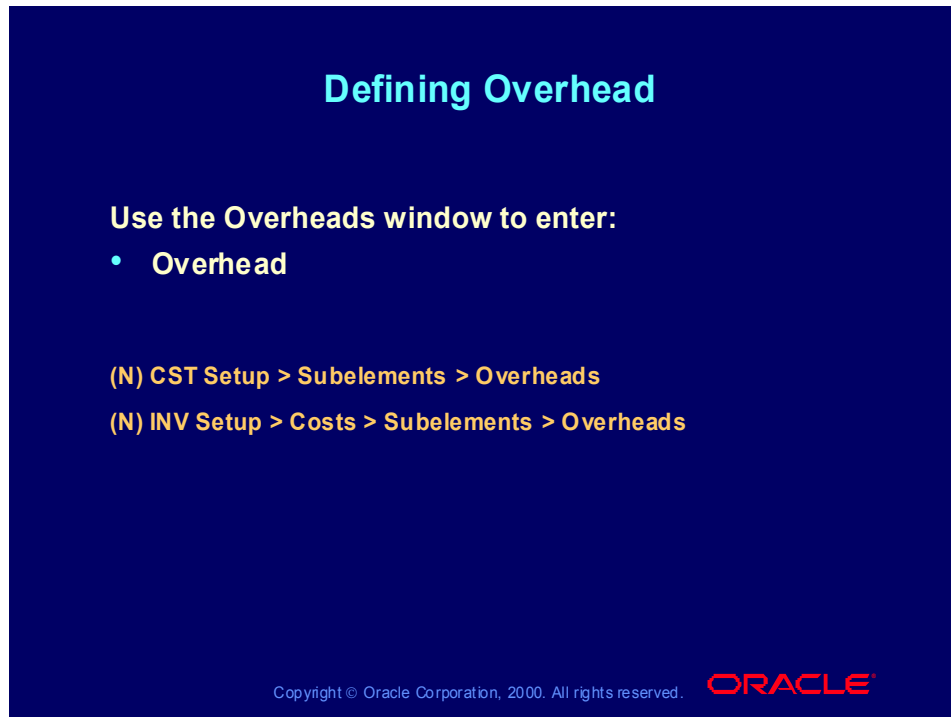
Basis types for resource-based (variable) overheads:
Use the Resource Value or Resource Units basis types for resource-based overheads.

- For Resource Units basis, the overhead amount is multiplied by the number of resource units earned in the operation
- Overhead amount charged to WIP = Overhead amount * Resource units
- Example: Resource units basis, overhead amount: 15.00, resource units: 2
- Overhead amount charged to WIP = $15.00 \times 2 = 30.00$

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Defining Overhead



Defining Overhead

Use the Overheads window to enter:

- Overhead

(N) CST Setup > Subelements > Overheads
(N) INV Setup > Costs > Subelements > Overheads

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

Review Question

Review Question

Each overhead subelement has a default basis, a default activity, and an absorption account.

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

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Review Question

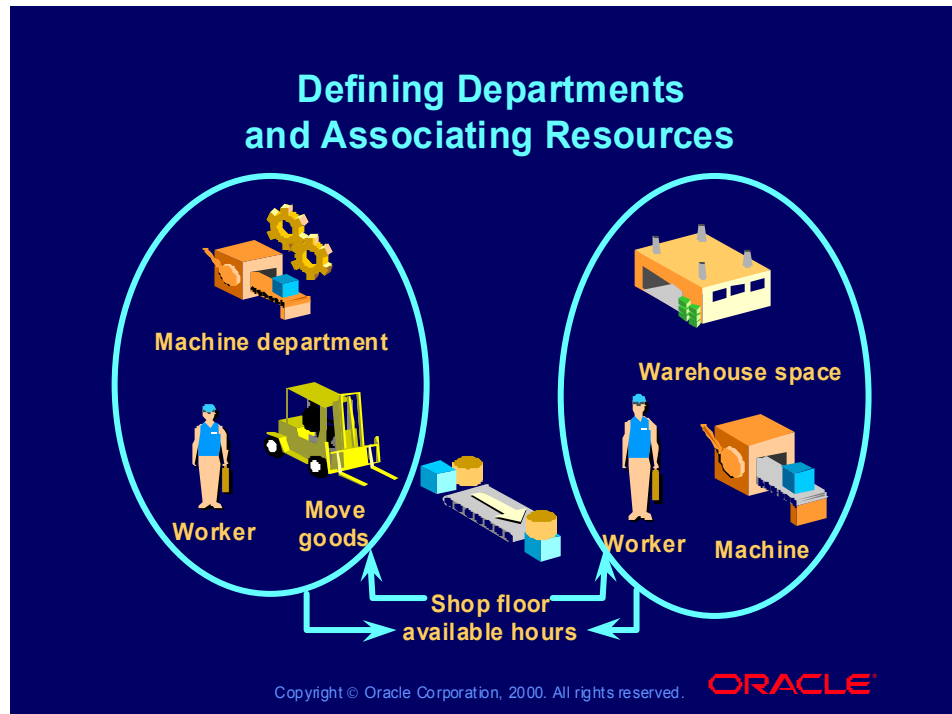
Review Question

Each overhead subelement has a default basis, a default activity, and an absorption account.

1. True
2. False

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Defining Departments and Associating Resources



Defining Departments and Associating Resources

Defining Departments and Associating Resources

Resource Association

- Each resource must be associated with a department. Assign each resource to one or more departments.
- The resource has to be associated with a department so it can appear on the routing list of values. In the Routing window, you can go to the Department window and add the resource to the routing list of values.

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Defining Departments and Associating Resources

Defining Departments and Associating Resources

Use the Department window to:

- Create departments and assign resources to each department

(N) BOM Routings > Departments (B) Resources

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(Help) Oracle Manufacturing Applications > Oracle Bills of Material
> Setting Up > Defining a Department

Defining Overhead Rates by Department

Defining Overhead Rates by Department

- Specify, for each cost type, an overhead rate or amount by department. Enter an overhead rate if the basis type is Resource Value.
- For example, an overhead rate of 1.5 equals 150%.
- Enter an overhead amount if the basis type is Item, Lot, or Resource Units.

Use the Overhead Rates window to:

- Associate overhead rates by department with a cost type

(N) CST Setup > Subelements > Overheads (B) Rates

(N) INV Setup > Costs > Subelements > Overheads (B) Rates

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

Associating Overheads with Resources

Associating Overheads with Resources

Use the Resource Overhead Associations window to:

- Enter a cost type for which to associate resources to overhead.

(N) CST Setup > Subelements > Overheads (B) Resources

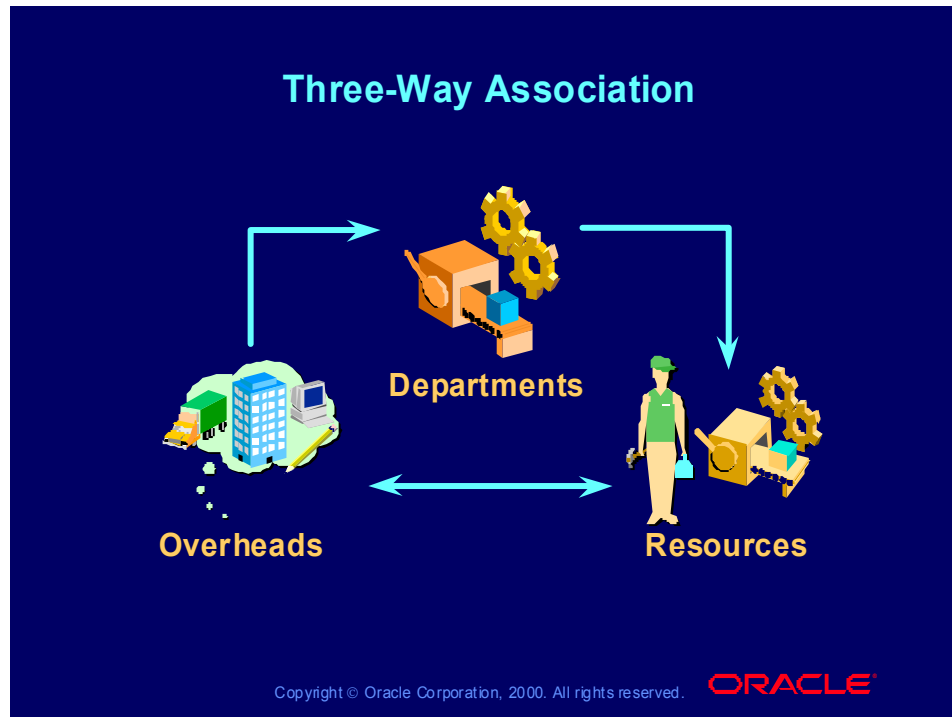
(N) INV Setup > Costs > Subelements > Overheads (B) Resources

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

Three-Way Association



Review Question

Review Question

You must associate your departments, resources, and overheads so that you can earn resources by department and earn overheads associated with resources.

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

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Review Question

Review Question

You must associate your departments, resources, and overheads so that you can earn resources by department and earn overheads associated with resources.

1. True
2. False

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Defining Routings

Defining Routings

- A routing represents a sequence of operations that are performed to manufacture an assembly. For each routing, define the operations, the sequence in which to perform them, and the resources required at each operation. You can define either a primary or an alternate routing. You can create a routing manually, copy an existing routing, or reference a common routing.
- **Note:** You cannot create routings for planning or pick-to-order items. Use attachments, such as detailed operation instructions, for routing operations.

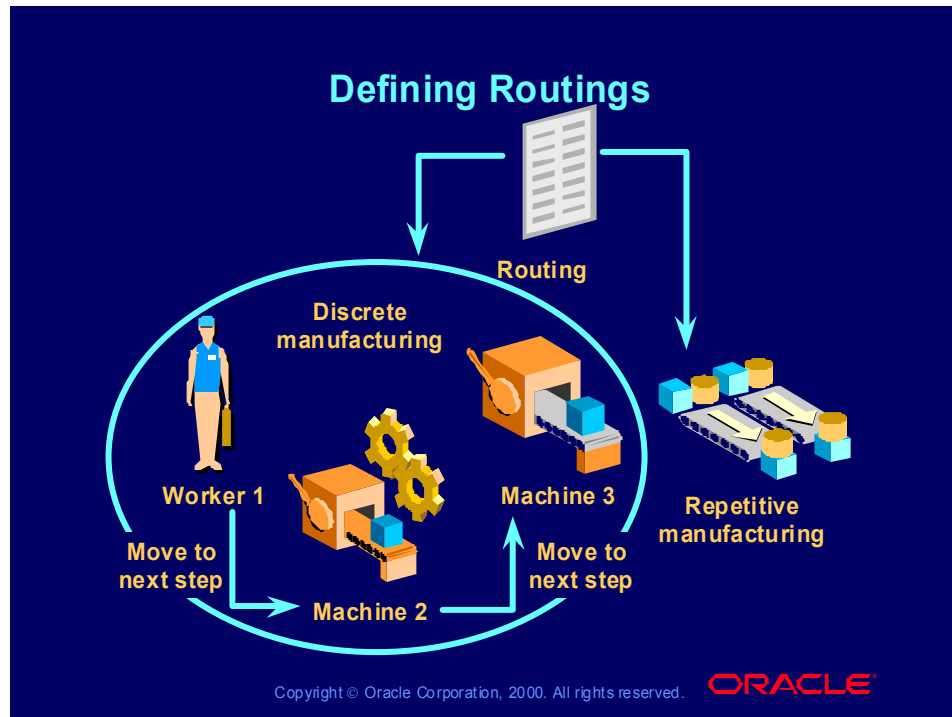
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Prerequisites

- You must define at least one department before you can create a routing.
- You must set BOM Allowed to Yes to create a routing for an item.

Defining Routings



Defining Routings and Operation Resources

Defining Routings and Operation Resources

Use the Routings window to:

- Enter a routing for your manufacturing item

(N) BOM Routings > Routings

Use the Operation Resources window to:

- Enter operation resources on a routing

(N) BOM Routings > Routings (B) Operation Resources

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**(Help) Oracle Manufacturing Applications >
Oracle Bills of Material > Setting Up > Bills of Material > Routings >
Defining a Routing**

Defining Routings: Routing Cost Example

Defining Routings: Routing Cost Example

<u>Resource Name</u>	<u>Type</u>	<u>Currency</u>	<u>UOM</u>	<u>Basis</u>	<u>Cost</u>	<u>Overheads</u>
FINASSY	Person	No	HR	Item	15.00	Administration
SETUP	Person	No	HR	Lot	20.00	Administration

<u>Overhead name</u>	<u>Department</u>	<u>Basis</u>	<u>Rate/Amount</u>
Administration	FINASSY	Resource Value	1.50
Packing	FINASSY	Item	30.00

<u>Department Name</u>	<u>Resources</u>	<u>Overheads</u>
FINASSY	FINASSY	Administration
	SETUp	Packing

<u>Routing Op Seg</u>	<u>Department</u>	<u>Resources</u>	<u>UsageRate/Amt</u>
10	FINASSY	SETUP	1.00
		FINASSY	.50

<u>Resource subelement cost:</u>				<u>Overhead subelement cost:</u>			
SETUP	01	x	1/10* x 20.00	=	2.00	Administration	2.00 x 1.50 = 3.00
FINASSY	50	x	15.00	=	7.50	Administration	7.50 x 1.50 = 11.25
*The item costing lot size = 10						Packing	1.00 x 30.00 = 30.00

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Defining Routings: Routing Cost Example

Defining Routings: Routing Cost Example

- The example in the previous slide shows how the resource, overhead, department, and routing information is used to develop costs, using the following steps:
 1. Define your resources and resource costs.
 2. Define your overheads.
 3. Define departments and associate resources.
 4. Define overhead rates by department.
 5. Associate overheads with resources.
 6. Define routings and resource usage rates or amounts.

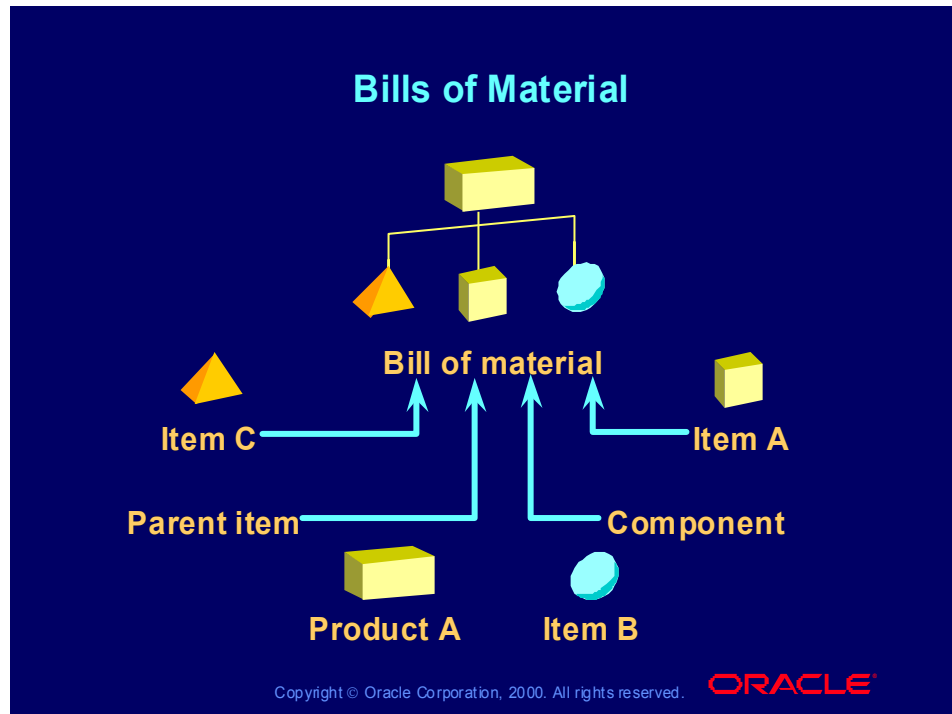
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Prerequisites

- You must define at least one department before you can create a routing.
- You must set BOM Allowed to Yes to create a routing for an item.

Bills of Material



Bills of Material

Physical Structure of a Product

- A bill of material describes the physical structure of a product and identifies the material (and material overhead) cost of the product.
- A bill of material contains information on the parent item, components, attachments, and descriptive elements. Each standard component on a bill can have multiple reference designators and substitute components.
- You can create either an engineering or a manufacturing bill, copy an existing bill, or reference a common bill.

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Bills of Material

Physical Structure of a Product

- When you create a bill, it exists only in the current organization. To use a bill in another organization, you must either copy it or reference it as a common bill.

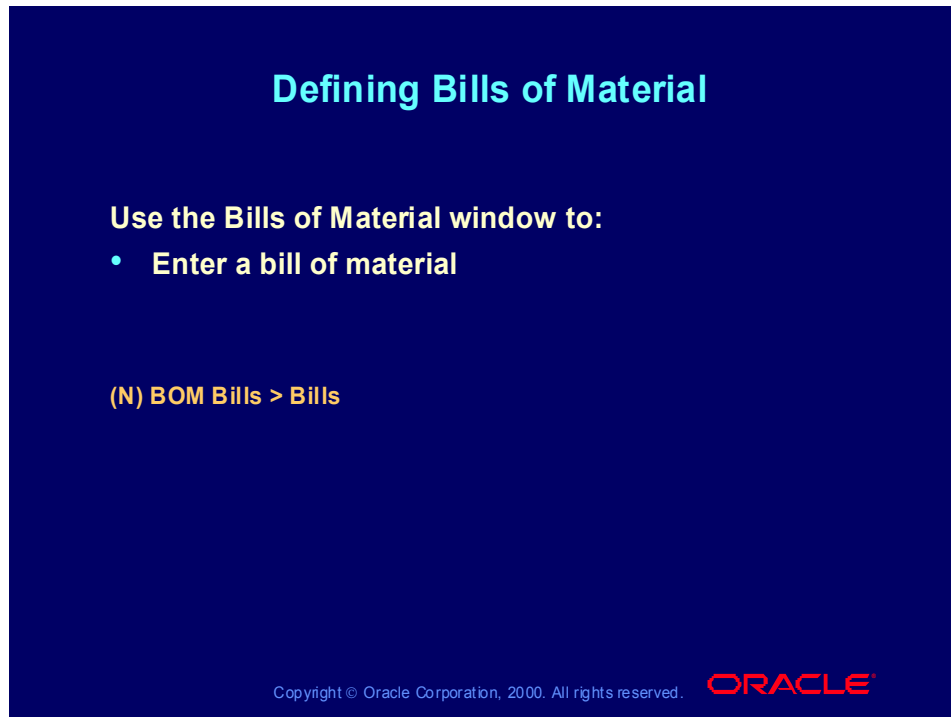
Prerequisites

- Define the parent item and all components as inventory items and set the BOM Allowed attribute to Yes and the BOM Item Type to model, option class, planning, or standard.

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Defining Bills of Material



**(Help) Oracle Manufacturing Applications >
Oracle Bills of Material > Setting Up > Bills of Material >
Defining a Bill of Material**

Review Question

Review Question

A routing represents a sequence of operations that are performed to manufacture an assembly.

A bill of material describes the physical structure of a product and identifies the material (and material overhead) cost of the product.

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

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Review Question

Review Question

A routing represents a sequence of operations that are performed to manufacture an assembly.

A bill of material describes the physical structure of a product and identifies the material (and material overhead) cost of the product.

1. True
2. False

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Summary

Summary

In this lesson, you should have learned how to:

- Set up product costs for the items that you make
- Define bills-of-material parameters
- Define resource and overhead subelements
- Define departments and associate resources
- Associate overheads with departments
- Assign overheads to resources
- Define bills of material
- Define routings

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Practice Overview

This practice covers the following topics:

- **Reviewing the manufacturing cost setup**
- **Calculating the subelement unit costs**
- **Defining departments**
- **Defining resources**
- **Defining overheads**
- **Associating resources, departments and overheads three ways**
- **Defining routings**
- **Defining bills of material**

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Practice

Practice

Reviewing the Manufacturing Cost Setup

1. How do you set your resource charge type if you want to automatically earn resources at standard?
2. How do you set your resource standard rate if you want to recognize labor rate variances?
3. Which overhead basis types charge overhead based on movement into or out of a routing operation?

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Practice Solution

1. Set the resource charge type to **WIP Move** to automatically earn resources at standard.
2. Set the resource standard rate to **Yes** to recognize labor rate variances.
3. The **Item** basis type charges the overhead amount for each item moved out of an operation. The **Lot** basis type charges the overhead amount when the first item is moved into the operation.

Practice

Practice

Business Scenario

4. You only track two overheads—one fixed and one variable. The fixed overhead by department is based on the total number of items produced each year in each department and the variable overhead is based on the labor usage by item by piece produced. You only tracks labor by one labor resource.
- Discuss how you can use standard costing to allocate overhead charges to each item.

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Practice Solution

4. Discuss how you can use two different overheads to track overheads for each finished good. The fixed overhead should be attached only to a department and should be item unit based. The variable overhead should be attached to both the department and the labor resource and be based on resource units.

Practice

Practice

Calculating the Subelement Unit Costs

1. Subelement: material; basis type: lot; lot size: 100; amount: 200
2. Subelement: material overhead; basis type: total value; rate: .01; Total value: 100
3. Subelement: resource; basis type: lot; UOM: hour; resource cost: 20.00; Routing usage rate: 2.0; Lot size: 100
4. Subelement: resource; basis type: item; UOM: hour; resource cost: 20.00; Routing usage rate: .5
5. Subelement: overhead; basis type: resource value (based on 4 above); Overhead rate: 1.5

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Practice Solution

Calculating the Subelement Unit Costs

1. Subelement: material; basis type: lot; lot size: 100; amount: 200

$$1 / 100 * 200 = 2.00$$

2. Subelement: material overhead; basis type: total value; rate: .01; Total value: 100

$$100 * .01 = 1.00$$

3. Subelement: resource; basis type: lot; UOM: hour; resource cost: 20.00; Routing usage rate: 2.0; Lot size: 100

$$20.00 * 2.0 = 40.00 * 1/100 = .40$$

4. Subelement: resource; basis type: item; UOM: hour; resource cost: 20.00; Routing usage rate: .5

$$20.00 * .5 = 10.00$$

5. Subelement: overhead; basis type: resource value (based on 4 above); Overhead rate: 1.5

$$10.00 * 1.5 = 15.00$$

Guided Practice: Defining Departments

Guided Practice: Defining Departments

In this practice, you will define one department in the Seattle Organization, M1; xx are your initials.

1. Navigate to the Departments window.

(N) BOM Routings > Departments

2. Create a department called xxperdept with the following information by field: Description: My indirect department, Class: Production, Location: Seattle 950, Inactive On: blank, and save.

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Guided Practice: Defining Resources

Guided Practice: Defining Resources

In this practice, you will define a resource with rates in the Seattle Organization, M1; xx are your initials.

1. Navigate to the Resources window.

(N) CST Setup > Subelements > Resources

2. Create a resource called xperson1 with the following information by field: Inactive On: blank, Description: My first person, Type: Person, Charge Type: WIP Move, Basis: Item, Costed: X, Standard Rate: X, Absorption Account: 01-520-5360-0000-000, Variance Account: 01-520-5380-0000-000

3. Navigate to the Resource Rates window.

(N) CST Setup > Subelements > Resources (B) Rates

Select xpending cost type, enter 10.00 as the unit cost, and save.

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Guided Practice: Defining Overheads

Guided Practice: Defining Overheads

In this practice, you will define an overhead with rates in the Seattle Organization, M1; xx are your initials.

1. Navigate to the Overheads window.

(N) CST Setup > Subelements > Overheads

2. Create an overhead called xpersonoh with the following information by field: Cost Element: Overhead, Description: My first person overhead, Default Basis: Resource Value, Default Activity : Blank, Inactive On: blank, Absorption Account: 01-520-5360-0000-000

3. Navigate to the Overhead Rates window.

(N) CST Setup > Subelements > Overheads (B) Rates

Select xxpending cost type, Department: xxperdept, and enter 0.05 as the rate, and save.

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Guided Practice: Associating Departments to Resources to Overheads

Guided Practice: Associating Departments to Resources to Overheads

In this practice in the Seattle Organization, M1, you will do a three-way association of your department, resource and overhead, linking them to your cost type.

1. Navigate to the Departments window.

(N) BOM Routings > Departments

2. Select department called xxperdept.

3. Assign your resource to your department.

(N) BOM Routings > Departments (B) Resources

Select Resource xxperson1, Available 24 hours: X, UOM: Ea, Units: 10, and save.

3. Associate your resource to your overhead in your cost type in the Resource Overhead Associations window

(N) CST Setup > Subelements > Overheads (B) Resources

Select xxpersonoh and xpending cost type, Resource xxperson1, and save.

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Guided Practice: Defining Routings

Guided Practice: Defining Routings

In this practice, you will define a routing for your final assembly in the Seattle Organization, M1.

1. In the Routings window, select Item: xxfinalassembly.

(N) BOM Routings > Routings

2. Enter Completion Subinventory as FGI.

(N) BOM Routings > Routings (T) Routing Details

3. Enter main information. (N) BOM Routings > Routings (T) Main

Enter Seq: 10, Code: blank, Department: xxperdept

4. Enter resource information

(N) BOM Routings > Routings (T) Main (B) Operation Resources

Resources: xxperson1, Usage rate: 2, Basis: Item

5. Enter scheduling information where Scheduled: Yes

(N) BOM Routings > Routings (T) Main (B) Operation Resources (B) Scheduling

6. Save your work.

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Guided Practice: Defining Bills

In this practice, you will define a bill for your final assembly in the Seattle Organization, M1.

1. In the Bills of Material window, select Item **xxfinalassembly**, and accept defaults. (N) BOM Bills > Bills
2. Enter components. (N) BOM Bills > Bills (T) Component Details
Enter Item Seq: 10, Operation Seq: 10, Component: **xxsubassembly**, Quantity: 1, Check include in rollup
(N) BOM Bills > Bills (T) Material Control
Supply Type: Operation Pull , Subinventory: FGI, save.
3. Enter components. (N) BOM Bills > Bills (T) Component Details
Enter Item Seq: 10, Op Seq: 20, Component: **xxpurpart2**, Quantity: 1, Check include in rollup
(N) BOM Bills > Bills (T) Material Control
Supply Type: Push , Subinventory: FGI, and save.

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Oracle Costing Information Summary

Chapter 6

Costing Information

Summary

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Objectives

Objectives

In this course, you should have learned how to:

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

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Agenda Summary

Agenda Summary

- Defining cost types
- Describing cost elements
- Defining item costs
- Defining resource and overhead costs

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