

# Periodic Costing

## Student Guide

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# Preface

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## 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

- R11i Costing Setup and Implementation
- R11i Cost Information
- R11i Cost Rollup
- R11i Average Costing
- R11i Standard Costing
- R11i Analyzing Inventory and WIP Transactions
- R11i Period Close for Inventory Organizations

### How This Course Is Organized

*R11i Periodic 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

<b>Title</b>	<b>Part Number</b>
<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 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.

# Periodic Average Costing

## Chapter 1

## R11i Periodic Costing

### Periodic Average Costing

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### Objectives

After completing this lesson, you should be able to:

- Describe periodic average costing
- Identify the business value of periodic average costing
- Set up the periodic average costing function

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# Agenda

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## Agenda

- **Overview of Periodic Average Costing**
- **Business Value of Periodic Average Costing**
- **Using Periodic Average Costing**
- **Processing Costs**
- **Reporting**
- **Setting Up and Implementing Periodic Average Costing**

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## Overview

You use the periodic average costing method if you:

- Need to report the actual cost (total acquisition cost) of an item at the end of a fiscal period
- Use invoice-price-based valuation of your inventory



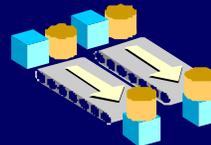
Actual item costs



Period-end



Valuation



Period-based costing

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### Overview

**You use periodic average costing:**

- **To satisfy a fiscal inventory reporting requirements.**
  - **Periodic costing is invoice-based and also allows you to include additional invoiced charges in the cost of the item.**
- **To set standards or to update perpetual costs, using invoiced price-based valuation.**
- **With either of the required perpetual costing methods (standard costing or average costing).**

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### Overview

- **With periodic average costing, you have the following:**
  - **Invoice-based costing**
  - **Full absorption costing**
  - **Shared periodic average costs**
  - **Accounting and general ledger posting**

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### Periodic Average Costing

- Using periodic average costing, you can establish costs on a per-item and per-period basis. You use 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 enables you to value inventory by including full absorption of resource and overhead costs.

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### Periodic Average Costing

#### Invoice-Based Costing

- A receipt is costed based on the net quantity received. The periodic costing processor uses the invoice price to cost receipts. If no invoice is matched to the receipt at the time the periodic costing processor is run, it uses the purchase order price. You can see receipts that use the purchase order price and can make corrections.

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### Periodic Average Costing

#### Full Absorption

- You can create rates that fully absorb resource and overhead costs. The periodic costing processor uses these rates to cost inventory and work-in-process transactions.

#### Shared Periodic Average Costs

- You can share periodic costs across a group of inventory organizations within a legal entity. The perpetual cost methods for the individual organizations in the group can be a mixture of standard and average cost.

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### Periodic Average Costing

**With periodic average costing, you meet fiscal reporting and government needs in Spain, France and Brazil.**

#### **Periodic average costing**

- **Provides periodic weighted average costing based on actual invoiced value**
- **Provides an alternative valuation method in addition to the perpetual cost methods**

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# Agenda

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## Agenda

- Overview of Periodic Average Costing
- **Business Value of Periodic Average Costing**
- Using Periodic Average Costing
- Processing Costs
- Reporting
- Setting Up and Implementing Periodic Average Costing

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### **Business Value of Periodic Average Costing**

#### **Costs Inventory at Actual Cost**

- **Using periodic average costing, you can periodically cost your inventory at actual cost.**

#### **Enables Inventory Valuation and Fulfills Fiscal Requirements**

- **Periodic average costing is a flexible, integrated periodic valuation method that meets fiscal requirements of France, Spain and Brazil.**
- **Periodic average costing values inventory at actual cost, calculated on a periodic basis.**

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## Business Value of Periodic Average Costing

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### Business Value of Periodic Average Costing

#### Fully Absorbs Actual Inventory Costs

#### Periodic average costing enables:

- Companies to match freight, customs and other costs to material receipts in order to reflect the total landed cost of inventory
- Companies with foreign suppliers to calculate cost of inventory based on invoiced amount, thus ensuring full inclusion of exchange rate differences between purchase order price, material receipt, and accounts payable invoice price

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#### Note

This feature is not specific to periodic average costing.

### Business Value of Periodic Average Costing

#### Removes Distortions Caused by Sequencing of Transactions

- Periodic average costing evaluates inventory transactions for an entire period, not on a transaction-by-transaction basis. This method eliminates miscalculations caused by negative onhand quantities and other sequence-related problems.

#### Smooths Price Volatility

- Periodic average costing enables companies to take an average cost on inventory receipts for an entire period, smoothing out the effects of input price volatility.

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### **Business Value of Periodic Average Costing**

#### **Enables Double-Entry Accounting**

- **Periodic average costing enables companies to account for inventory according to GAAP (Generally Accepted Accounting Principles) and statutory methods simultaneously.**

#### **Can Be Used with Perpetual Cost Methods**

- **Periodic average costing can be used with either perpetual cost method, average costing or standard costing. For customers using standard costing, it can be used for standard cost updates.**

#### **Provides Detailed Cost Reports**

- **Periodic average costing provides detailed inventory cost reports.**

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### Business Value of Periodic Average Costing

#### Meets Fiscal Requirements in Southern Europe

- Whether you have raw materials, subassemblies, finished goods or any other item in stock, you use the same rules for valuing inventory from a fiscal point of view.

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### Business Value of Periodic Average Costing

#### Meets Fiscal Requirements in Southern Europe

- One principal is that movements within the organization cost group do not change the value. You cannot modify the cost of an item, an object, or an order by its transition in inventory.
- You value items at actual cost at the cost at which they entered inventory.
  - For raw materials, this value is the total acquisition/landed cost.
  - For semi-finished/finished goods, this value is the actual production cost.

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## Periodic Average Costing Key Features

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### Periodic Average Costing Key Features

- Meets legal and business requirements
- Enables costing across inventory organizations in cost groups for multiple organizations
- Provides valuation using periodic cost types
- Uses acquisition or landed costs
- Enables simultaneous periodic and perpetual costing
- Considers all cost-relevant transactions
- Provides flexible user setup
- Provides periodic cost update window and costing reports

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### Key Features

- Periodic costing meets legal and business requirements in several key markets.
- You can cost across inventory organization, where required.
- Valuation uses periodic cost types, and therefore can supplement the cost types that you already have in place for other purposes.
- You can perform acquisition costing more effectively. This means that you can value your inventory according to landed costs.
- You can continue to use either perpetual method, standard costing, or average costing.
- Periodic average costing includes all relevant transactions and has a number of windows for setup.

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## Review Question

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### Review Question

In which four countries does periodic average costing meet fiscal requirements?

1. France, Italy, Spain and Colombia
2. France, Italy, Germany and Brazil
3. France, Spain and Brazil
4. France, Spain and Argentina

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## Review Question

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### Review Question

**In which four countries does periodic average costing meet fiscal requirements?**

1. France, Italy, Spain and Colombia
2. France, Italy, Germany and Brazil
3. France, Spain and Brazil
4. France, Spain and Argentina

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# Agenda

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## Agenda

- Overview of Periodic Average Costing
- Business Value of Periodic Average Costing
- **Using Periodic Average Costing**
- Processing Costs
- Reporting
- Setting Up and Implementing Periodic Average Costing

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## Requirements for Using Periodic Average Costing

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### Requirements for Using Periodic Average Costing

In order to use Periodic Costing, you need to satisfy the following requirements :

- Only one master item organization exists for each organization cost group. Oracle recommends that only one master item organization exists per database instance.
- An organization cost group must be assigned to a single legal entity which can contain several organization cost groups.
- An inventory organization can only be associated with one organization cost group.
- Frozen and average cost types cannot be used for periodic costing.

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## Requirements for Using Periodic Average Costing

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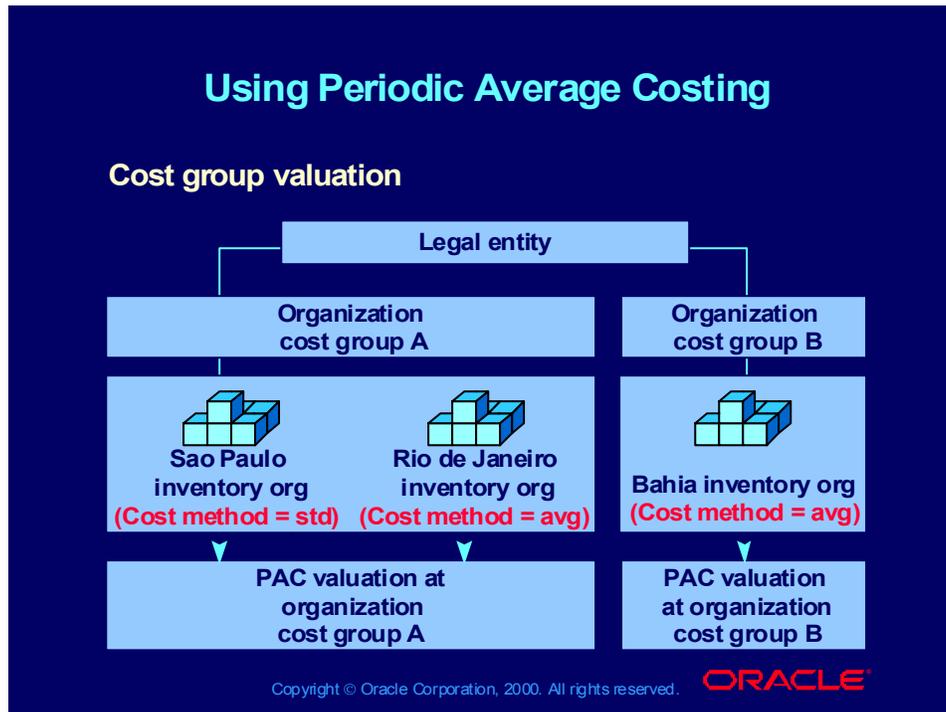
### Requirements for Using Periodic Average Costing

- **Cost types used for periodic costing must be multi-org and non-updatable.**
- **Periodic rates cost types must be multi-org and Updatable.**
- **Cost types used for periodic costing cannot be disabled.**
- **Organization cost groups cannot be disabled.**
- **The actual cost extension is not allowed for cost derived transactions, WIP assembly completion, and WIP assembly return transactions.**
- **Oracle Bills of Material must be installed.**

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# Using Periodic Average Costing



## Using Periodic Average Costing

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### Using Periodic Average Costing

#### How Periodic Average Costing Is Used

- **Periodic average costing operates across multiple inventory organizations in a legal entity. You can perform costing across inventory organizations as long as these organizations belong to the same legal entity.**
- **Using a perpetual method, you value inventory at the inventory organization level.**

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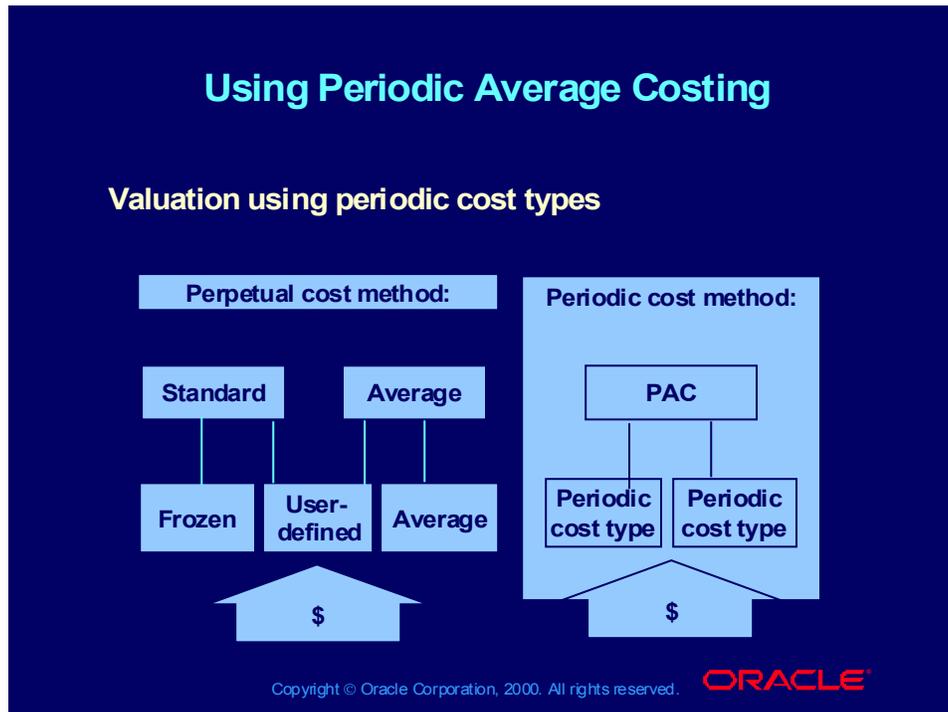
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#### **Note**

SAP, a competitor of Oracle, only allows cost group valuation with a grouping of standard costing organizations.

# Using Periodic Average Costing

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### Using Periodic Average Costing

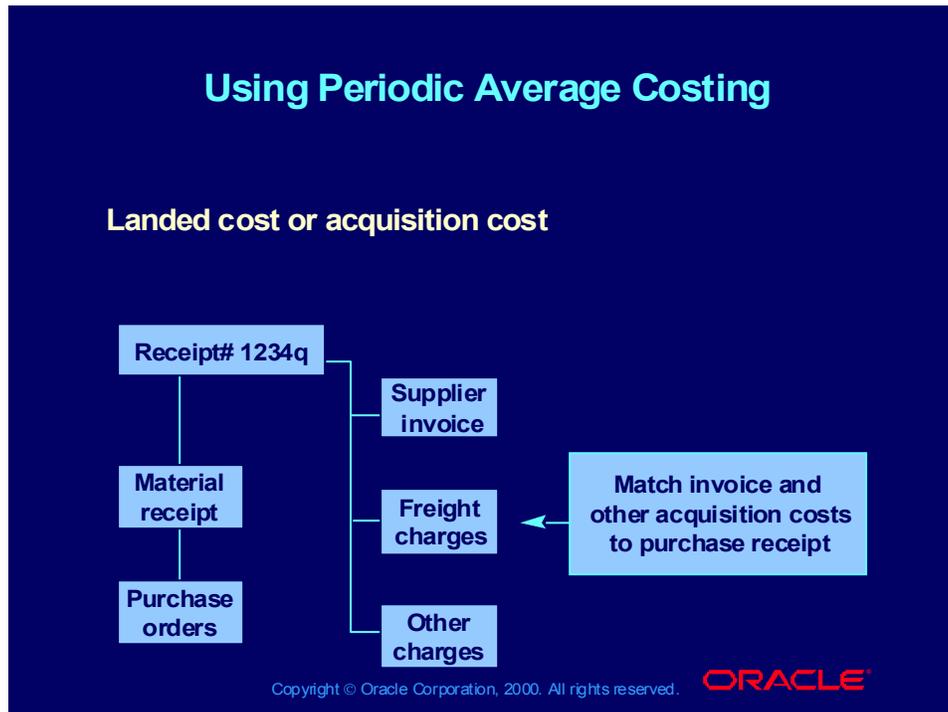
- For periodic average costing, costs are attached to user-defined cost types in addition to the perpetual cost type in use.
- You must use either standard costing or average costing for perpetual costing.
- You can supplement either perpetual method with periodic average costing for fiscal purposes.

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# Using Periodic Average Costing

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### Using Periodic Average Costing

#### Landed Cost or Acquisition Cost

- By using the “purchase order receipt to payables invoice match” function, periodic average costing uses the landed or acquisition cost. Now you can match multiple supplier invoices to a given purchase receipt, deriving the actual cost. When invoices are not available, material purchase order values (with exchange rate at time of receipt) are used.
- Material overhead can be earned at the rate in the Periodic Rates Cost Type.

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### Using Periodic Average Costing

#### Receipt to Invoice Matching

- For acquisition costing, you can match invoices to receipts.
- Invoice at different price to the price on the purchase order. Some companies invoice at the price on the day of dispatch and not the date of the purchase order.

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### Using Periodic Average Costing

#### Receipt to Invoice Matching

- In many areas, there is sufficient currency fluctuation to not make the purchase order price on a specific date the best measure of the cost of the purchase. So, many companies use the exchange rate on the day of receipt as the measurement of cost.
- Using the acquisition cost processor delivered in periodic average costing, you use the invoice price where it has been matched. Otherwise the purchase order price at the rate on the date of receipt is used.

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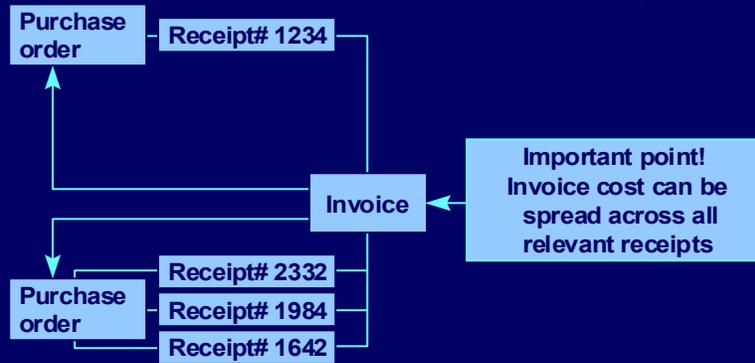
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## Using Periodic Average Costing

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### Using Periodic Average Costing

- Periodic average costing uses landed costs or acquisition costs by associating each freight or other invoiced cost with all relevant receipts.



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### Using Periodic Average Costing

**PAC considers all cost-relevant transactions for items:**

- **Materials receipts**
- **Returns to suppliers**
- **Materials issues**
- **RMA's**
- **Interorganization transfers**
- **Issues to WIP**
- **Returns to WIP**
- **WIP completions**
- **WIP labor or resource**
- **Assembly cost**
- **Interorganization transfers**
- **Periodic Cost Update**

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### Using Periodic Average Costing

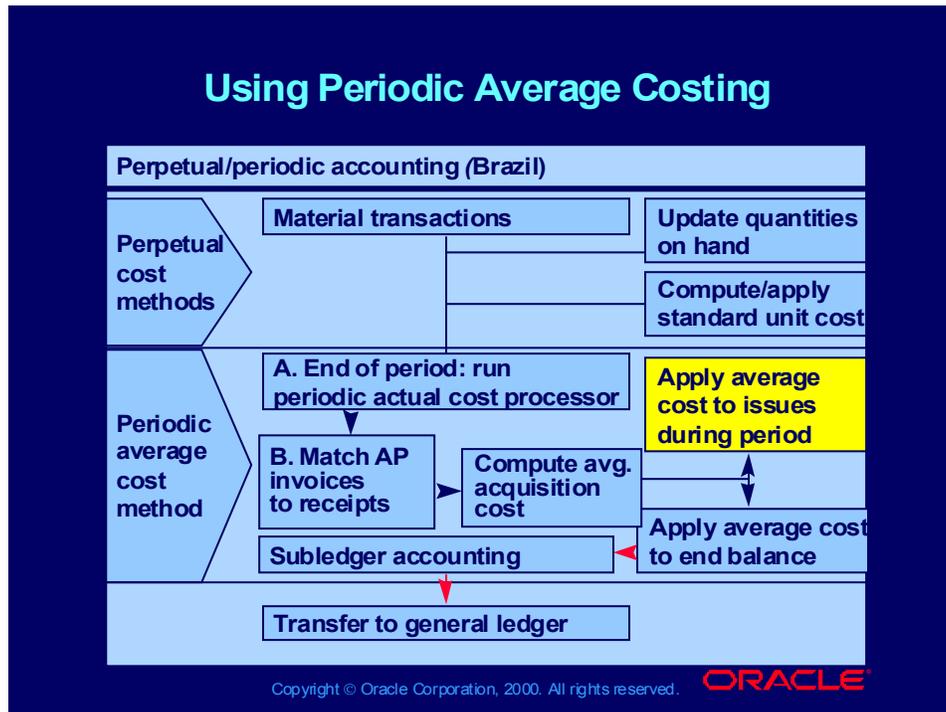
**The cost processor:**

- Includes all relevant transactions for purchased items and for manufactured items.
- Calculates an average based upon transactions that carry cost (such as receipts, work in process completions, and work-in-process labor or resource transactions).
- Applies the average cost to transactions that derive their cost from the established average cost.

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# Using Periodic Average Costing



### Using Periodic Average Costing

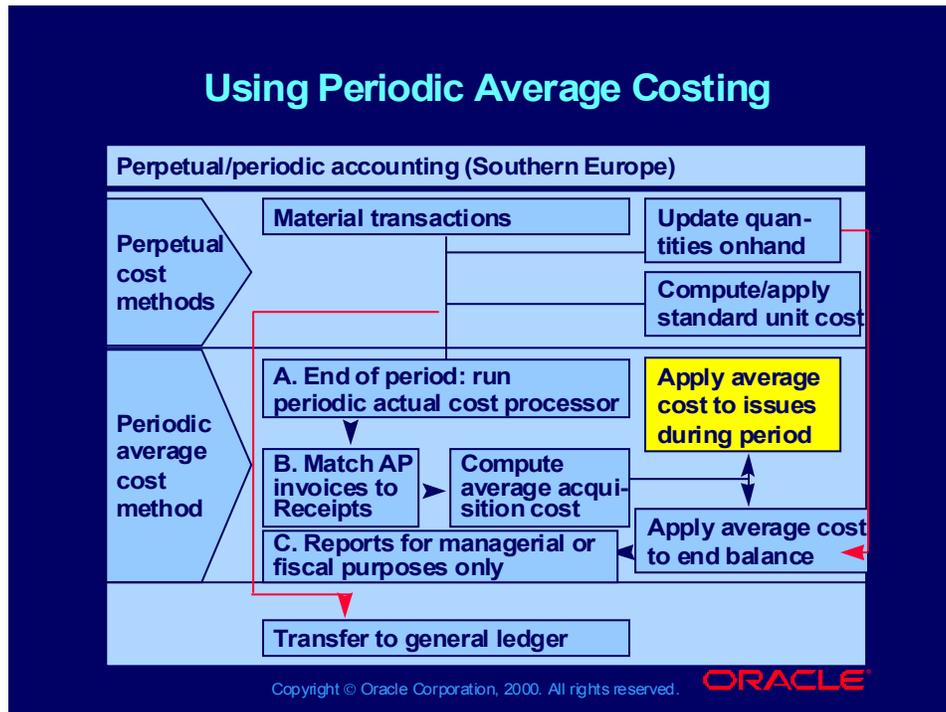
#### Business Process for Using Periodic Costing

- You can send periodic costs only to the general ledger, except for Southern Europe. Brazil uses this approach.
- To use periodic average costing, you transact as usual, according to the method that you have established for perpetual accounting. As you perform average costing, the quantities onhand are updated and the average cost is maintained in the system.
- Since you cannot turn off perpetual costing, you should turn off transfer to general ledger, and simply use periodic costing distributions. Only one cost type should be transferred to the general ledger.

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# Using Periodic Average Costing



## Using Periodic Average Costing

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### Using Periodic Average Costing

#### Business Process for Using Periodic Costing

- You can send perpetual costs only to the general ledger, transferring perpetual costs distributions only to the general ledger. Periodic costs may be used to update standard costs.
- Alternatively, you can continue to use perpetual costing distributions. If you do, you can run reports on periodic costing, and you can determine adjusting entries required for financial statements that you report to fiscal authorities. Southern Europe uses this approach.

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#### Note

This is also relevant for those companies who want to use periodic costing as a supplementary management tool; they want only to examine their inventory activity using this method, but not for any other purpose. They may want to do this if they are in an inflationary environment, or if they commonly experience negative inventory situations.

## Using Periodic Average Costing

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### Using Periodic Average Costing

- You can have many combinations of periodic costing.
- Only one cost type should be transferred to the general ledger.

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## Review Question

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### Review Question

**Periodic average costing uses landed costs or acquisition costs by associating each freight or other invoiced cost with all relevant receipts.**

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

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## Review Question

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### Review Question

**Periodic average costing uses landed costs or acquisition costs by associating each freight or other invoiced cost with all relevant receipts.**

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

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# Agenda

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## Agenda

- Overview of Periodic Average Costing
- Business Value of Periodic Average Costing
- Using Periodic Average Costing
- **Processing Costs**
- Reporting
- Setting Up and Implementing Periodic Average Costing

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### Processing Costs for Periodic Costing

#### Periodic Cost Processing

You follow these steps to perform periodic cost processing:

- Run the acquisition cost processor
- Run the periodic cost processor
- Run the distributions processor if necessary
- Perform any other required activities such as cost copy, item cost inquiry, and periodic cost update
- Run reports and rerun processing, if required
- Close the period and transfer to general ledger, if desired

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing**

### Processing Costs for Periodic Costing

- **PAC cost processing has distinctive processing phases. Based on the result of the process in each phase, if it is successful, the processor completes with a success status stamp; otherwise, it will roll back with a failure status. You can reduce reprocessing time by rerunning only a failed phase. The available phases are classified as follows :**
  - **Phase 1: Compute acquisition cost**
  - **Phase 2: Current period beginning balance setup**
  - **Phase 3: Low-level computation**
  - **Phase 4: WP job information build**
  - **Phase 5: Cost processing for group 1 and 2**

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## Transaction Costs and Allocations

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### Transaction Costs and Allocations

- Costs sharing and item sequencing
- Period-end valuation of inventory
- Re-runnable cost processing



Item  
costs



Period-end



Valuation



Analysis

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### Transaction Costs and Allocations

#### Costs Sharing and Item Sequencing

- **Costs are shared across inventory organizations within the organizational cost group even if the mandatory costing methods are different. Sequencing is automatically determined by the low level code of each item across organizations within a organizational cost group.**

#### Period-end Valuation of Inventory

- **With periodic actual costing, you are able to calculate actual costs for all your inventory items at the end of any period.**

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### Transaction Costs and Allocations

#### Re-runnable Cost Processing

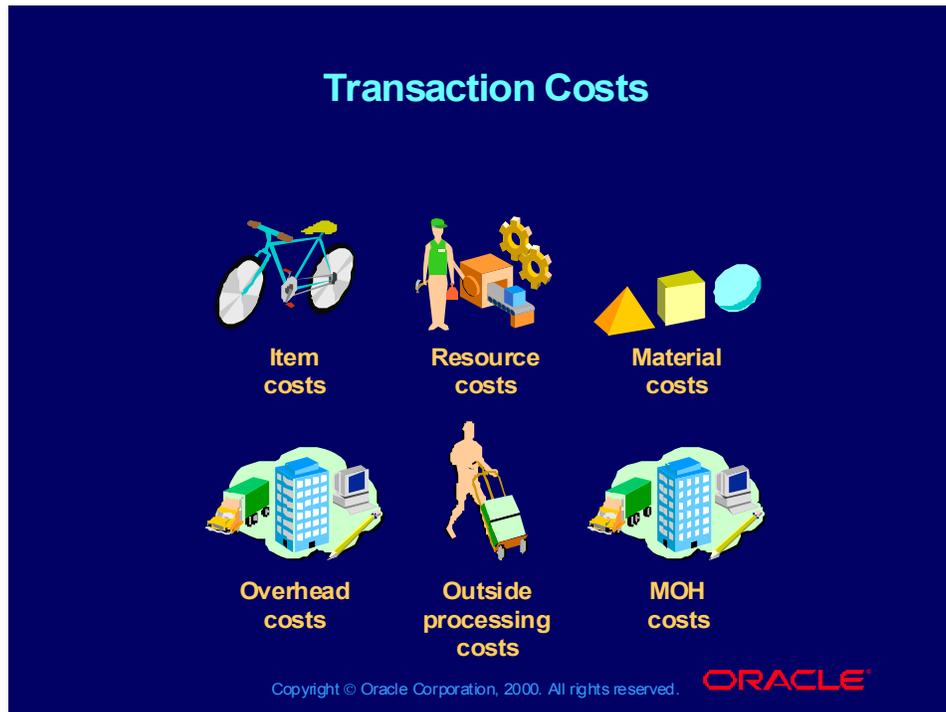
- The periodic cost processor costs all transactions that have occurred during the current period. You run it at any time during the period or before closing the period.

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# Transaction Costs

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### Transaction Costs

#### Cost-Owned Transactions

- **Cost-owned transactions are the transactions that carry their own costs, adding or subtracting costs to inventory and affecting the new periodic cost of the period. Examples include:**
- **Purchase order receipt transactions**
- **Work-in-process (WIP) completion transactions**
- **Work-in-process labor/resource transactions**
- **Returns to supplier transactions.**

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### Transaction Costs

#### Cost-Derived Transactions

- Cost-derived transactions are the transactions that are transacted at the newly computed periodic cost of the period, including:
- Material issues (to stores and to WIP)
- Returns to WIP
- Returns from customer
- Miscellaneous transactions without a user-entered value

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### Transaction Costs

#### Transaction Cost Calculation Sequencing

- For each item, transactions are handled in a sequence that determines the correct periodic cost. First the cost-owned transactions are processed. Next the periodic cost of the period is computed. Then the cost-derived transactions are processed.
- The process is repeated for every low-level code, starting with the lowest.

#### Return to Vendor Costs

- Returns to vendor are costed at the acquisition cost of the receipt.

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### Transaction Costs

#### Raw Material Costs

- The system calculates the periodic cost for purchased materials. For each item, the transactions across organizations are cost-owned transactions to the receiving organizational cost group.

#### Outside Processing Costs

- Similar to receipts, the outside processing cost is provided by accounts payable. It is charged to the job at the invoice cost and other associated acquisition costs that accounts payable can match to the outside processing receipt.

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### Transaction Costs

#### Inventory Adjustments

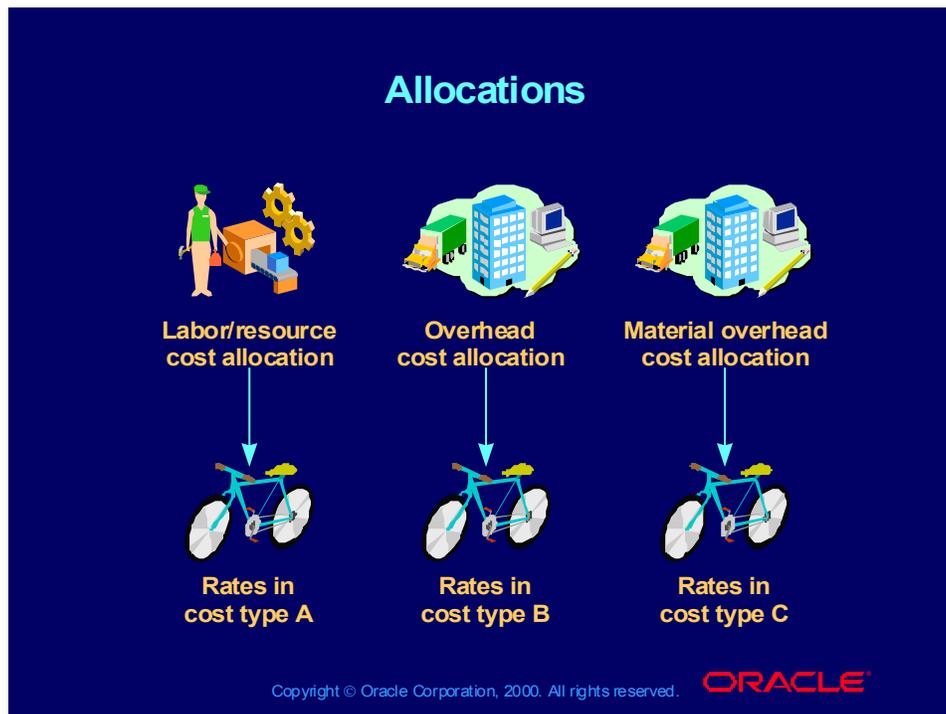
- **Physical inventory and cycle count adjustments are costed using the periodic cost for the item; adjustments do not change the cost of the item**

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# Allocations

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### Allocations

#### Cost Allocations

- Labor or resources, overhead and material overhead allocations follow the same algorithm used in perpetual average costing. The difference is that in periodic costing, you assign specific cost types to hold the rates information for labor or resources, overhead, and material overhead.
- In periodic costing, you assign a specific cost type to hold the following:
  - Labor or resources rates information
  - Overhead rates information
  - Material overhead rates information

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### Allocations

#### Cost Allocations (continued)

- The periodic rates cost type could be the same as the average rates cost type.
- There could be a different periodic rates cost type for each periodic valuation cost type.
- You can change the periodic rates cost type for each period.

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### Allocations

#### Cost Allocations (continued)

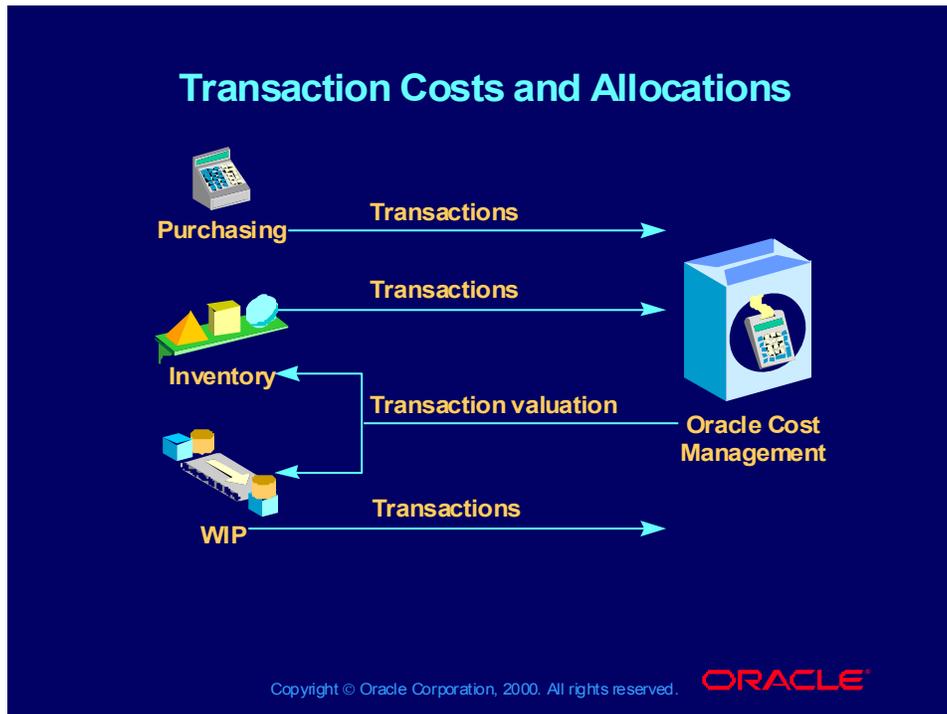
- You set the rates in their respective cost type once for every period, before running the periodic cost processor.
- Note: It is unusual to use material overheads with periodic costing, because you have included fully landed cost in your acquisition cost. However, you could have a material overhead for the cost of receiving.

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# Transaction Costs and Allocations

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### Transaction Costs and Allocations

#### WIP Final Completion Criteria

- All costs allocated to a work order are relieved and applied to the completion/scrap transactions when one or more of the following occurs:
- The work order is closed.
- The sum of the quantity completed (quantity\_completed field from wip\_discrete\_job table plus quantity\_scrapped is equal to or greater than start\_quantity).

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### Transaction Costs and Allocations

#### Partial Completion Valuation

- When the algorithm handles completion transactions and the WIP final completion criteria cannot be met, this is known as a *partial completion*.
- In this case, the costs will be relieved based on allocation of actual cost by element, by operation for resources and overheads. The quantities for material are taken from the job BOM using the derived cost for lower-level assemblies and components.

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### Transaction Costs and Allocations

#### Finished Goods and Subassembly Costs

- All uncosted transactions are costed by the new periodic costs, following procedures similar to raw material.

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### Transaction Costs and Allocations

#### Periodic Cost Calculation of Finished Goods and Subassemblies

- After valuing completions and all returns to WIP for all work orders for each manufactured item in the period, the average cost for the item can be calculated.
- The periodic cost calculation for manufactured items follows the same logic as for raw material. Transactions that carry their own cost make up the average together with the beginning inventory for the item.

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### Transaction Costs and Allocations

#### Periodic Cost Calculation of Finished Goods and Subassemblies (continued)

Two steps are required:

1. Determine the quantity and amount to be added to inventory.
  - Quantity to be added = SUM quantity of the complete transactions + SUM returns from customers (costed); returns to WIP (costed)
  - Cost to be added = SUM complete transactions cost + SUM returns from customer transaction cost; SUM returns to WIP transactions cost
2. Update the `wip_cst_pac_balances` table and calculate the average cost.

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# Agenda

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## Agenda

- Overview of Periodic Average Costing
- Business Value of Periodic Average Costing
- Using Periodic Average Costing
- Processing Costs
- **Reporting**
- Setting Up and Implementing Periodic Average Costing

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## Reporting

- Acquisition cost reports
- Inventory valuation reports
  - Onhand inventory
  - Work in process inventory



Acquisition cost



Production



Inventory



Reports

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### Reporting

#### Reports

- In addition to inventory valuation reports, you can run reports to see the detailed cost of receipts and identify receipts that use the purchase order price.
- You have the following reports:
  - Periodic Acquisition Cost Report
  - Periodic Inventory Valuation Report
  - Periodic WIP Value Report



Periodic average  
costing reports

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## Periodic Acquisition Cost Report

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### Periodic Acquisition Cost Report

Use The Periodic Acquisition Cost Report to analyze the acquisition cost for each receive transaction. This report shows you purchase order prices for receipts that have not been matched to invoices.

- You can run this report to see which receipts have not been matched.
- You can rerun the report after matching receipts to invoices and rerunning the Acquisition Cost Report.

Use the Request Periodic Cost Report window to:

- Select Periodic Acquisition Cost Report as the report name.

(N) Cost > Periodic Costing > Reports

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports >  
Periodic Acquisition Cost Report**

#### Scenario

The likely scenario is that some receipts will invariably not be matched, because the invoice may be received too late. However, because you perform the acquisition costing after month-end close, you should have time to update most of the unmatched receipts .

### Valuation Reports

Inventory valuation reports by period are provided for on-hand inventory and for WIP inventory.

- Use the **Periodic Inventory Valuation Report** to value inventory at the end of a period. You run this report for a particular legal entity, cost group, period, cost type, and category set combination.
- Use the **Periodic WIP Value Report** to view the value of jobs in an organization cost group at the end of a period.

Use the **Request Periodic Cost Report** window to:

- Select the report name.  
(N) Cost > Periodic Costing > Reports

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports >  
Periodic Inventory Valuation Report**

**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports >  
Periodic WIP Value Report**

## Submitting Reports

---

### Submitting Reports

Use the Request Periodic Cost Report window to:

- Select the report name from the list of periodic costing reports. Report names include the:
  - Periodic Acquisition Cost Report
  - Periodic Inventory Valuation Report
  - Periodic WIP Value Report

(N) Cost > Periodic Costing > Reports

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports**

# Agenda

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## Agenda

- Overview of Periodic Average Costing
- Business Value of Periodic Average Costing
- Using Periodic Average Costing
- Processing Costs
- Reporting
- **Setting Up and Implementing Periodic Average Costing**

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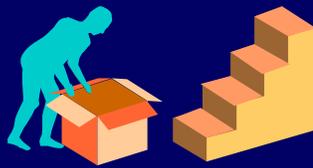
## Implementation and Setup Considerations

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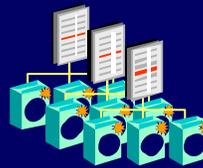
### Implementation and Setup Considerations

You can setup periodic costing flexibly, using:

- An accounting calendar
- Organization cost groups



Processes  
and organized  
setup steps



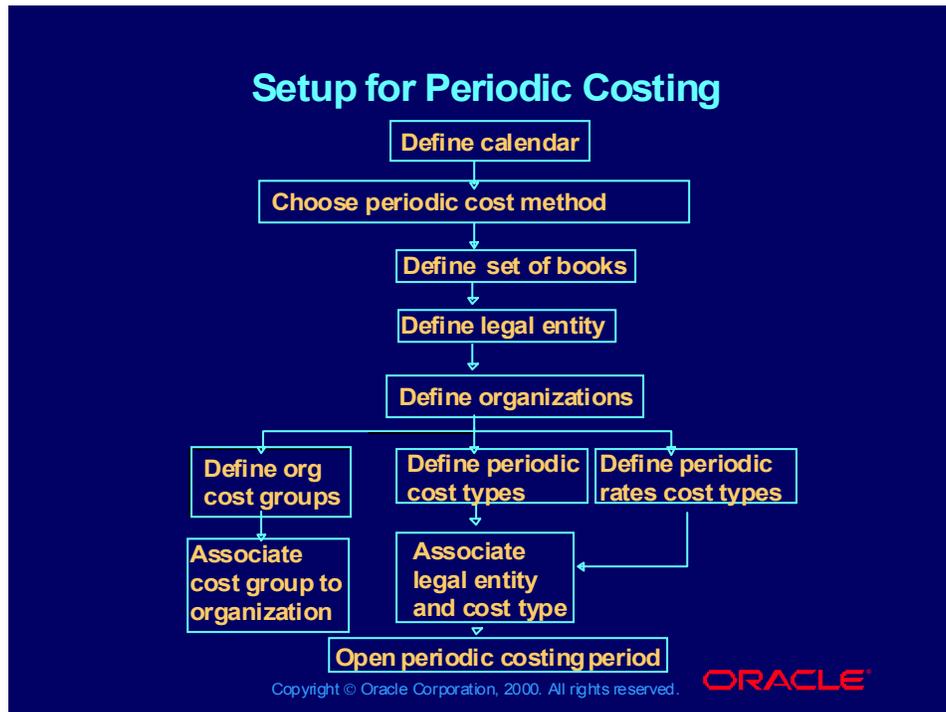
Set up  
applications

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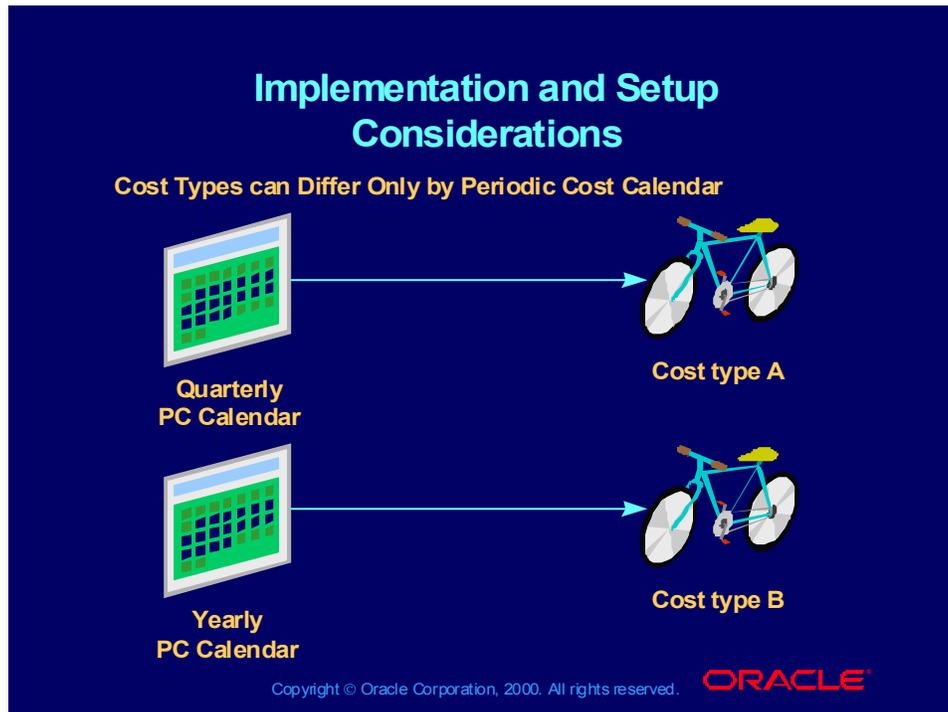
## Setup for Periodic Costing

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# Implementation and Setup Considerations

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### Implementation and Setup Considerations

#### Defining the Periodic Cost Calendar

- Periodic costing has its own calendar so that you can specify the frequency, based on the period (month, fiscal year) for the cost processor to examine costs.
- You set up the periodic cost calendar with periods that have the same beginning and ending dates as the perpetual periods.
- The periodic cost periods can be longer but not shorter than the perpetual periods.
- You use the same calendar for all groups within the legal entity for a cost type.

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### Implementation and Setup Considerations

#### Defining the Periodic Cost Calendar (continued)

- You need a different cost type for a different calendar.
- In periodic costing, the current period is the open period in the Fiscal Cost Group/Cost Type Calendar. Only one period can be open.

#### Use the Periodic Accounting Periods window to:

- Establish and control an accounting calendar for periodic average costing

(N) Cost > Periodic Costing > Periodic Close Cycle > Periodic Accounting Periods

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing > Closing Periodic Cycle**

### Implementation and Setup Considerations

#### Choosing a Periodic Cost Method

- Implicitly choose a perpetual cost method when selecting a cost type when you run the periodic cost processor.

#### Associating to a Set of Books

- If you enable distributions for a Legal Entity/Cost Type, associate the same set of books as you used in the perpetual cost type.
- If you do not enable distributions for a Legal Entity/Cost Type, you may use a different set of books but the chart of accounts and currency must be the same as used in the perpetual cost type.

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

---

### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

In periodic costing, the item cost is held at the cost type/organization cost group/period combination.

There are six setup steps specific to periodic costing:

1. Defining the organization cost group.
2. Creating cost types and periodic rates cost types for use in periodic costing.
3. Associating the organization with an organization cost group.
4. Associating the cost type with the legal entity.
5. Setting accounting options (required if using periodic cost distributions).
6. Assigning periodic accounts (required if using periodic cost distributions).

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

- The end result, once all these associations are set up, is a many-to-many relationship between organization cost groups and cost types through the legal entity.

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# Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Assigning Inventory Organizations to Groups

- You can define organizational cost groups of the type organizational for the groups of inventory organizations that will share costs.
- You can associate the organizational cost groups to the legal entity.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

You assign each inventory organization to one and only one organizational cost group, ensuring that:

- All organizations have the same master item organization.
- The primary unit of measure control status is set at the item master level.
- The item category set/category is set at the item master level.
- All organizations are in the same legal entity.
- All inventory organizations are assigned to a fiscal cost group, or they will not be processed. Once periodic cost processing is run, it is difficult or impossible to assign the orphan organization.

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#### Note

You can assign organizations but you cannot change the assignment once the process is started.

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 1: Defining Organization Cost Group

- Each organization cost group must be associated with a legal entity.

#### Use the Organization Cost Groups window to:

- Define and associate the cost group with a legal entity and item master organization.

(N) Cost > Periodic Costing > Setup > Organization Cost Group

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 1: Defining Organization Cost Group**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

---

### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 2: Creating Cost Types and Periodic Rates Cost Types

- You need to create cost types and periodic rates cost types in the main setup window for cost types.
- Cost types for periodic costing must be multi-org and not updatable.
- Periodic rates cost types are not restricted. Any user defined cost type can be a periodic rates cost type if it is so designated in the Cost Type Associations tab of the Organization Cost Group/Cost Type Associations window.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Organization Cost Group/Cost Type Associations window to:

- Associate multi-org enabled cost types to the legal entity.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Cost Type Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 2: Creating Cost Types and Periodic Rates Cost  
Types**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

---

### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 3: Associating Organization with an Organization Cost Group

- Once an inventory organization is associated with an Organization Cost Group and transactions have been processed, that association is permanent and exclusive.
- An Organization Cost Group can be associated with one or more inventory organizations.
- Those inventory organizations which can be associated with an organization cost group meet qualifications that the organization already belongs to the legal entity and that it is not associated with any other organization cost group.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Organization Cost Group/Cost Type Associations window to:

- Assign inventory organizations to the organization cost group.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Organization Cost Group Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 3: Associating Organization with an  
Organization Cost Group**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 4: Associating Cost Type with Legal Entity

Use the Organization Cost Group/Cost Type Associations window to:

- To associate the cost type with the legal entity and to select a cost method.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Organization Cost Group Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 4: Associating Cost Type with Legal Entity**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 5: Setting Accounting Options (Optional)

- Use the **Cost Type Associations Accounting Options** window to set options pertaining to the creation of accounting entries (cost distributions) and posting (transferring) to General Ledger.
- If you do not **Create Accounting Entries**, you cannot post to the **General Ledger** from **Periodic Costing**, and therefore **General Ledger** options are unavailable to you.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(B) Accounting Options

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 5: Setting Accounting Options (Optional)**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 6: Assigning Periodic Accounts

- You perform this step if you are using the Periodic Cost Distributions Processor.
- Periodic cost accounts are used during periodic cost distributions to create accounting entries. You can only specify these accounts if distribution is enabled for the legal entity cost type.
  - Cost group category level accounts used to perform periodic inventory accounting based on categories defined in the master item organization for the cost group.
  - Cost group level accounts used independently of the category to define variance and inventory offset accounts.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Periodic Account Assignments window to:

- Assign periodic accounts:

(N) Cost > Periodic Costing > Setup >  
Periodic Account Assignments

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 6: Assigning Periodic Accounts**

## Update Periodic Costs Window

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### Update Periodic Costs Window

Use the Update Periodic Costs window to update:

- Periodic costs for any items that have been updated using the average cost update
- Invoice price variances (IPVs) that have been updated by the average cost update
- Periodic costs for a variety of reasons

(N) Cost > Periodic Costing > Update Periodic Costs

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing > Updating Periodic Costs**

## Review Question

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### Review Question

**Once an inventory organization is associated with an Organization Cost Group and transactions have been processed, that association is permanent and exclusive.**

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

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## Review Question

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### Review Question

Once an inventory organization is associated with an Organization Cost Group and transactions have been processed, that association is permanent and exclusive.

1. True
2. False

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### Summary

In this lesson, you should have learned how to:

- Describe periodic average costing
- Identify the business value of periodic average costing
- Set up the periodic average costing function

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## Practice 1 Overview

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### Practice 1 Overview

**This practice covers the following topics:**

- **Explaining periodic average costing**
- **Answering true or false to statements about periodic average costing**
- **Describing a business scenario for periodic average costing**

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### Practice 1-1

**Explain why periodic average costing may provide a more accurate measure of average costs than perpetual average costing.**

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### Practice 1-1: Solution

1. **Periodic costing incorporates actual invoiced costs, whereas perpetual average costing utilizes the purchase order price.**
  - **This is a problem when:**
    - **The purchase order is only an estimate of the invoice cost.**
    - **The supplier uses a different currency and the currency rate changes between the purchase order and the invoice date.**
    - **Separately billed costs such as freight or miscellaneous charges associated with the purchase should be included in its cost.**

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### Practice 1-1: Solution

2. Because periodic costs are not averaged on a transaction-by-transaction basis, only one average cost is calculated and applied to transactions for a given period, smoothing out material and cost-of-goods-sold valuations.
3. Processing all transactions in a “batch” may allow you to avoid distortions caused by transaction sequencing. For example, negative quantities experienced during the month and resolved during month-end close will not affect your recorded periodic costs.

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### Practice 1-2

#### True or False

1. You must choose either a periodic costing method or a perpetual costing method, but not both. \_\_\_\_\_
2. You must choose a perpetual method. \_\_\_\_\_
3. You may choose a periodic costing method in addition to a perpetual costing method. \_\_\_\_\_
4. Periodic costing is of particular interest to customers with a fiscal inventory reporting requirement because it is invoice-based and also allows you to include additional invoiced charges in the cost of the item. \_\_\_\_\_

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### Practice 1-2

#### True or False

5. Periodic costing is used by customers who want invoice-price-based valuation of their inventory to set standards or to update their perpetual costs.  
\_\_\_\_\_
6. Using periodic average costing, you can establish costs on a per-item and per- period basis. The derived cost and final balance are used as the beginning balance of the next period. \_\_\_\_\_
7. Invoice-based costing means that a receipt is costed based on the net quantity received and the periodic costing processor uses the invoice price to cost receipts. \_\_\_\_\_

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### Practice 1-2

#### True or False

8. If no invoice is matched to the receipt at the time the periodic costing processor is run, it uses the purchase requisition price. You can see receipts that use the purchase requisition price and can make corrections. \_\_\_\_\_
9. Full absorption costing means that you can create rates that fully absorb resource and overhead costs and the periodic costing processor uses these rates to cost inventory and work-in-process transactions. \_\_\_\_\_

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### Practice 1-2

#### True or False

10. You can share periodic costs across a group of inventory organizations within a legal entity. The perpetual cost method for the individual organizations in the group can be a mixture of standard and average cost. \_\_\_\_\_

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### Practice 1-2: Solution

#### True or False

1. You must choose either a periodic costing method or a perpetual costing method, but not both. False
2. You must choose a perpetual method. True
3. You may choose a periodic costing method in addition to a perpetual costing method. True
4. Periodic costing is of particular interest to customers with a fiscal inventory reporting requirement because it is invoice-based and also allows you to include additional invoiced charges in the cost of the item. True

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### Practice 1-2: Solution

#### True or False

5. Periodic costing is used by customers who want invoice-price-based valuation of their inventory to set standards or to update their perpetual costs.  
True
6. Using periodic average costing, you can establish costs on a per-item and per- period basis. The derived cost and final balance are used as the beginning balance of the next period. True
7. Invoice-based costing means that a receipt is costed based on the net quantity received and the periodic costing processor uses the invoice price to cost receipts. True

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### Practice 1-2: Solution

#### True or False

8. If no invoice is matched to the receipt at the time the periodic costing processor is run, it uses the purchase requisition price. You can see receipts that use the purchase requisition price and can make corrections. True
9. Full absorption costing means that you can create rates that fully absorb resource and overhead costs and the periodic costing processor uses these rates to cost inventory and work-in-process transactions. True

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### Practice 1-2: Solution

#### True or False

10. You can share periodic costs across a group of inventory organizations within a legal entity. The perpetual cost method for the individual organizations in the group can be a mixture of standard and average cost. True

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### Practice 1-3

#### Business Scenario for Periodic Average Costing

- In this business scenario, the system integrates freight costs to the actual cost of a purchased component.
1. On June 2, you buy 100 hard drives from a supplier at \$50 each.
  2. On June 10, you receive the 100 hard drives.
  3. On June 20, your supplier sends you an invoice for \$5000.
  4. At the end of June, you run the periodic average cost processor and find that your item has an actual cost of \$50.

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### Practice 1-3

#### Business Scenario for Periodic Average Costing

5. In July, you receive an invoice for \$500 to cover the cost of freight.

Because you receive these hard drives regularly, you have negotiated transport with a transporter, and not the supplier of the item.

6. In July, you match the invoice from the transporter to the receipt on June 10 or to a number of receipts. You run the invoice-to-receipt-based matching process and allocate the freight costs to different receipts. Then you run the periodic average cost processor in order to recalculate the cost of the item, which is now \$55.

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# Periodic Incremental LIFO Costing

## Chapter 2

## R11i Periodic Costing

### Periodic Incremental LIFO Costing

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## Objectives

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### Objectives

After completing this lesson, you should be able to:

- Describe periodic incremental LIFO (last-in-first-out) costing
- Describe the business value of periodic incremental LIFO costing
- Set up the periodic incremental LIFO costing method

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# Agenda

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## Agenda

- **Overview of Periodic Incremental LIFO Costing**
- **Business Value of Periodic Incremental LIFO Costing**
- **Using Periodic Incremental LIFO Costing**
- **Inquiring and Reporting**
- **Setting Up and Implementing Periodic Incremental LIFO Costing**

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### Overview

**Periodic incremental LIFO (last-in-first-out) costing is based on:**

- Incremental inventory quantity
- Weighted average costs
- Market value

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### Overview

#### Periodic Costing

- Is invoice-based.
- Allows you to include additional invoiced charges in the cost of the item.

Periodic costing is of particular interest to customers:

- In Italy with fiscal inventory reporting requirements and government requirements.
- Who want invoice price-based valuation of their inventory to set standards or to update their perpetual costs.

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### Overview

#### Periodic Incremental LIFO Costing

- Valuation is based on an algorithm that considers the incremental inventory quantity from one period to another.
- End-quantity balance is valued by applying the weighted average cost to the purchasing and production costs incurred during the period.
- If, while comparing a calculated LIFO item cost to published market values, you find a lower market value, you can enter that market value with a required justification. The market value is then used when the subsequent fiscal LIFO valuation report is run.

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## Review Question

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### Review Question

**Periodic incremental LIFO costing always incorporates actual invoiced purchasing costs.**

1. True
2. False

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## Review Question

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### Review Question

**Periodic incremental LIFO costing always incorporates actual invoiced purchasing costs.**

1. True
2. False

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# Agenda

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## Agenda

- Overview of Periodic Incremental LIFO Costing
- **Business Value of Periodic Incremental LIFO Costing**
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## Business Value of Periodic Incremental LIFO Costing

### **Business Value of Periodic Incremental LIFO Costing**

#### **Inventory Valuation**

- **You have a flexible, integrated periodic valuation method that conforms to important business practices and statutory valuation requirements.**

#### **Fiscal Reporting**

- **You have a costing structure that meets fiscal requirements with the flexibility to adapt to changes in regulations.**

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## Business Value of Periodic Incremental LIFO Costing

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### Business Value of Periodic Incremental LIFO Costing

#### Choice in Fiscal Costing Method

- You can calculate inventory costs according to periodic average and periodic incremental LIFO, allowing favorable choice of inventory cost.

#### Market-based Costing

- You can enter market costs for inventory items, capturing the value of inventory assets at current replacement cost.

#### Inflation Correction

- You can match most recent costs with current revenues, eliminating profits in financial statements caused by inflation.

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## Business Value of Periodic Incremental LIFO Costing

### **Business Value of Periodic Incremental LIFO Costing**

#### **Lower of Cost or Market**

- You can value inventories at cost or market value, whichever is lower, for statutory or managerial purposes.

#### **Managerial Tool**

- You can use periodic incremental LIFO costing to supplement any other costing method currently in use for managerial reporting.

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## Review Question

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### Review Question

In what country does periodic incremental LIFO costing meet an important fiscal requirement?

1. France
2. Italy
3. Spain
4. Argentina

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## Review Question

---

### Review Question

In what country does periodic incremental LIFO costing meet an important fiscal requirement?

1. France
2. Italy
3. Spain
4. Argentina

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# Agenda

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## Agenda

- Overview of Periodic Incremental LIFO Costing
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- Setting Up and Implementing Periodic Incremental LIFO Costing

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### Periodic Incremental LIFO

- Uses acquisition/landed cost
- Considers all cost relevant transactions
- Has an Item Cost Inquiry window
- Generates an Incremental LIFO Valuation Report

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### Periodic Incremental LIFO

#### How Periodic Incremental LIFO Costing Is Used

- **Periodic incremental LIFO is frequently used to value inventories for both fiscal and managerial reporting purposes.**
- **Assumption**
  - **Matching current costs with current revenues yields the most appropriate picture of profitability**

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### Periodic Incremental LIFO

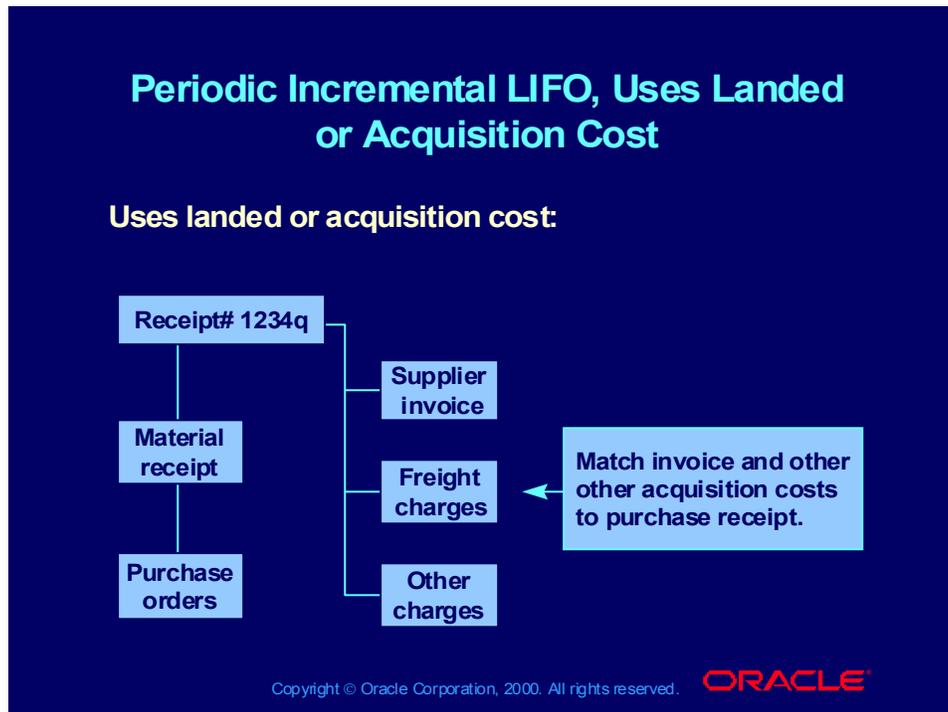
- In Italy, you can choose which costing method you use to support the financial statements you submit to the government.
  - Because prices in Italy tend to rise over time, the incremental LIFO approach yields income favorable for taxation.
- In other cases, LIFO is appropriate because the income statement shows cost of goods sold (COGS) approaching the current replacement cost of inventory, and that may be preferable in specific countries and in specific industries.

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# Periodic Incremental LIFO, Uses Landed or Acquisition Cost

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## Periodic Incremental LIFO, Uses Landed or Acquisition Cost

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### Periodic Incremental LIFO, Uses Landed or Acquisition Cost

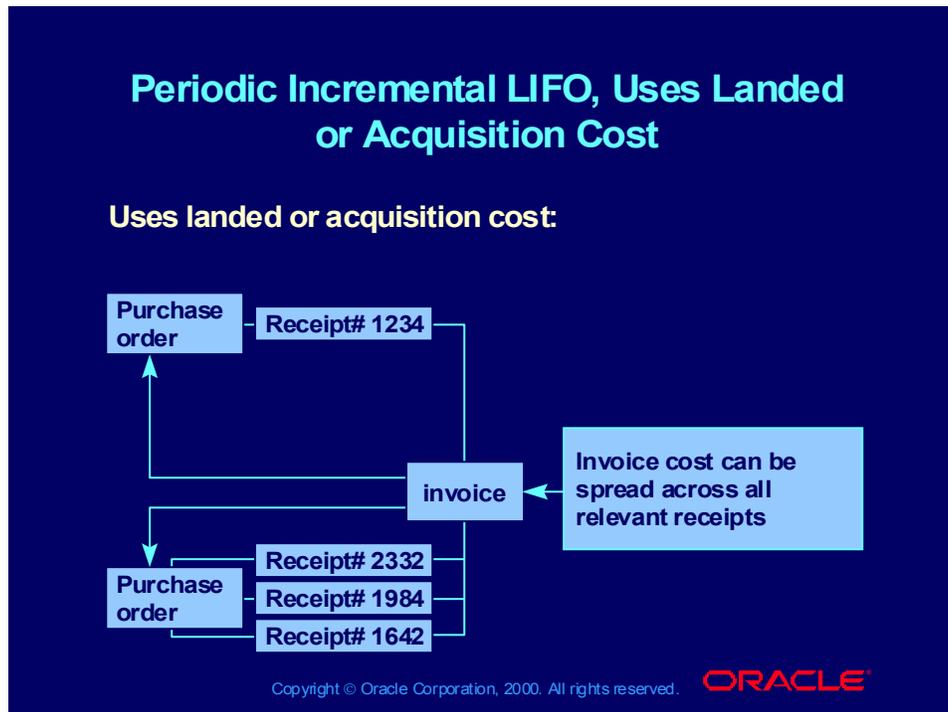
- By using the “Purchase order receipt to payables invoice match” function, incremental LIFO uses landed acquisition cost.
  - You can match multiple supplier invoices to a given material receipt, deriving the actual cost.
  - When invoices are not available, material purchase order values (with exchange rate at time of receipt) are used.
- You benefit from the use of receipt-based matching so that costs reflect the actual economic effect of acquiring inventory.

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# Periodic Incremental LIFO, Uses Landed or Acquisition Cost

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## Periodic Incremental LIFO, Uses Landed or Acquisition Cost

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### Periodic Incremental LIFO, Uses Landed or Acquisition Cost

- Incremental LIFO uses landed/acquisition cost by associating each freight cost or other invoiced cost with all relevant receipts.
- Similarly, you can associate all charges relevant to a purchase to the underlying item in inventory, including freight, duties, insurance, and other costs.

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### Periodic Incremental LIFO

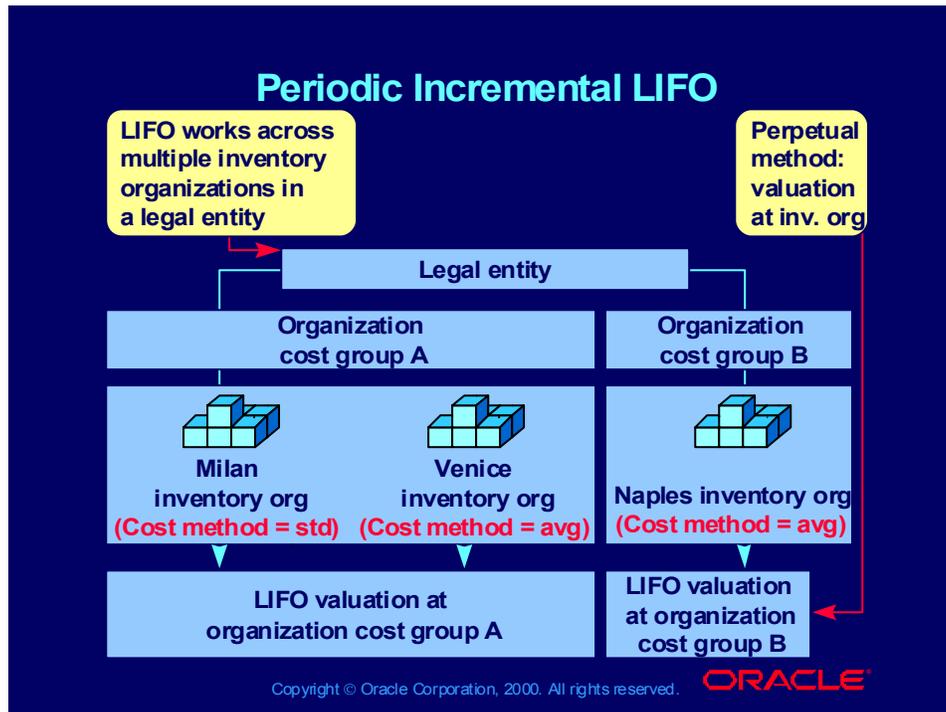
#### Periodic incremental LIFO

- Looks at the same transactions for creating and applying average costs as periodic average costing but does so in a slightly different manner.
- Pays attention only to the activity in the current period and does not include opening balances.
- Considers all cost relevant transactions for items:
  - Materials receipts
  - Returns to suppliers
  - Materials issues
  - RMAs
  - Interorganization transfers
  - Issues to WIP
  - Returns to WIP
  - WIP completions
  - WIP labor/resource
  - Assembly cost

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# Periodic Incremental LIFO



### Periodic Incremental LIFO

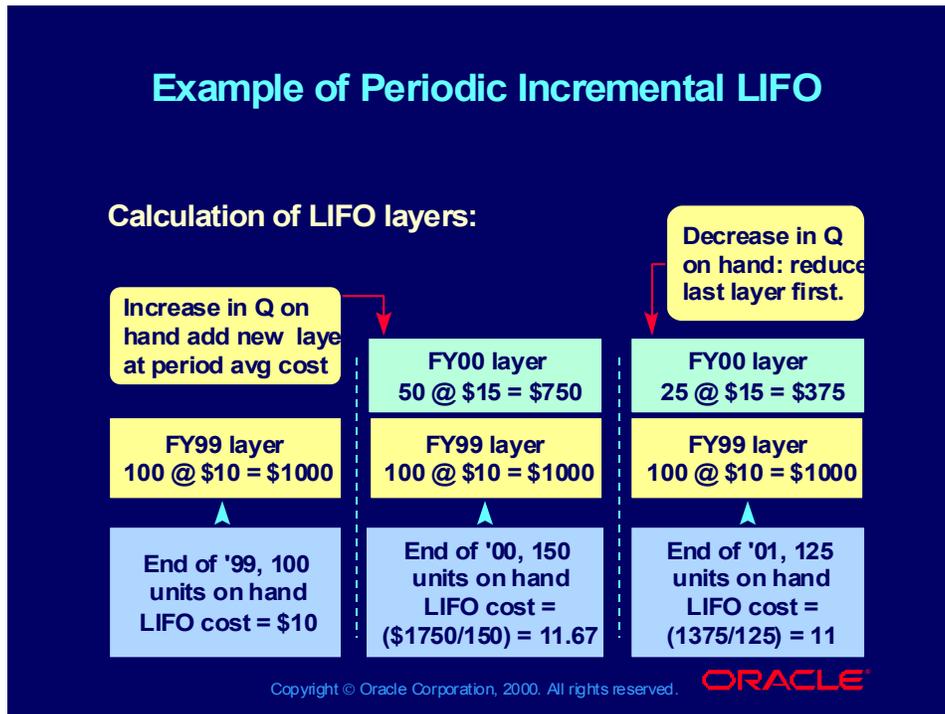
#### Organizational Hierarchy

- You have the same organizational hierarchy as in periodic average costing. You can have one or many organization cost groups per legal entity.
- ILIFO works across multiple inventory organizations in a legal entity. It can be used as a perpetual method for valuation for the inventory organization.
- The system performs independent unit cost calculations for each organization cost group.
- You generate fiscal accounting entries after all organization cost groups have been valued, reviewed, and finalized.

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# Example of Periodic Incremental LIFO



## Example of Periodic Incremental LIFO

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### Example of Periodic Incremental LIFO

#### Example of How Incremental LIFO Is Used

1. Your first year of business is 1999. At the end of the year, you have 100 units of a particular item in inventory, carrying a LIFO cost of \$10 each.

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## Example of Periodic Incremental LIFO

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### Example of Periodic Incremental LIFO

2. Year 2000 commences, and you conduct transactions as usual. When you perform incremental costing, you determine that your new ending balance is 150 items. The 50 incremental units added during the year are assigned a unit cost based on the periodic average cost of the units purchased during this year only. You do not concern yourself with the previous average, because those transactions took place in prior periods.
- In this case, you carry an average of \$15 each and form a new quantity layer of 50 incremental units at 15 each.
  - Separately, you carry a cost that represents the cumulative average, and this is only used in a later step.

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## Example of Periodic Incremental LIFO

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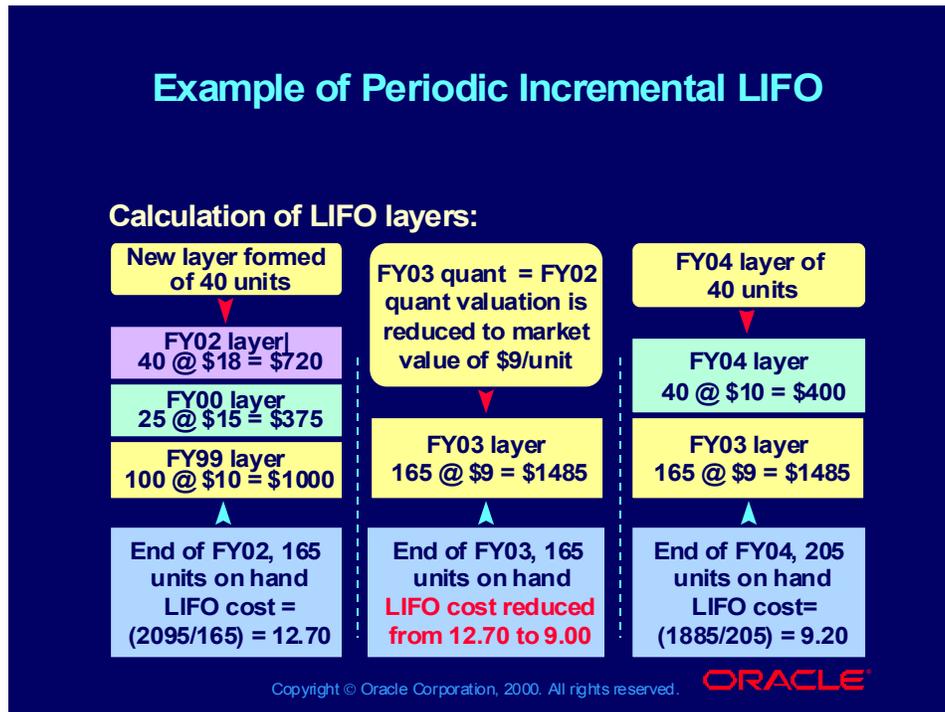
### Example of Periodic Incremental LIFO

3. At the end of 2001, you have 125 units in stock, meaning that you issued more items than you received. This means that those excess issues over receipts are costed at the cost of the last layer added. In this case, 25 are costed at \$15 each.

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## Example of Periodic Incremental LIFO



## Example of Periodic Incremental LIFO

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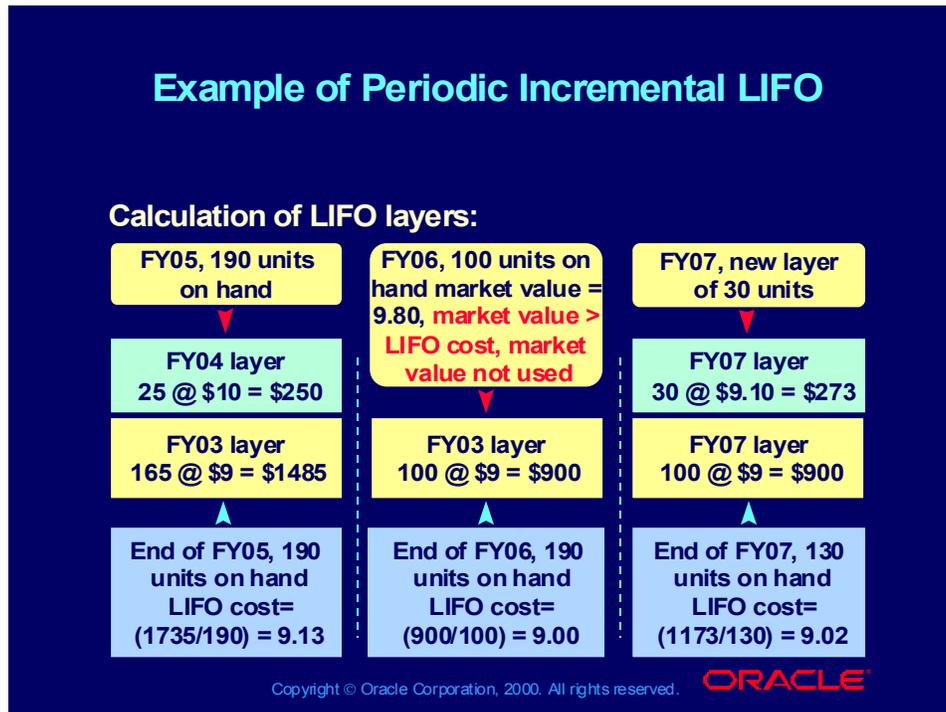
### Example of Periodic Incremental LIFO

4. In the following period, your balance increases to 165; a new cost layer is formed at \$18 each, based upon the average cost of receipts in 2002.
  - Note that once you erode a previous layer, it is gone for good.
5. In the next year, you determine that the item is worth no more than \$9, based on published prices. Because you should value inventory according to lower of cost or market, you revalue the entire stock, irrespective of individual layer values, at \$9.
6. In future periods, new layers will be added to the revalued single layer of the item.

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## Example of Periodic Incremental LIFO



## Example of Periodic Incremental LIFO

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### Example of Periodic Incremental LIFO

7. Finally, the process continues in the future according to the same method. If, in the future, you enter a market value which is in excess of the LIFO cost, the market value will not be used.

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## Example of Periodic Incremental LIFO

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### Example of Periodic Incremental LIFO

#### Summary of ILIFO Costing

- At the end of the costing period (annual or monthly), if the quarter end is greater than the quarter beginning, then a new layer is formed.
- If the quarter end is less than the quarter beginning, then the last existing layer is reduced.
- When material unit costs are reduced to market value, the reduction effects all previous layers.
- If the market value exceeds the LIFO unit cost, the LIFO cost is used.
- The unit costs established for future layers are calculated independently of all prior layers.

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## Review Question

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### Review Question

**Periodic costing uses actual costs only when those costs have been matched to receipts or to purchase orders for a given period. If no matched costs are found, the receipt or purchase order is used.**

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

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## Review Question

---

### Review Question

Periodic costing uses actual costs only when those costs have been matched to receipts or to purchase orders for a given period. If no matched costs are found, the receipt or purchase order is used.

1. True
2. False

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### Periodic Incremental LIFO Procedures

**Procedures:**

- **Calculating inventory value using the incremental LIFO cost method**
- **Reviewing the use of market value**
- **Closing the period and running the fiscal end-of-period report**

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## Calculating Inventory Value Using Periodic Incremental LIFO

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### Calculating Inventory Value Using Periodic Incremental LIFO

1. You select a costing method for calculating inventory item costs by assigning a cost type to a legal entity using the Cost Group/Cost Type Association window.
  - Based on your cost method, the periodic average cost manager calculates inventory cost using either the periodic average cost algorithm or the incremental LIFO algorithm.

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## Calculating Inventory Value Using Periodic Incremental LIFO

---

### Calculating Inventory Value Using Periodic Incremental LIFO

Use the Organization Cost Group/Cost Type Associations window to:

- Associate multi-org enabled cost types to the legal entity.
- Assign inventory organizations to the organization cost group.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Organization Cost Group Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 3: Associating Organization with an  
Organization Cost Group**

## Calculating Inventory Value Using Periodic Incremental LIFO

---

### Calculating Inventory Value Using Periodic Incremental LIFO

2. The system calculates the periodic average cost for the current year or period that you want.
  - To calculate incremental LIFO for a period, you first calculate the weighted average cost for the current period. This calculation differs from the weighted average cost calculated for periodic average costing because it only considers inventory manufactured or purchased in the current period.
  - Incremental LIFO requires the weighted average cost of the current period to be calculated with a beginning balance of 0. This ensures that the current year's layer only includes items manufactured and purchased in the current year.

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## Calculating Inventory Value Using Periodic Incremental LIFO

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### Calculating Inventory Value Using Periodic Incremental LIFO

- The incremental LIFO system uses extensions to the PAC processor:
  - The beginning balance update procedure resets the beginning balance to 0.
  - The cost processor procedure weighted average cost calculates the appropriate weighted average cost and the incremental LIFO unit cost.

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## Calculating Inventory Value Using Periodic Incremental LIFO

---

### Calculating Inventory Value Using Periodic Incremental LIFO

3. The system calculates the incremental LIFO inventory cost.
  - Once the weighted average cost is calculated with 0 beginning balance, that value feeds directly into the LIFO inventory value calculation:
    - $\text{Weighted average cost (for period)} \times \text{final quantity balance (period-end balance)} = \text{inventory value (for period)}$
  - This calculation only accounts for the inventory of the current period. Another calculation is needed to find the total inventory value. This additional calculation must account for inventory manufactured or purchased in prior periods.

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### Reviewing the Use of Market Value

#### How to Review the Use of Market Value

- You enter or edit market value and recalculate inventory value.
1. Run the cost manager, selecting incremental LIFO as the cost method.

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### Reviewing the Use of Market Value

2. **Review the results of the calculated incremental LIFO unit cost and inventory value by invoking a window or printing a report. If the LIFO unit cost of an item for a period is more than the market value, you can optionally enter the market value into the window and recalculate the inventory value based on market value.**
  - **If you use the market value and it is used to generate inventory values used in fiscal reports, the market value has to be a definitive published value and should not be automatically calculated.**
  - **Manually enter or delete the market value of an item, including a required justification for it.**

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### Closing the Period

1. **Manually close the period.**
  - **Decide when to close the period. Close the period using a periodic average cost window. Once a period is closed, the cost processor cannot be rerun.**
  - **Only the current period can be open. Prior periods can never be reopened.**
  - **The current period cannot be closed if the system date is less than the end-date of the period. The final run of the cost manager to calculate inventory value takes place only after the end of the current period.**
  - **You can close the period only after all five phases of the cost processor have run successfully.**

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### Closing the Period

2. Run the fiscal end-of-period report.
  - After period close, you run a fiscal report for inventory items for the current period. This report is a concurrent program from the applications menu.
3. Transfer cost information to the general ledger.
  - Run the fiscal end-of-period report.

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## Review Question

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### Review Question

Using periodic incremental LIFO, you can enter and store a market price at any time.

1. True
2. False

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## Review Question

---

### Review Question

Using periodic incremental LIFO, you can enter and store a market price at any time.

1. True
2. False

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## Review Question

---

### Review Question

Using periodic incremental LIFO, you can only enter a market price if the value is less than that of the stored LIFO cost.

1. True
2. False

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## Review Question

---

### Review Question

Using periodic incremental LIFO, you can only enter a market price if the value is less than that of the stored LIFO cost.

1. True
2. False

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### Processing for Periodic Costing

#### Periodic Cost Processing

You follow these steps to perform periodic cost processing:

- Run the acquisition cost processor
- Run the Periodic Cost processor
- Run the distributions processor if necessary
- Perform any other required activities such as cost copy, item cost inquiry, and periodic cost update
- Run reports and rerun processing, if required
- Close the period
- Transfer to General Ledger, if desired

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing**

### Processing for Periodic Costing

- **PAC cost processing has distinctive processing phases. Based on the result of the process in each phase, if it is successful, the processor completes with a success status stamp; otherwise, it will roll back with a failure status. You can reduce reprocessing time by rerunning only a failed phase. The available phases are classified as follows :**
  - **Phase 1: Compute acquisition cost**
  - **Phase 2: Current period beginning balance setup**
  - **Phase 3: Low-level computation**
  - **Phase 4: WP job information build**
  - **Phase 5: Cost processing for group 1 and 2**

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# Agenda

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## Agenda

- Overview of Periodic Incremental LIFO Costing
- Business Value of Periodic Incremental LIFO Costing
- Using Periodic Incremental LIFO Costing
- **Inquiring and Reporting**
- Setting Up and Implementing Periodic Incremental LIFO Costing

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## Inquiring and Reporting

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**Inquiring and Reporting**

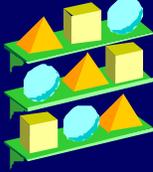
- **Inquiries**
- **Acquisition cost reports**
- **Inventory valuation reports**
  - **Onhand inventory**
  - **Work in process inventory**



**Acquisition cost**



**Production**



**Inventory**



**Reports**

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

### **Profitability Reporting**

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

### **Operational Reporting**

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

### Inquiring and Reporting

- **Item Cost Inquiry window**
- **Periodic Incremental LIFO Valuation Report**
- **Periodic Acquisition Cost Report**

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## Item Cost Inquiry Window

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### Item Cost Inquiry Window

- You can query and review item costs derived from both periodic average cost and periodic incremental LIFO cost methods.

Use the Item Cost Inquiry window to:

- Enter market prices to write down unit costs to fair value.

(N) Cost > Periodic Costing > Item Cost Inquiry

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing > Making Item Cost Inquiries**

## Periodic Incremental LIFO Valuation Report for Fiscal Reporting

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### Periodic Incremental LIFO Valuation Report for Fiscal Reporting

- Use the Periodic Incremental LIFO Valuation Report summary to report current period LIFO unit cost, quantity, and total inventory balance for each item.
- Use the Incremental LIFO Valuation Report detail to report details of total inventory value by layer and a description of market value justifications when market values are used.

Use the Request Periodic Cost Report window to:

- Select the report name from the list of periodic costing reports. Report names include the:
  - Incremental LIFO Valuation Report

(N) Cost > Periodic Costing > Reports

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports >  
Incremental LIFO Valuation Report for Fiscal Reporting**

## Periodic Acquisition Cost Report

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### Periodic Acquisition Cost Report

Use the **Periodic Acquisition Cost Report** to analyze the acquisition cost for each receive transaction. This report shows you purchase order prices for items that have not been matched to invoices.

- You can run this report to see which purchase orders have not been matched.
- You can rerun the report after matching purchase orders to invoices.

Use the **Request Periodic Cost Report** window to:

- Select **Periodic Acquisition Cost Report** as the report name.

(N) **Cost > Periodic Costing > Reports**

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Reports >  
Periodic Acquisition Cost Report**

### Scenario

The likely scenario is that some purchase orders will invariably not be matched, because the invoice may be received too late. However, because you perform the acquisition costing after month-end close, you should have time to update most of the unmatched purchase orders.

# Agenda

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## Agenda

- Overview of Periodic Incremental LIFO Costing
- Business Value of Periodic Incremental LIFO Costing
- Using Periodic Incremental LIFO Costing
- Inquiring and Reporting
- Setting Up and Implementing Periodic Incremental LIFO Costing

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## Implementation and Setup Considerations

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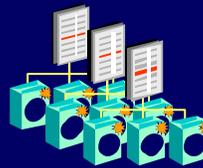
### Implementation and Setup Considerations

You can setup periodic costing flexibly, using:

- An accounting calendar
- Organization cost groups



Processes  
and organized  
setup steps



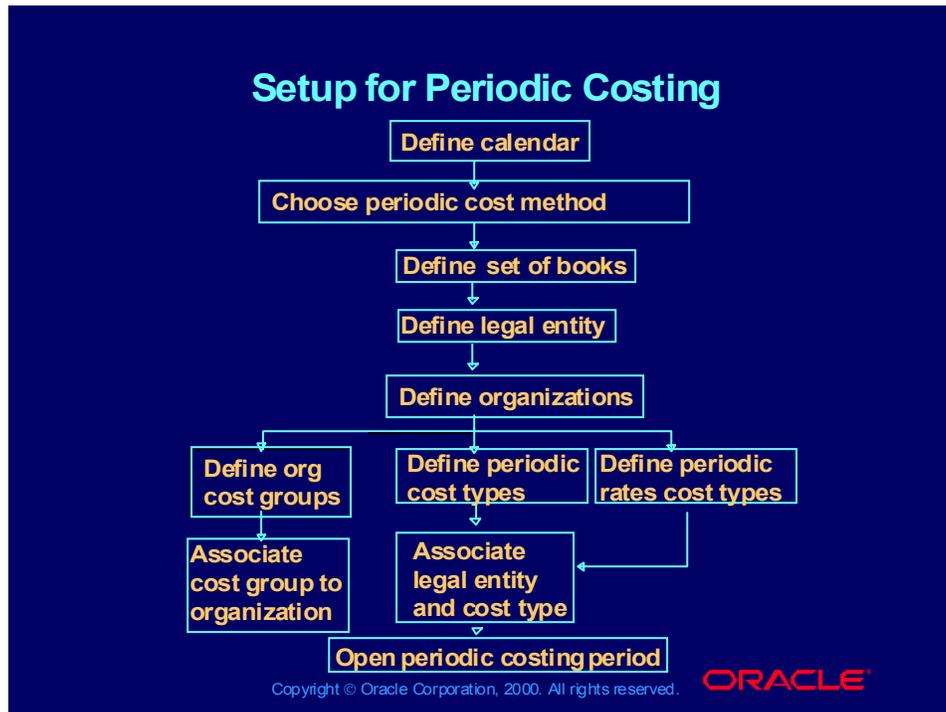
Set up  
applications

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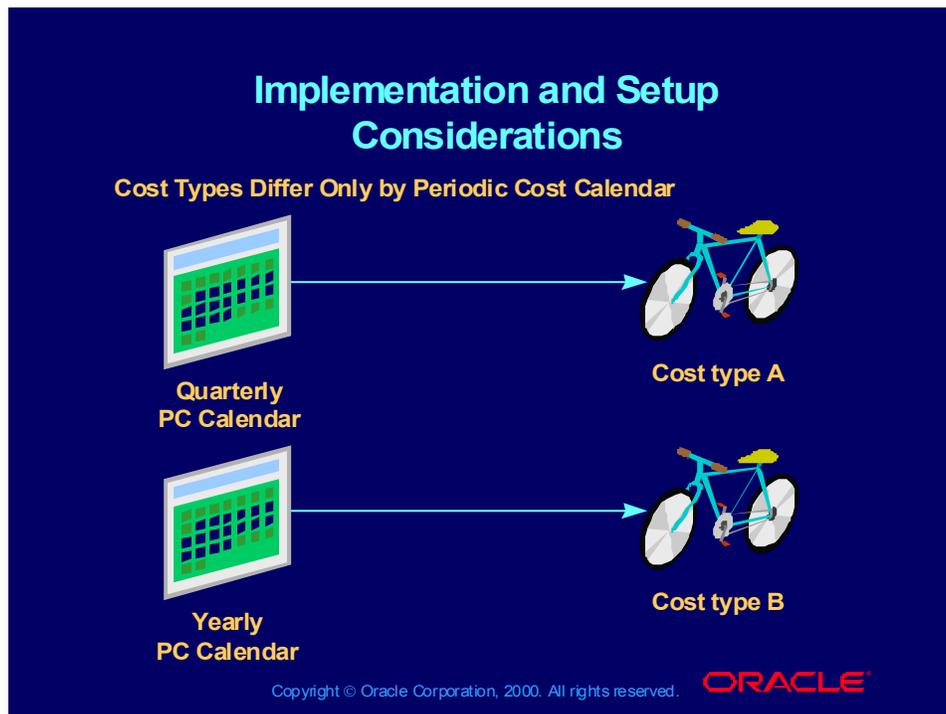
## Setup for Periodic Costing

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# Implementation and Setup Considerations

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### Implementation and Setup Considerations

#### Defining the Periodic Cost Calendar

- Periodic costing has its own calendar so that you can specify the frequency, based on the period (month, fiscal year) for the cost processor to examine costs.
- You set up the periodic cost calendar with periods that have the same beginning and ending dates as the perpetual periods.
- The periodic cost periods can be longer but not shorter than the perpetual periods.
- You use the same calendar for all groups within the legal entity for a cost type.

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### Implementation and Setup Considerations

#### Defining the Periodic Cost Calendar (continued)

- You need a different cost type for a different calendar.
- In periodic costing, the current period is the open period in the Fiscal Cost Group/Cost Type Calendar. Only one period can be open.

#### Use the Periodic Accounting Periods window to:

- Establish and control an accounting calendar for periodic average costing

(N) Cost > Periodic Costing > Periodic Close Cycle > Periodic Accounting Periods

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing > Closing Periodic Cycle**

### Implementation and Setup Considerations

#### Choosing a Periodic Cost Method

- Implicitly choose a perpetual cost method when selecting a cost type when you run the periodic cost processor.

#### Associating to a Set of Books

- If you enable distributions for a Legal Entity/Cost Type, associate the same set of books as you used in the perpetual cost type.
- If you do not enable distributions for a Legal Entity/Cost Type, you may use a different set of books but the chart of accounts and currency must be the same as used in the perpetual cost type.

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

In periodic costing, the item cost is held at the cost type/organization cost group/period combination.

There are six setup steps specific to periodic costing:

1. Defining the organization cost group.
2. Creating cost types and periodic rates cost types for use in periodic costing.
3. Associating the organization with an organization cost group.
4. Associating the cost type with the legal entity.
5. Setting accounting options (required if using periodic cost distributions).
6. Assigning periodic accounts (required if using periodic cost distributions).

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

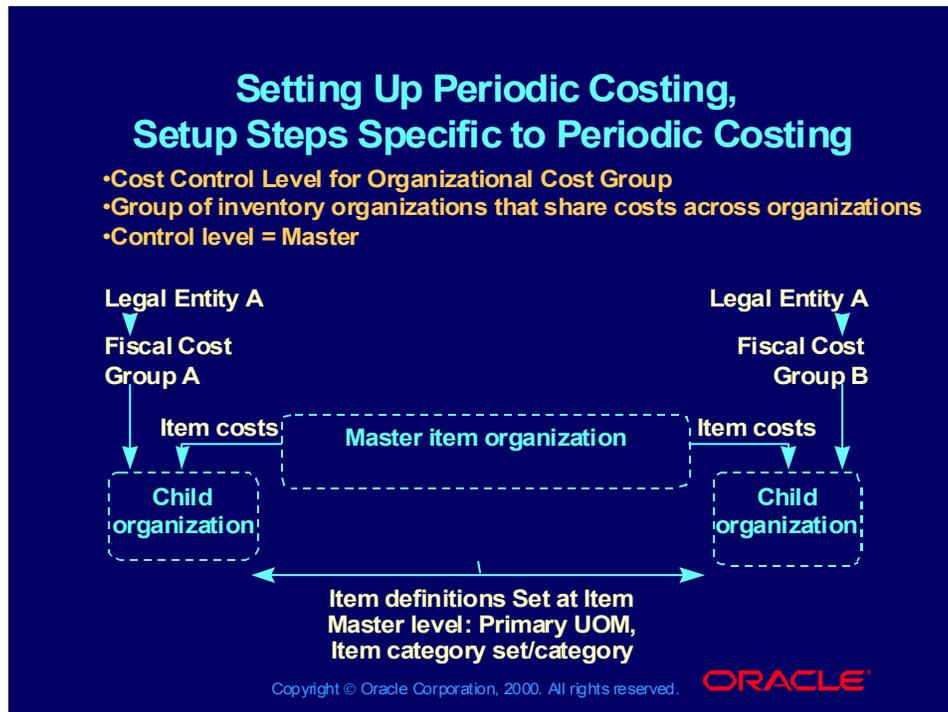
- The end result, once all these associations are set up, is a many-to-many relationship between organization cost groups and cost types through the legal entity.

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# Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Assigning Inventory Organizations to Groups

- You can define fiscal cost groups of the type fiscal for the groups of inventory organizations that will share costs.
- You can associate the fiscal cost groups to the legal entity.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

You assign each inventory organization to one and only one organizational cost group, ensuring that:

- All organizations have the same master item organization.
- The primary unit of measure control status is set at the item master level.
- The item category set/category is set at the item master level.
- All organizations are in the same legal entity.
- All inventory organizations are assigned to a fiscal cost group, or they will not be processed. Once periodic cost processing is run, it is difficult or impossible to assign the orphan organization.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 1: Defining Organization Cost Group

- Each organization cost group must be associated with a legal entity.

#### Use the Organization Cost Groups window to:

- Define and associate the cost group with a legal entity and item master organization.

(N) Cost > Periodic Costing > Setup > Organization Cost Group

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 1: Defining Organization Cost Group**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 2: Creating Cost Types and Periodic Rates Cost Types

- You need to create cost types and periodic rates cost types in the main setup window for cost types.
- Cost types for periodic costing must be multi-org and not updatable.
- Periodic rates cost types are not restricted. Any user defined cost type can be a periodic rates cost type if it is so designated in the Cost Type Associations tab of the Organization Cost Group/Cost Type Associations window.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Organization Cost Group/Cost Type Associations window to:

- Associate multi-org enabled cost types to the legal entity.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Cost Type Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 2: Creating Cost Types and Periodic Rates Cost  
Types**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 3: Associating Organization with an Organization Cost Group

- Once an inventory organization is associated with an Organization Cost Group and transactions have been processed, that association is permanent and exclusive.
- An Organization Cost Group can be associated with one or more organizations.
- Those inventory organizations which can be associated with an organization cost group meet qualifications that the organization already belongs to the legal entity and that it is not associated with any other organization cost group.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Organization Cost Group/Cost Type Associations window to:

- Assign inventory organizations to the organization cost group.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Organization Cost Group Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 3: Associating Organization with an  
Organization Cost Group**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 4: Associating Cost Type with Legal Entity

Use the Organization Cost Group/Cost Type Associations window to:

- To associate the cost type with the legal entity and to select a cost method.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(T) Organization Cost Group Associations

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 4: Associating Cost Type with Legal Entity**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 5: Setting Accounting Options (Optional)

- Use the **Cost Type Associations Accounting Options** window to set options pertaining to the creation of accounting entries (cost distributions) and posting (transferring) to General Ledger.
- If you do not **Create Accounting Entries**, you cannot post to the **General Ledger** from **Periodic Costing**, and therefore **General Ledger** options are unavailable to you.

(N) Cost > Periodic Costing > Setup >  
Organization Cost Group/Cost Type Association  
(B) Accounting Options

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 5: Setting Accounting Options (Optional)**

## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

#### Step 6: Assigning Periodic Accounts

- You perform this step if you are using the Periodic Cost Distributions Processor.
- Periodic cost accounts are used during periodic cost distributions to create accounting entries. You can only specify these accounts if distribution is enabled for the legal entity cost type.
  - Cost group category level accounts used to perform periodic inventory accounting based on categories defined in the master item organization for the cost group.
  - Cost group level accounts used independently of the category to define variance and inventory offset accounts.

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## Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

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### Setting Up Periodic Costing, Setup Steps Specific to Periodic Costing

Use the Periodic Account Assignments window to:

- Assign periodic accounts:

(N) Cost > Periodic Costing > Setup >  
Periodic Account Assignments

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing > Periodic Cost Setup >  
Setup Steps > Step 6: Assigning Periodic Accounts**

## Update Periodic Costs Window

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### Update Periodic Costs Window

Use the Update Periodic Costs window to update:

- Periodic costs for any items that have been updated using the average cost update
- Invoice price variances (IPVs) that have been updated by the average cost update
- Periodic costs for a variety of reasons

(N) Cost > Periodic Costing > Update Periodic Costs

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**Help: Oracle Manufacturing Applications >  
Oracle Cost Management > Periodic Costing >  
Periodic Cost Processing > Updating Periodic Costs**

## Summary

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### Summary

In this lesson, you should have learned how to:

- Describe periodic incremental LIFO costing
- Describe the business value of periodic incremental LIFO costing
- Set up periodic incremental LIFO costing

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## Practice 2 Overview

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### Practice 2 Overview

**This practice covers the following topics:**

- **Describing periodic incremental LIFO costing**

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### Practice 2-1

#### Short Answer Questions

1. In what country does periodic incremental LIFO costing meet an important fiscal requirement?

Answer: \_\_\_\_\_

2. Assuming you have a component (computer hardware) whose purchase price declines over time, which cost method would you expect to yield the lowest inventory valuation and why?

- a. Periodic incremental LIFO costing
- b. Periodic average costing

Answer: \_\_\_\_\_

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### Practice 2-1

#### Short Answer Questions

3. In an inflationary market environment, which method will yield generally yield greater profitability and why?
- a. Periodic incremental LIFO costing
  - b. Periodic average costing

Answer: \_\_\_\_\_

### Practice 2-1: Solution

#### Short Answer Questions

1. In what country does periodic incremental LIFO costing meet an important fiscal requirement?

**Answer: Italy**

2. Assuming you have a component (computer hardware) whose purchase price declines over time, which cost method would you expect to yield the lowest inventory valuation and why?
  - a. Periodic incremental LIFO costing
  - b. Periodic average costing

**Answer: b, periodic average costing, because incremental LIFO will charge the most recent (and cheapest) items first.**

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### Practice 2-1: Solution

#### Short Answer Questions

3. In an inflationary market environment, which method will yield generally yield greater profitability and why?
- a. Periodic incremental LIFO costing
  - b. Periodic average costing

**Answer: b, perpetual average costing, because incremental LIFO records the latest (highest) prices as cost-of-goods-sold-first.**

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