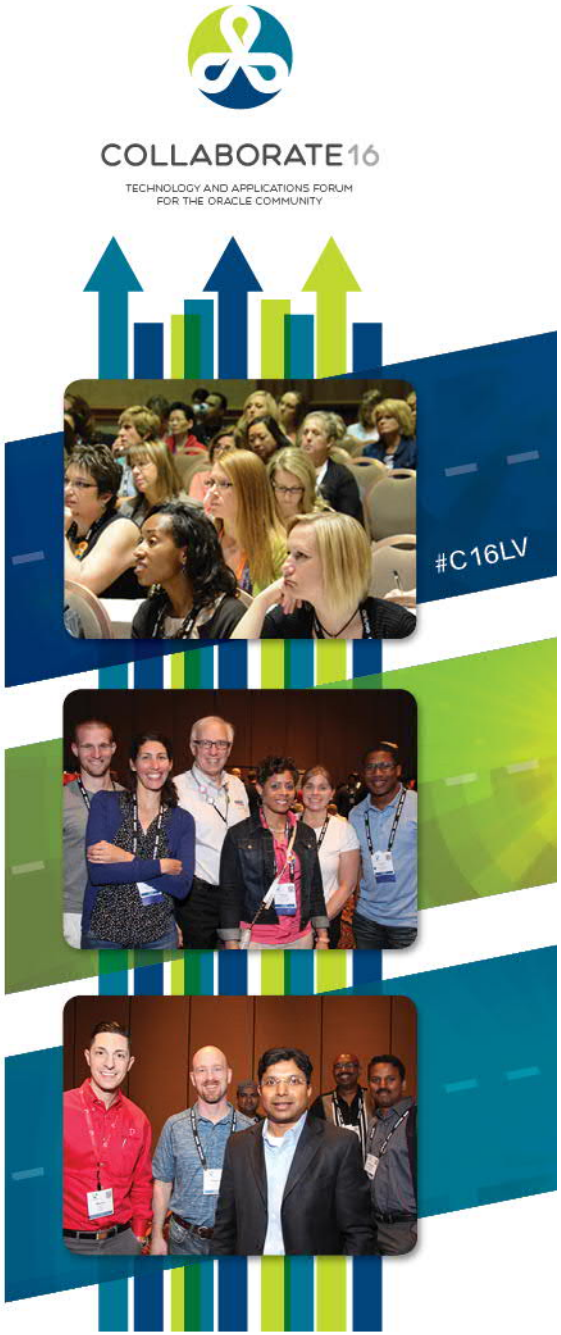
Who Said Changing Cost Methods With Discrete Costing Can't be Done?



Session ID: 10249

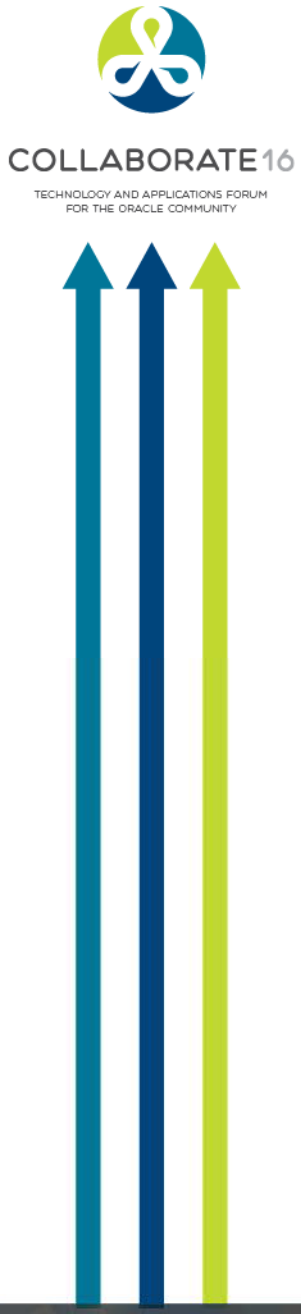
Unhappy with your Distribution and Supply Chain Costing Method? And you were told that the only way forward was to re-implement? Well that is simply not true!

Prepared by:

Douglas A. Volz
President
Douglas Volz Consulting, Inc.

@douglasavolz

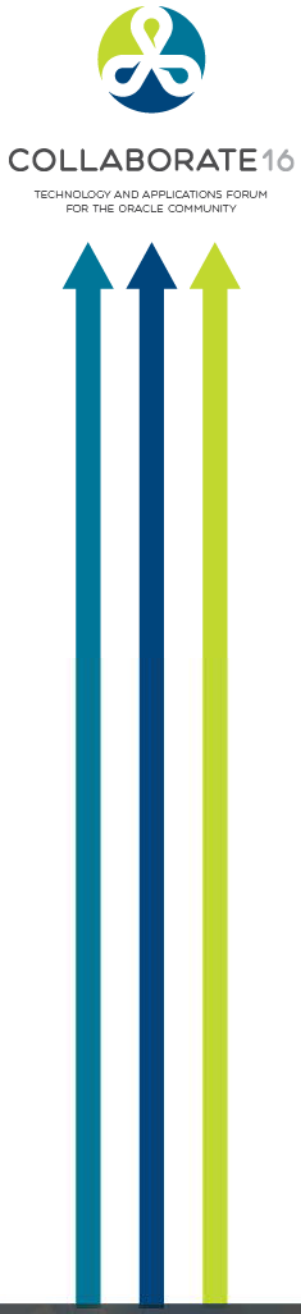
Learning Points



- Change Discrete Costing Methods without re-implementing
- Which approaches minimize technical involvement?
- How is cost information stored in Oracle?
- Potential gotchas?

Agenda

- Why change costing methods?
- Costing methods overview
- Three approaches
- The devil is in the details (Step by step guidance)
- Appendix
  - Which costing method to use?
  - Sharing costs across organizations
  - Item cost controls
  - How Oracle stores cost information
  - Use of default cost accounts
  - Standard vs. Average cost updates



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TECHNOLOGY AND APPLICATIONS FORUM FOR THE ORACLE COMMUNITY

Professional Summary

- 35+ years industry, design and consulting experience, specializing in Cost Management business solutions
  - Profit in inventory
  - Intercompany
  - A/P accruals
  - WIP analysis
  - Multi-org cost accounting reports
  - Inventory reconciliation
  - Product Line & Margin analysis
  - Cost Rollup and Update
- Presenting at Collaborate (OAUG) and UKOUG since 1996
- Multi-national experience in twelve countries
- Excellent Oracle Cost Management Trainer
- Also experienced with Inventory, BOM and WIP and other modules

Qualification Summary

- Former co-designer for Oracle Cost Management
- Lead the OAUG Cost Management Special Interest Group
- Cost Management industry experience

Douglas Volz Consulting, Inc.

Helping people use Oracle since 1990

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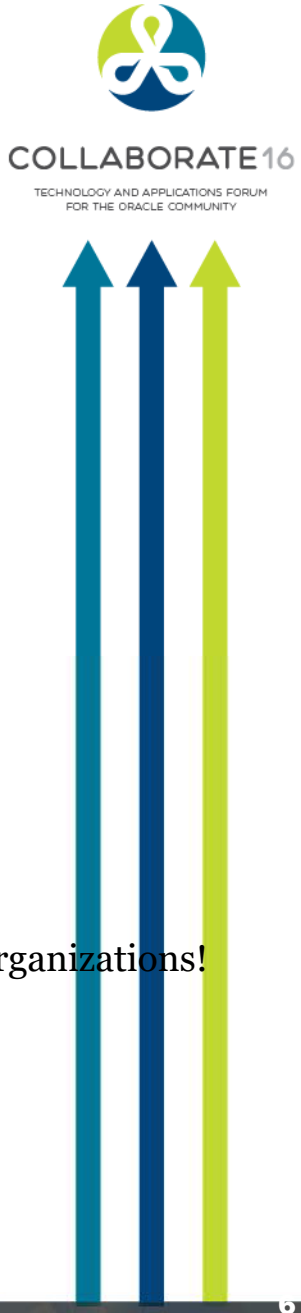
TECHNOLOGY AND APPLICATIONS FORUM FOR THE ORACLE COMMUNITY

- Started in 2005 to provide:
  - Cost Accounting & Procure to Pay Business Improvements
  - Excellent Oracle Cost Training Classes
  - Multi-Org, Global Cost Reporting Solutions
  - Project Management and Advisory Services
  - Lots of free advice and conference papers:
    - www.volzconsulting.com/resources.html

Sample Project Experience:

Solutions You Can Use

— http://oaug.org/education-events/cpd
— www.volzconsulting/resources.com



A/P Accruals: OAUG/Collaborate & UKOUG

1996/2007/2008: (R11i) How to Setup, Use and Balance Your A/P Accrual Accounts
2011: A/P Accruals for Release 12 (OAUG Cost Management SIG)

Cost Management & SLA: OAUG/Collaborate & UKOUG

2009: Cost Accounting As You Want It — EBS R12 Cost Accounting with SLA
2013: Subledger Accounting for Discrete & EAM Cost Accounting: Product Line and Expense Accounting Made Easy Through SLA
2014: How to Create Shipping Burdens for Oracle Cost Management

Discrete & Process Cost Accounting Integration: OAUG/Collaborate

2015: Discrete and OPM Integration for Cost Accounting and Reporting

Inventory Reconciliation: OAUG/Collaborate & UKOUG

2010: Can We Actually Reconcile Project MFG to Inventory, WIP, Projects & G/L?
2011: 60 Inventory Orgs? 6 Ledgers? No Worries, Reconcile Your Inventory With Ease!
2014: Reconcile Your Inventory to G/L Balances With Ease, From 1 to 1,000 Inventory Organizations!

Profit in Inventory Solutions: OAUG/Collaborate

2010: Does Rel. 12 Solve Global Inter-Company Issues for Multiple Ledgers, Profit in Inventory and COGS?

Transaction Interfaces for Period Close: OAUG/Collaborate

2012: Egads! How in the Dickens Do I Handle Those Month-End Interfaces?

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Why Change Costing Methods

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Why Change Costing Methods?

- Your Costing Method does not match your business:
  - Distribution company using Standard with fluctuating costs
  - Manufacturing company using Average , able to control costs
  - Need to track profit in inventory but this is a difficult with Average
  - Use EAM but use Standard Costing
- Your prior implementation partner, former CFO or former Accounting Director did not understand the ramifications
- “Acme Holding Company” just bought your firm and their corporate policies dictate a different Costing Method
- You originally did not use inventory or you set up your items as expense and now want to track quantities using a different Costing Method

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Costing Methods Overview

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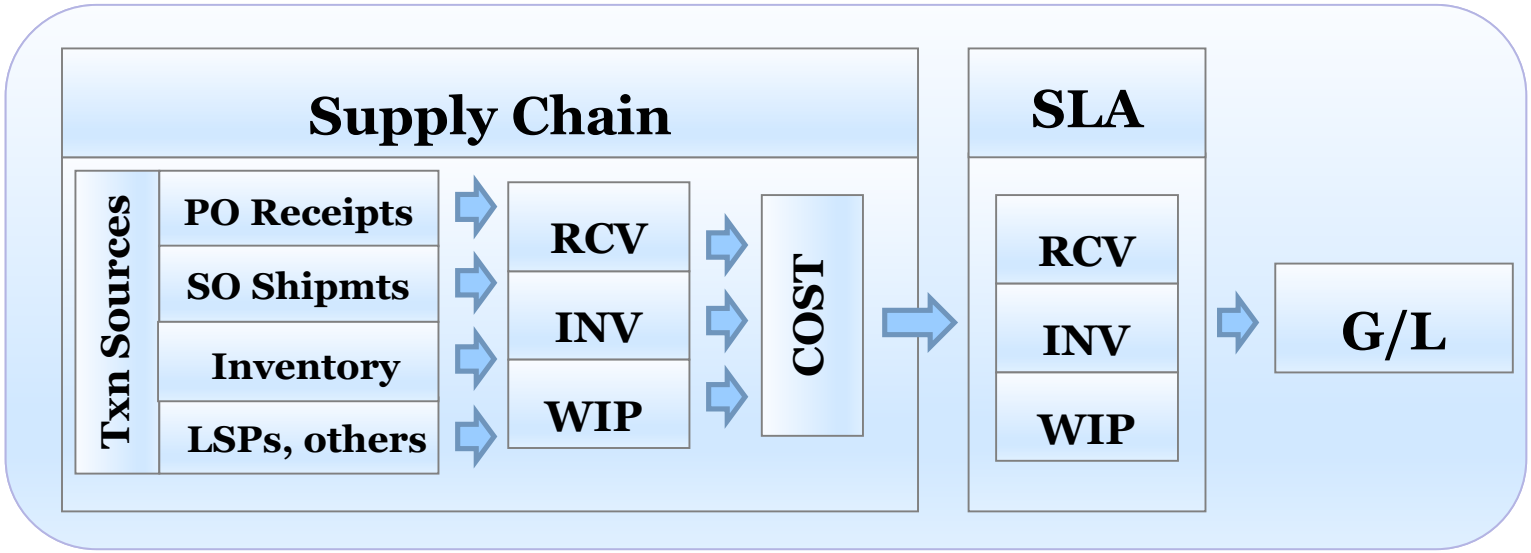
Cost Transactions Overview

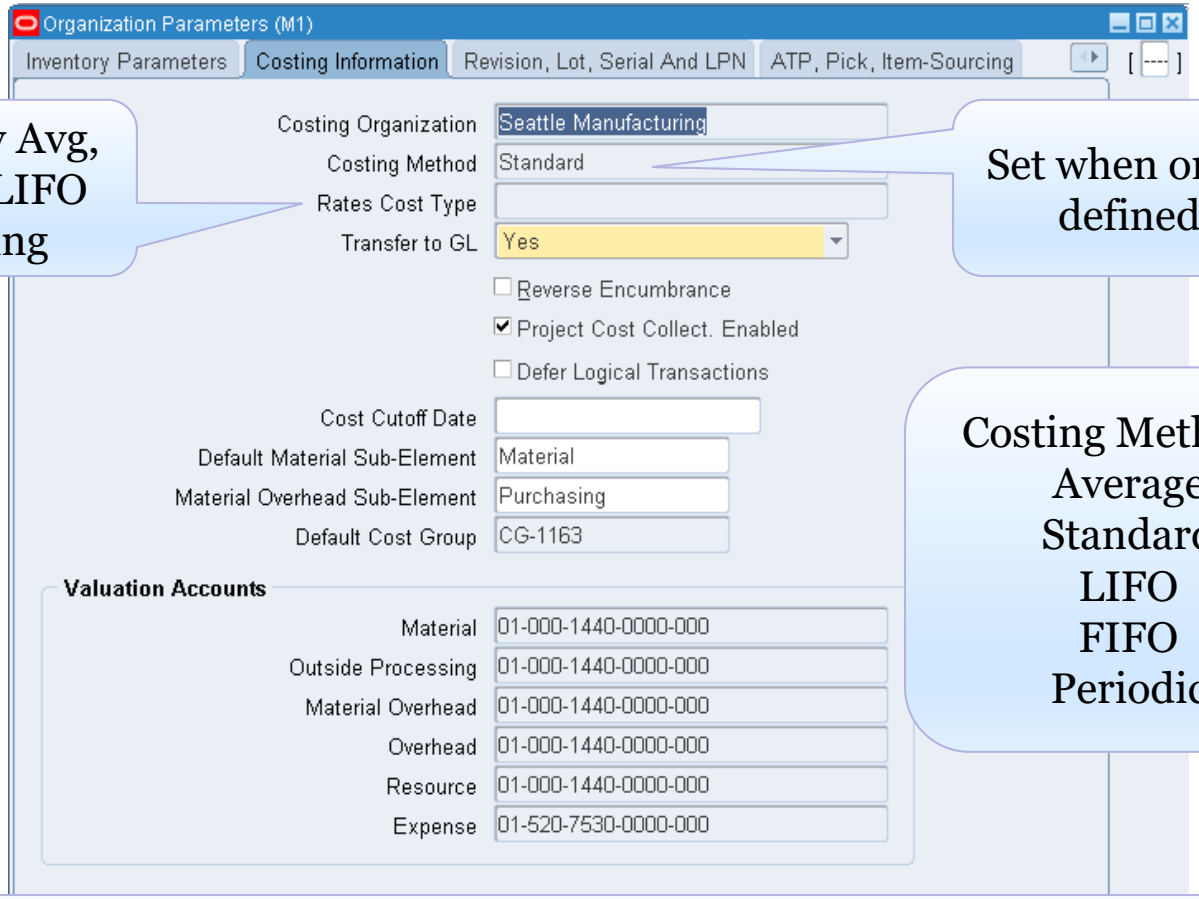


Discrete Organizational Costing

- Costing is by Plant or Warehouse (inventory organization)
- Each inventory organization has its own costing method
- Each organization has its own material, labor, outside processing, and overhead costs
- Only one “Active” cost type used to record financial entries
- Within an organization, all items use the same costing method
- You can mix and match, one org may have Standard Costing and another one Average Costing

Define Your Costing Method

Menu path:
Cost Management - SLA => Setup => Account Assignment => Organization Parameters



Used by Avg, FIFO, LIFO Costing

Set when org is defined

Costing Methods:
Average
Standard
LIFO
FIFO
Periodic

The Appendix Section has a discussion for deciding which Costing Method is best for your situation and how to set up costing attributes

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Three Approaches

Approach One – New Inventory Org

- Oracle Support recommends setting up a new inventory org
- Changing Organization Costing Methods (Doc ID 550640.1)
  - "**It is not possible to just change the costing method**. This is because the item cost records created by the system and used for the costing process are specific to the costing method. So for Standard Costing the item cost record is for cost type FROZEN, whereas for Average costing they are for cost type AVERAGE. These records are created when a costed asset item is assigned to the inventory organization."
  - "Standard advice is to create a new Inventory organization, assign all the items to it that are in the existing organization, transfer item quantities to the new organization, create anew all POs and sales orders, WIP jobs, etc. This can be quite time-consuming."
  - "You cannot change the costing method of an existing inventory organization once transactions have taken place. To change the costing method, you must set up a new inventory organization with the desired costing method. Then you can transfer all on-hand inventory from one organization to the next using the transaction open interface, entering the standard cost as the transfer cost into the new organization. This will become the starting basis for the current average cost in the new organization."

Setting Up a New Org, Really?

- Set up all the modules in the new organization
  - Including Inventory/Receiving, MRP/ASCP, BOM as well as set up the inventory organization-specific information for Purchasing, Order Management and other modules
  - Enable all item numbers in the new organization
  - Copy / transfer BOMs and routings to the new organization
  - Define new item costs (standard), 'average rates' cost type (Average) and define any applicable overheads, labor rates, etc. in the new organization
- For the owning org, clear intransit quantities
- Fix open purchase orders and sales orders
  - Change the ship-to address on all open purchase orders from the old org to the new org
  - Change the deliver-from organization on all open sales orders from the old org to the new org

Setting Up a New Org, Really? (Continued)

- Set up new work orders
  - Open work orders in the new organization
  - Complete existing work orders in the old organization and then open new ones from the go-forward date
  - If you can't complete the existing work orders you have to recreate the work order status as of the start of the new organization, including all material, resource, overhead and OSP transactions, just as if you were doing a data conversion
- Transfer the on-hand inventory from the old organization to the new organization
- Once all activity is transferred, perform the month end close process in the old organization and then deactivate it
- Fix your Organization Access Controls

But What Else Can You Do?

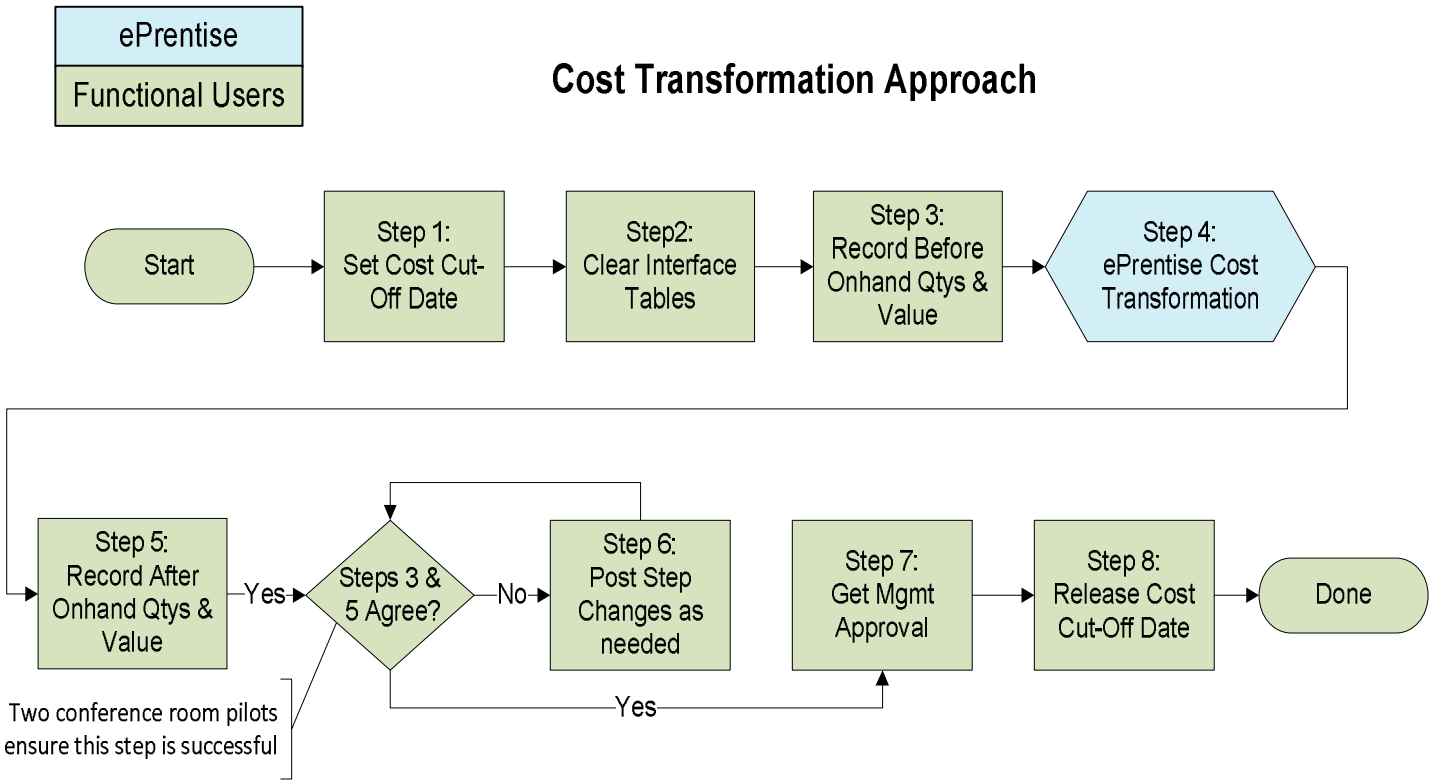
- Approach Two: Use eprentise and their rules-based engine to change your Costing Method

- Approach Three: Use the same inventory transfer method as mentioned by Oracle Support, but, using highly skilled resources and guidance, do it in the existing inventory organizations

Approach Two:
Change In-Place Transformation with eprentise

- eprentise does the cost transformation work for you
- Pre-built, pre-tested transformation rules convert your Average to Standard costs or your Standard to Average costs (FIFO or LIFO conversions as well)
- No need to transact onhand quantities in or out of stock
- No changes to open purchase orders or sales orders
- No impact to onhand, intransit, WIP quantities or values
- Less time, lower risk and significantly less disruption than setting up new organizations
- And also less time than the Cost Migration Approach

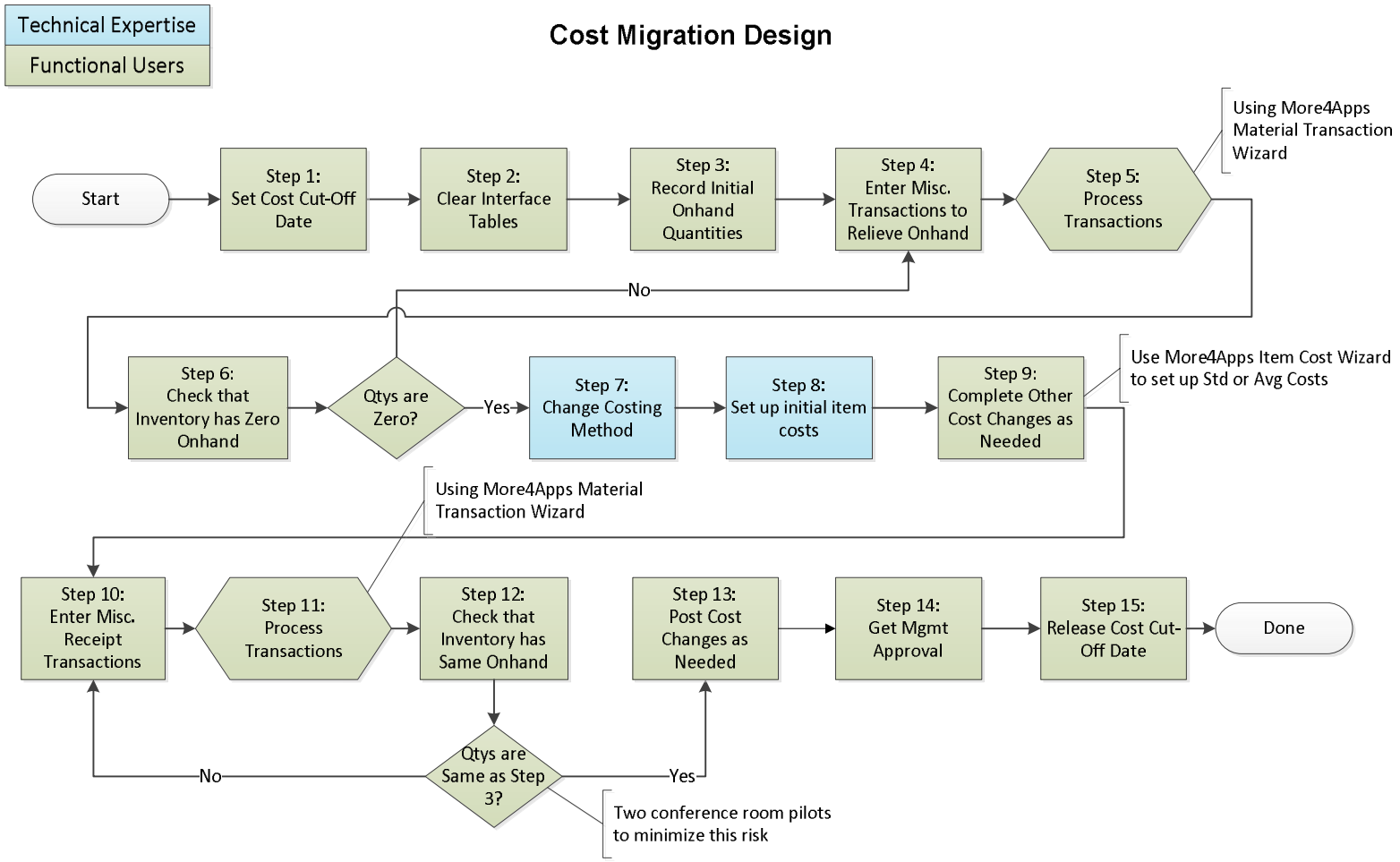
Approach Two:
Change In-Place Transformation with eprentise



Approach Three:
Cost Migration Approach

- Requires highly specialized technical knowledge for how Oracle Costing, Inventory, Receiving and WIP work
- Need to transact onhand quantities out of stock and back in
- Need to set up target, initial item costs, whether for Average or Standard Costing
- Use SQL to flip the Costing Method, setting up default item costs and to fix inventory organization accounts as necessary
- But no impact to Purchase Orders, Sales Orders, WIP values or work orders
- Done properly — no changes to quantities or value
- Less time, lower risk and less disruption then setting up new organizations, but takes more time and requires a much higher level of technical knowledge than using eprentise

Approach Three: Cost Migration Approach



Approach Comparisons (red is bad, green is good)

Topic or condition	1 - New Org	2 - Cost Transform	3 - Cost Migration
Multiple Orgs (> 1 or 2)		Any number	
Lots of Onhand Inventory			
With POs, SOs, WIP	Recreate	No Changes	No Changes
Elapsed Time (varies w/complexity)	High	Low	Low to Moderate
Technical Table, Data, "How Stuff Works" Knowledge	Low	Low	High - Costing
Functional Setup Knowledge	High	Low	Low
Cut-Over Timing	Month-End	Mid-Month	Mid-Month
Functional User Time	High	Low	Low to Moderate
Overall Disruption and Time Spent	High	Low	Low to Moderate

Overall Recommendations

- If have the technical expertise, few inventory orgs and fewer items in stock — approach three — consider Cost Migration
- If don't have the technical expertise, or with multiple inventory organizations and lots of onhand inventory — approach two — Cost Transformation (eprentise) is safer with less disruption
- Don't recommend approach one — setting up a new org — unless you have no sales orders, purchase orders, BOMs, Routings or WIP
- More4Apps is quite useful with Cost Migrations … use the Material Transaction Wizard to move quantities in and out
- You can also use the More4Apps Material Transaction Wizard to process Average Cost Updates, or, use the More4Apps Item Cost Wizard to help set up your Standard Costs

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

The Devil is in the Details

Step by Step Guidance for Approach Two
– Cost Transformation (Change in Place) Approach

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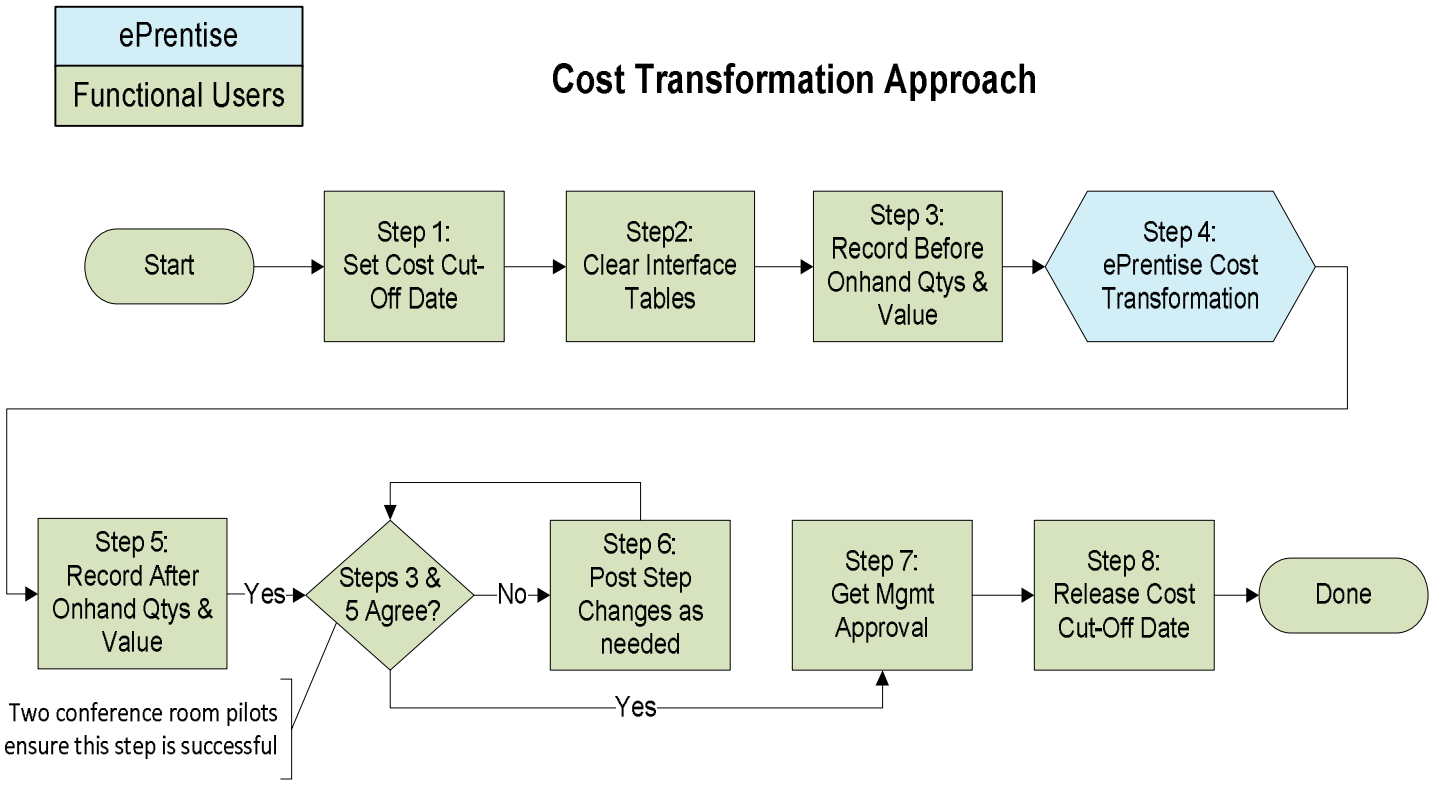
Approach Two:
Change In-Place Transformation with eprentise

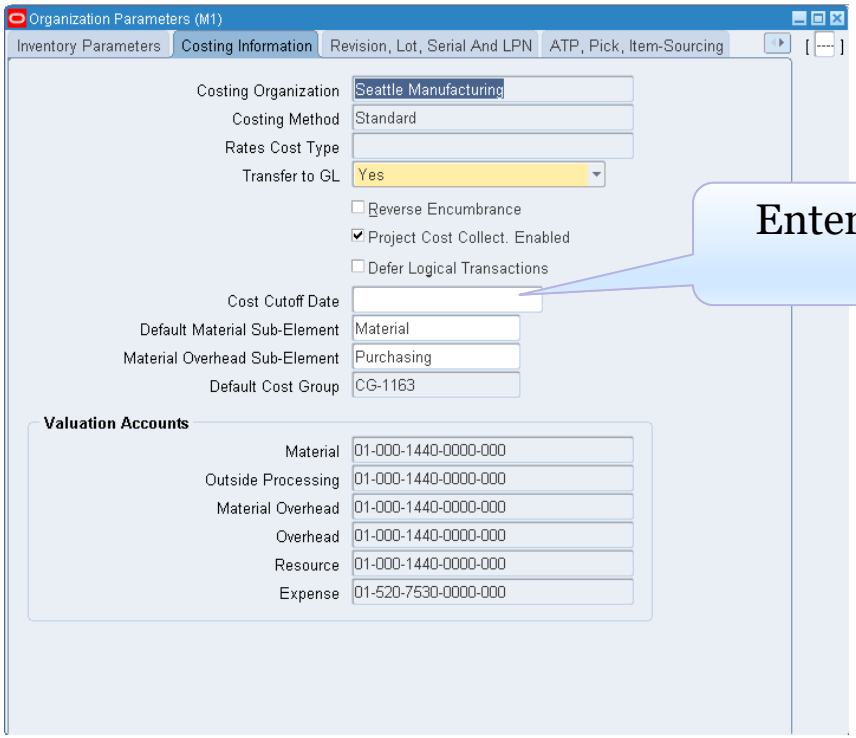


Cost Transformation – Step 1

Menu path: Cost Management – SLA => Setup => Account Assignments => Organization Parameters

Set Cost Cut-Off Date

- Stops the Inventory and Resource Cost Processors from creating cost accounting entries as of the Cost Migration date

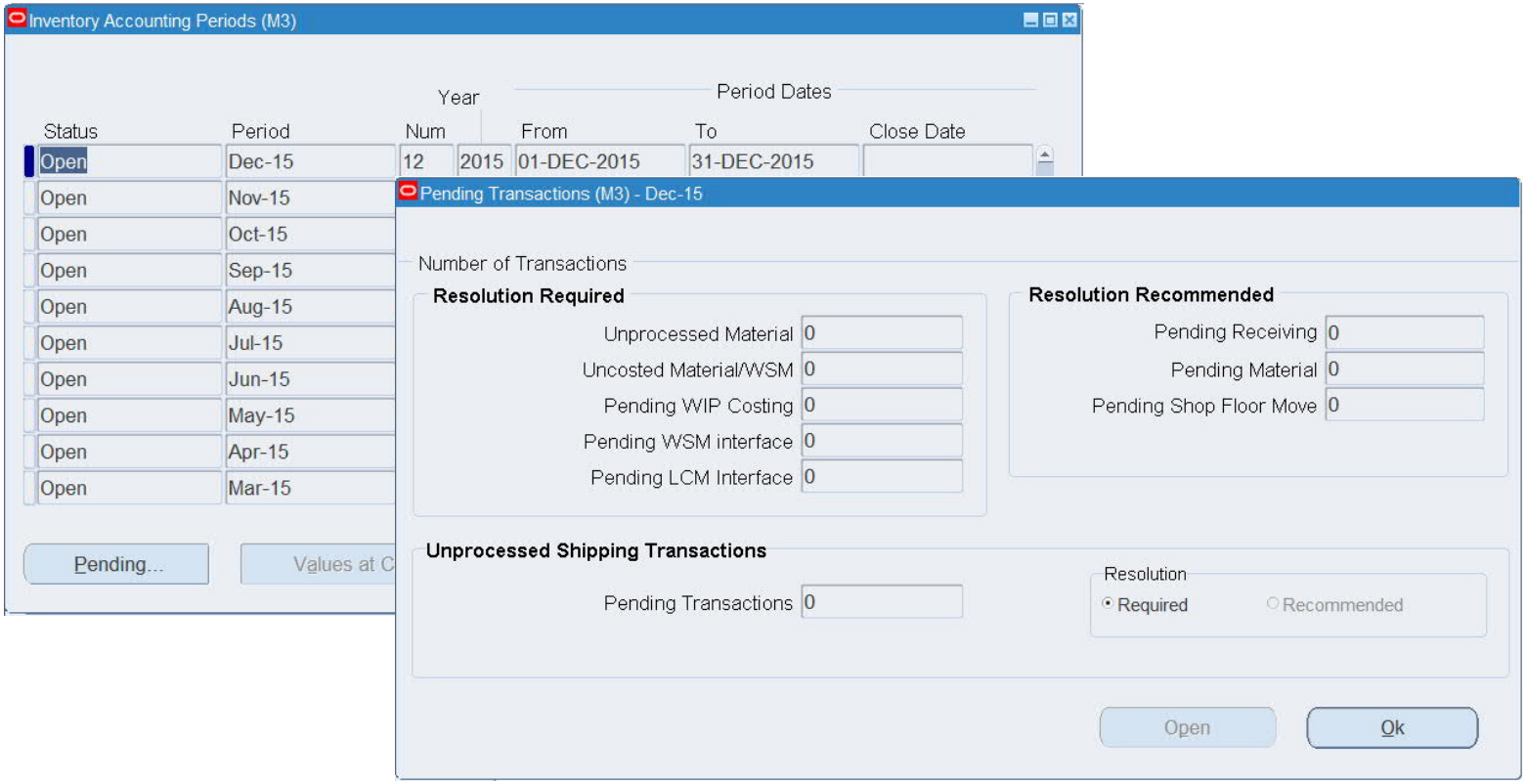


Enter the cut-off date here

Cost Transformation – Step 2

Menu path:
Cost Management – SLA => Accounting Close Cycle => Inventory Accounting Periods => Pending

- **Clear Transaction Interfaces**
  - Process all “in-flight” transactions

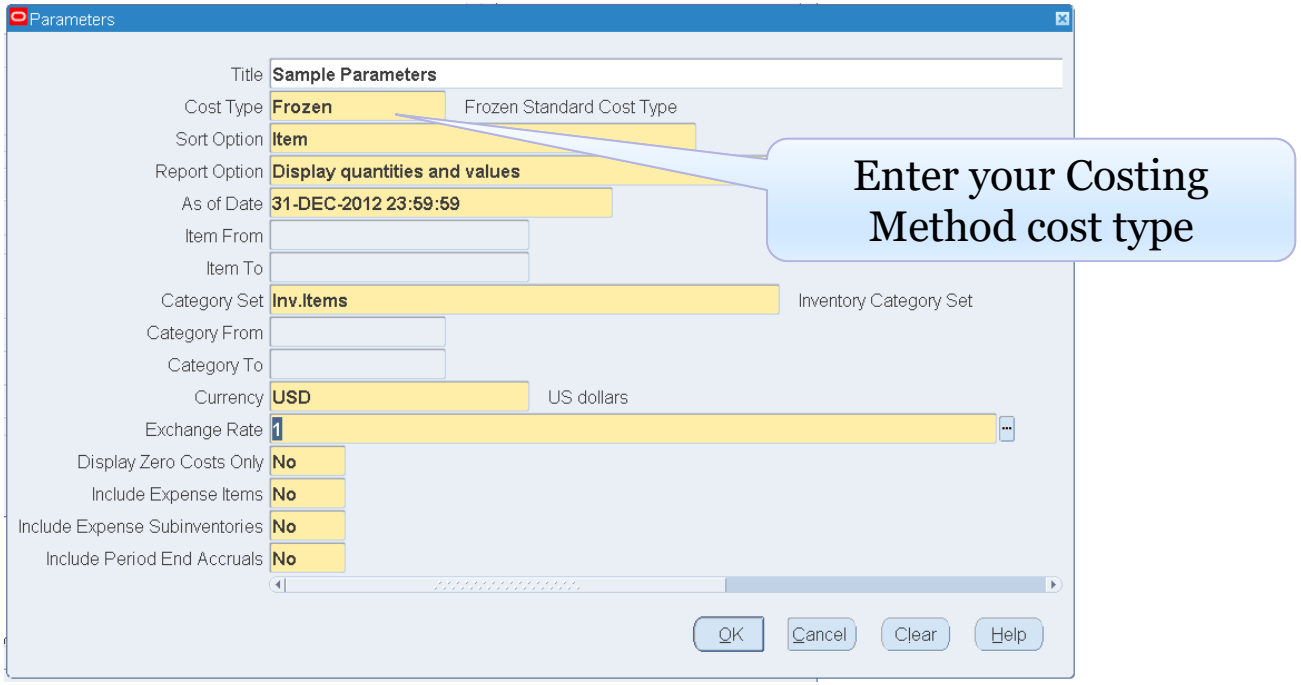


Cost Transformation – Step 3

Menu path: Cost Management – SLA => Report => Value => All Inventories Value Report

Record Initial Onhand Quantities and Values

- Run your standard or custom receiving, inventory, intransit and WIP value reports before the Cost Migration



Cost Transformation – Step 4

- **Change In-Place Cost Transformation:**
  - Correct item attribute control levels or values:
    - As needed, reset control levels and values for:
      - Inventory asset flags
      - Costing enabled flags
    - Can repair more attributes as mutually agreed
  - Make required changes to inventory system accounts
  - Change your Costing Method
  - Transform your Average/FIFO/LIFO into Standard or Standard into Average/FIFO/LIFO item costs
  - When changing to Standard, create standard cost history
  - When changing to Average, provide sample SQL for history

Cost Migration – Step 5

- **Check that Inventory has Same Onhand**
  - After changing your Cost Method, your Before and After inventory quantities and values must be the same
  - Re-run the inventory value reports from step 3 and compare

Cost Migration – Step 6

- **Additional Cost Changes for Standard Costing**
  - Need to re-roll your BOMs and Routing and re-freeze your standards, to avoid erroneous WIP job variances
  - The More4Apps Item Cost Wizard can help set your buy costs
- **Additional Cost Changes for Average Costing**
  - Use the More4Apps Material Transaction Wizard to make any necessary Average Cost updates
  - Especially for Buy Item Costs, when the old standards are bad
  - Use the standard Oracle Cost Mass Edits to calculate average A/P invoice costs or average PO receipt costs
  - Use the More4Apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost

Cost Migration – Step 7

- **Get Management Approval**
  - As most folks like their jobs …
    - Get sign-off from your Supply Chain representatives
    - Get sign-off from your Finance representatives

Cost Migration – Step 8

- **Release Cost Cut-Off Date**
  - Remove the Cost Cut-Off Date

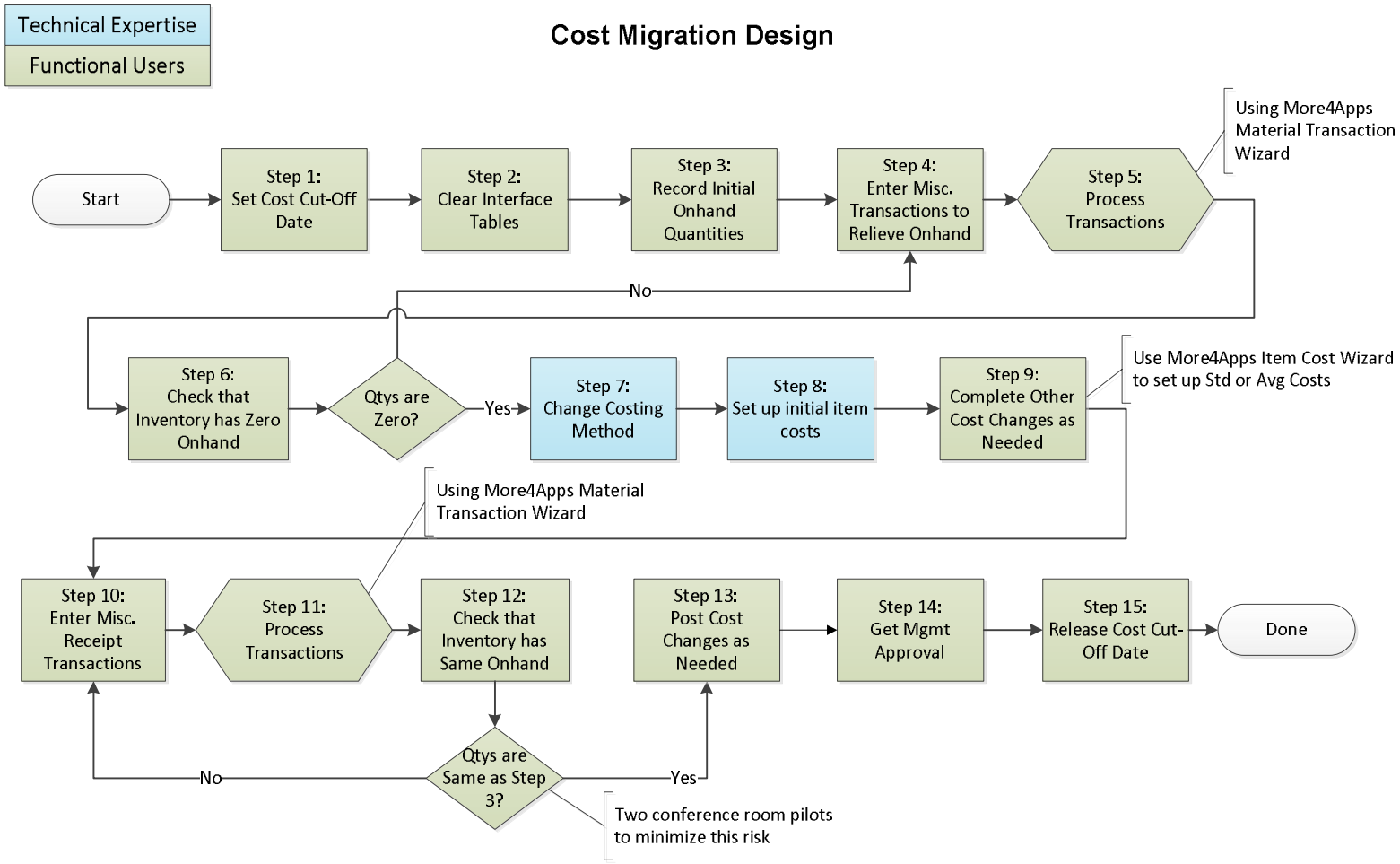
    Allows the Cost Manager / Inventory and Resource Processors to cost transactions using the new item costs

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

The Devil is in the Details

Step by Step Guidance for Approach Three – Cost Migration Approach

Approach Three:
Cost Migration Approach Using More4Apps



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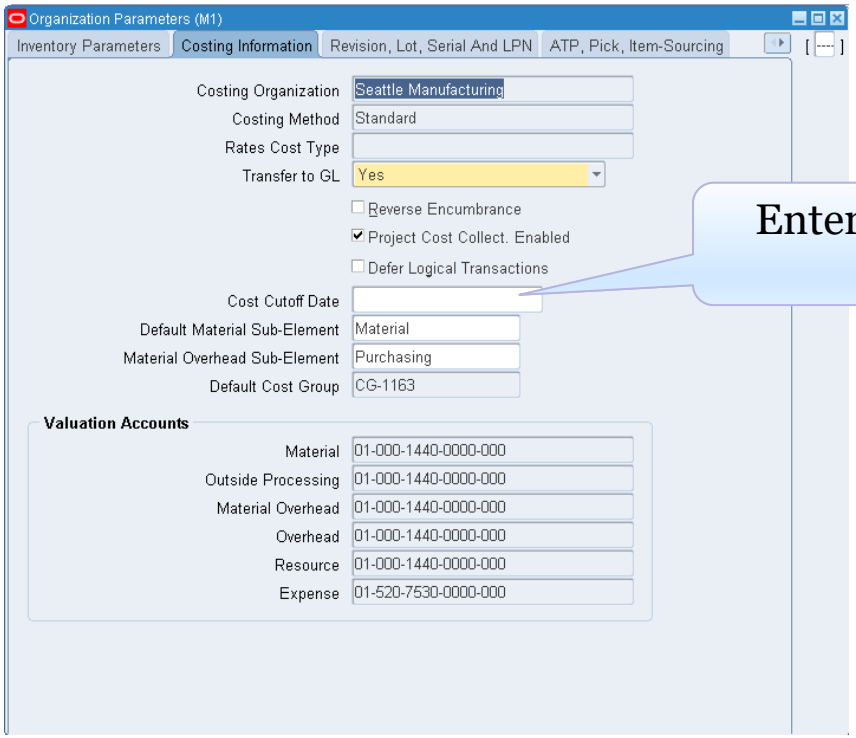

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Cost Migration – Step 2

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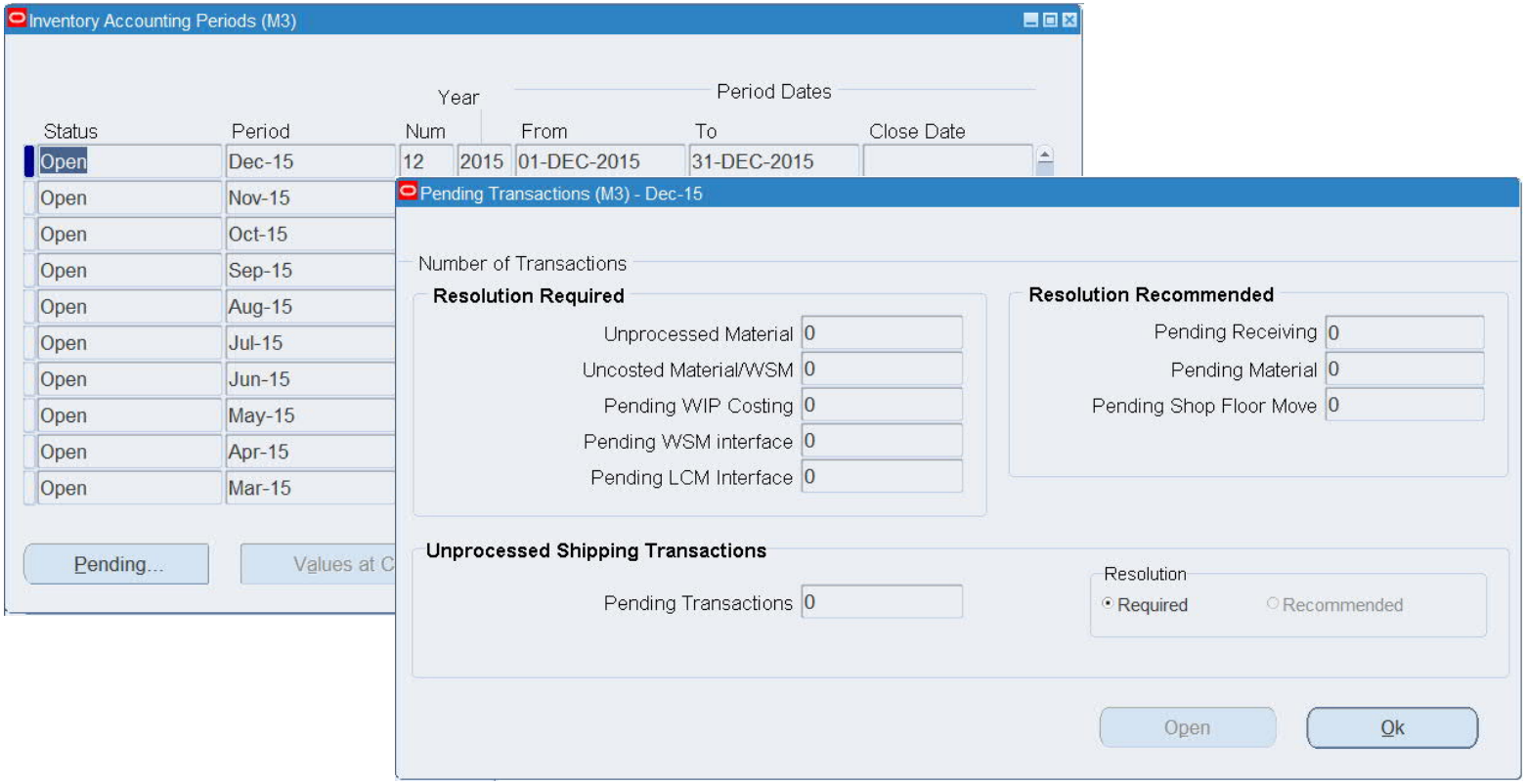

Cost Migration – Step 3

Menu path: Cost Management – SLA => Report => Value => All Inventories Value Report

Record Initial Onhand Quantities and Values

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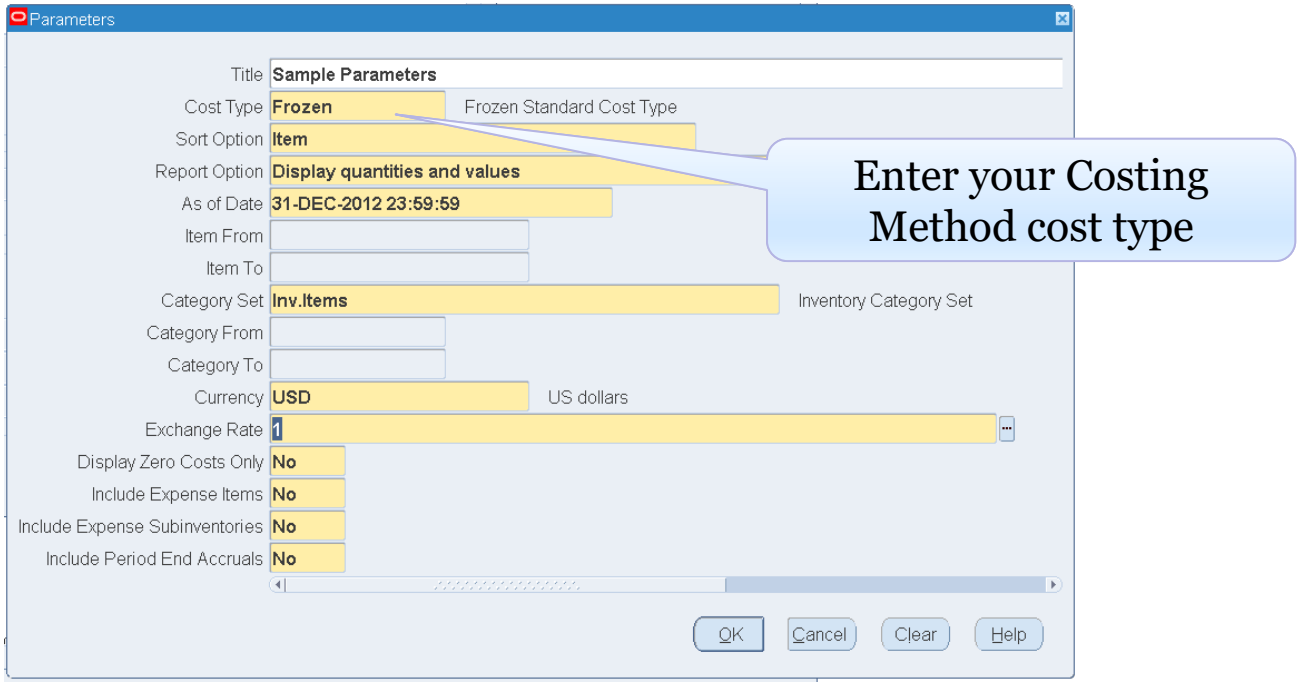


Cost Migration – Step 4

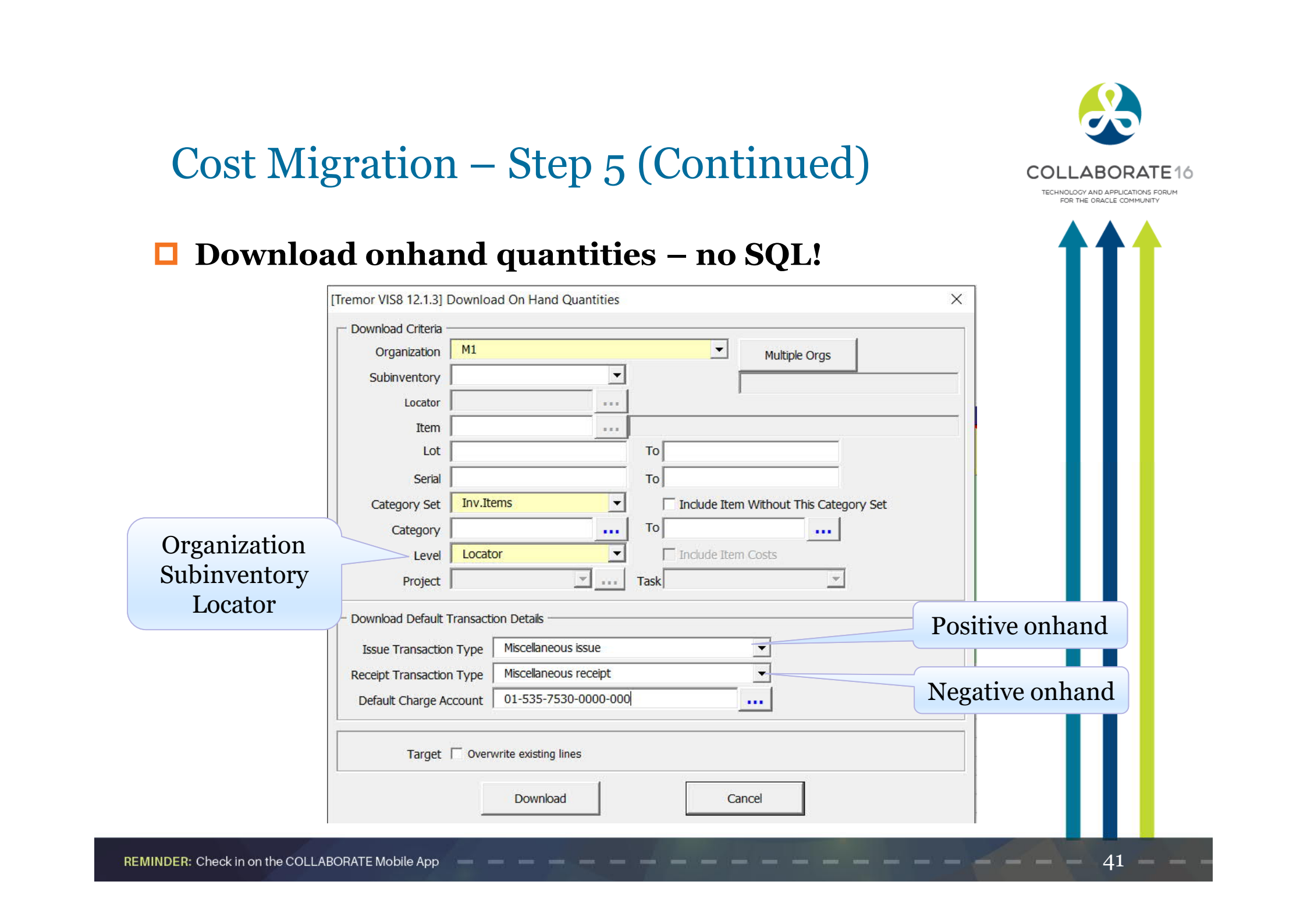
- **Enter Miscellaneous or Account Alias Issue Transactions**
  - Zero out your onhand inventory
  - You can use an IT approach, write an insert script and run transactions through your Open Transaction Interface
  - But if have less then 5,000 items in stock, the More4Apps Material Transaction Wizard lets your Inventory staff perform the transactions and frees up IT – no SQL needed!
  - Enables and encourages your Inventory staff to deal with ignored or hard-to-find transaction issues:
    - Negative onhand quantities
    - Corrupt or missing locator information
    - Transaction errors such as existing move-order allocations, WIP reservations and other gotchas which don't show up on the Inventory Close / Pending Transaction summary forms or reports.

Cost Migration – Step 5 (Continued)

Process Transactions with More4Apps

- More4Apps Transaction Wizard shows you any errors right in the Excel worksheet
- Very easy to use with minimal IT server setup
- With no programming, download your onhand quantities right into the worksheet, indicate the correct transaction type and transaction date and let it rip!
  - Positive inventory quantities uses Miscellaneous Issues
  - Negative inventory quantities uses Miscellaneous Receipts
- And for Step 10 you merely reverse the transaction type and reprocess the very same rows (after changing the Cost Method and related information)

Cost Migration – Step 5 (Continued)



- **Download onhand quantities – no SQL!**

[Tremor VIS8 12.1.3] Download On Hand Quantities

Download Criteria

Organization: M1 — Multiple Orgs

Subinventory

Locator

Item

Lot — To

Serial — To

Category Set: Inv.Items — Include Item Without This Category Set

Category — To

Level: Locator — Include Item Costs

Project — Task

Download Default Transaction Details

Issue Transaction Type: Miscellaneous issue

Receipt Transaction Type: Miscellaneous receipt

Default Charge Account: 01-535-7530-0000-000

Target — Overwrite existing lines

Download — Cancel

Organization
Subinventory
Locator

Positive onhand

Negative onhand

Cost Migration – Step 5 (Continued)

- **Process Transactions with More4Apps**

More4Apps
Material Transaction Wizard

UPLOAD RESULTS			Transaction Header												
Upload Result	Line Message	Line Transaction ID	Inventory Org Code	Transaction Date	Transaction Type	Transaction Source	Default Or Adjustment Account	Item	Item Description	Subinventory	Locator	Quantity	UOM	Unit Cost	Reference
Accepted	Transaction Completed	285646478	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS10000	405 Digital Camera	FGI		31	Ea		Zero-out qtys
Accepted	Transaction Completed	285646480	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16104	Epic Disaster GAMEBX	FGI		7	Ea		Zero-out qtys
Accepted	Transaction Completed	285646482	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16105	Cosmic Hero II GAMEB	FGI		37	Ea		Zero-out qtys
Accepted	Transaction Completed	285646484	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16107	Cosmic Hero IV GAMEI	FGI		10	Ea		Zero-out qtys
Accepted	Transaction Completed	285646486	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS18947	Sentinel Deluxe Deskto	FGI		10	Ea		Zero-out qtys
Accepted	Transaction Completed	285646488	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS30000	305 Digital Camera	FGI		12	Ea		Zero-out qtys
Accepted	Transaction Completed	285646490	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS34300	HP ProLiant DL740 - X	FGI		4	Ea		Zero-out qtys
Accepted	Transaction Completed	285646586	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS44400	President Model Deskto	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646632	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS54888	Sentinel Standard Desk	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646634	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS55888	Sentinel Standard Desk	FGI		9	Ea		Zero-out qtys
Accepted	Transaction Completed	285646636	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66311	Vision Pad DX - Mobile	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646638	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66312	Vision Pad SX - Mobile	FGI		20	Ea		Zero-out qtys
Accepted	Transaction Completed	285646640	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66313	Vision Pad ZX - Mobile	FGI		23	Ea		Zero-out qtys
Accepted	Transaction Completed	285646642	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66629	Envoy Ruggedized Lapt	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646644	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS72111	Envoy Deluxe Laptop	FGI		3	Ea		Zero-out qtys

Quick transaction feedback, no going back and forth into Oracle

Put comments against your transactions

Cost Migration – Step 6

Verify Zero Onhand Inventory

- Rerun the inventory value reports from step 3
- Should have no onhand quantities

```
Seattle Manufacturing                                                                                  Report Date:  09-NOV-2015 20:34
Sort by Item                                          Inventory Value Report                            As of Date:  09-NOV-2015 20:34:35
         Cost Type:  Frozen                           After Zeroing Out Qtys                                  Page:  1
      Category Set:  Inventory                        Summary        ( USD)



                                                 Planning MRP        Item
Item            Description     Category         Method   M/B  Asset Status     UOM        Quantity      Unit Cost   Extended Value
--------------- --------------- --------------- -------- ---- ----- ---------- ---    ------------ -------------- ----------------

                                                                                                                  ----------------
                                                                                                Report Total:                     0.00
                                                                                                                  ================

                                                      ***** End of Report *****
```

Cost Migration – Step 7

Change Costing Method

- **Caution:** Oracle Support will not support you in doing this
- **Warning:** Have to know what you are doing

```
-- Example
-- Set the Costing Method from Standard to Average Costing

UPDATE  inv.mtl_parameters mp
SET     mp.primary_cost_method  = 2  -- Average costing
WHERE   mp.primary_cost_method  = 1  -- Standard costing
AND     mp.organization_code    = '&Org_Code'
AND     mp.organization_id      = &Org_Id;
```

Cost Migration – Step 8

Set Up Initial Item Costs

- When you define or assign an item a database trigger automatically creates a zero cost row in that organization for your Costing Method Cost Type
- Without these rows the Inventory and Resource Cost Processors will fail
- Need to do this using SQL

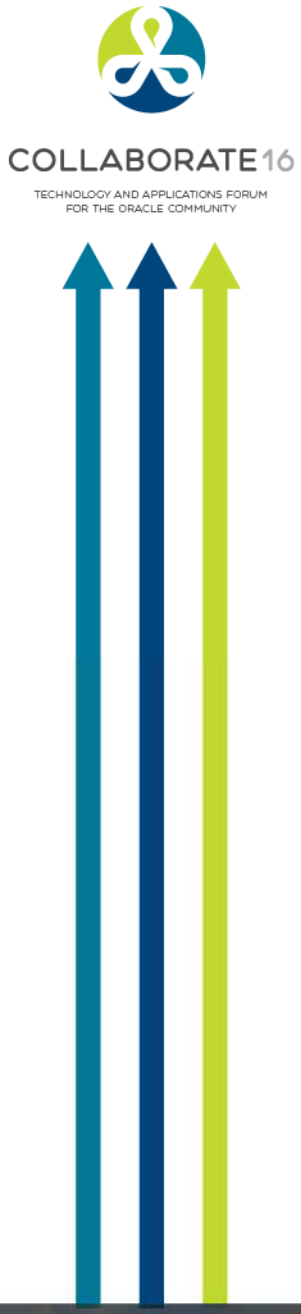
- **Warning:** Do not use SQL to copy your existing Costing Method Cost Type into your new Costing Method Cost Type (i.e. copying Frozen to Average or Average to Frozen)

Cost Migration – Step 8 (Continued)

Set Up Initial Item Costs

- If moving to Average, FIFO, LIFO Costing, your Miscellaneous Receipt transaction creates your initial item costs
- If moving to Standard Costing, in addition to initializing zero cost rows for your Frozen Cost Type you need to set up your Frozen costs BEFORE receiving back your onhand quantities
  - Use standard Oracle Item Cost Copy program to copy your Average/FIFO/LIFO costs into your Pending Cost Type
  - Review it using the Cost Type Comparison Report, by Level; Average and Pending must have the same costs by Level
  - Run the Standard Cost Update, updating Pending to Frozen BEFORE you receive back your onhand quantities
  - Again, use the Cost Type Comparison Report to compare Average and Frozen costs by Level

Cost Migration – Step 9



- **Step 9: Complete Other Cost Changes**
  - At this stage of the Cost Migration also consider:
    - Fixing any default inventory organization accounts
      - Some may be fixed manually, some require SQL
    - Correcting item attribute control levels or values:
      - Reset control levels as needed, Master vs. Org
      - Inventory asset flags
      - Costing enabled flags
      - Item types
      - Stockable
      - Transactable
      - And many, many more

Cost Migration – Steps 10 & 11

Enter & Process Inventory Receipt Transactions

- Using More4Apps Transaction Wizard, merely reverse the initial transaction types, change the reference information and reprocess the very same rows (after changing the Cost Method and related information)
- If more than 5,000 onhand rows to process consider using an IT approach, write an insert statement into the Open Transaction Interface (MTL_TRANSACTIONS_INTERFACE)
- Processing times with More4Apps Material Transaction Wizard varies with the available system memory (SGA); client experience ranges from 30 to 60 transactions per minute.

Cost Migration – Steps 10 & 11

Average Costing Inventory Receipt Transactions

- Whether using the More4Apps Transaction Wizard or writing a SQL script to insert into the Open Transactions Interface, your receipt transactions need an average material cost
- Use the More4Apps Item Cost Wizard to download your existing standard Costs … and using a VLOOKUP update the update the Item Cost column for the M4Apps Material Transaction Wizard
- Or run the Oracle Item Cost Summary Report (or a similar SQL report) to get your existing Standard Costs, and again, use a VLOOKUP function to update the item cost column
- And if you use material overheads you also need to set up your "Avg Rates" material overhead cost type

Cost Migration – Steps 10 & 11

- **Standard Costing Inventory Receipt Transactions**
  - If moving to Standard Costing don't specify an item cost on your receipt transactions
  - In Step 8 you created your new standards in advance and the Miscellaneous or Account Alias Receipt Transaction will use these standard costs

Cost Migration – Step 12

Check that Inventory has Same Onhand

- Even after changing your Cost Method, your Before and After inventory quantities and values must be the same
- Re-run the inventory value reports from step 3 and compare
- You can also use SQL to net the initial transactions from steps 4/5 against the transactions from steps 10/11 to see that they all net to zero, by item, subinventory and locator
- And as always, your transaction interfaces should be clear with no struck transactions
- Any differences must be researched and corrected

Cost Migration – Step 13

- **Additional Cost Changes for Standard Costing**
  - Need to re-roll your BOMs and Routing and re-freeze your standards, to avoid erroneous WIP job variances
  - The More4Apps Item Cost Wizard can help set your buy costs
- **Additional Cost Changes for Average Costing**
  - Use the More4Apps Material Transaction Wizard to make any necessary Average Cost updates
  - Especially for Buy Item Costs, when the old standards are bad
  - Use the standard Oracle Cost Mass Edits to calculate average A/P invoice costs or average PO receipt costs
  - Use the More4Apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost
  - Clients have also downloaded item master list prices as a source of new buy costs

Cost Migration – Step 14

- **Get Management Approval**
  - As most folks like their jobs …
    - Get sign-off from your Supply Chain representatives
    - Get sign-off from your Finance representatives

Cost Migration – Step 15

- **Release Cost Cut-Off Date**
  - Remove the Cost Cut-Off Date

    Allows the Cost Manager / Inventory and Resource Processors to cost transactions using the new item costs

Overall Recommendations

- If have the technical expertise, few inventory orgs and fewer items in stock — approach three — consider Cost Migration
- If don't have the technical expertise, or with multiple inventory organizations and lots of onhand inventory — approach two — Cost Transformation (eprentise) is safer with less disruption
- Don't recommend approach one — setting up a new org — unless you have no sales orders, purchase orders, BOMs, Routings or WIP
- More4Apps is quite useful with Cost Migrations … use the Material Transaction Wizard to move quantities in and out
- You can also use the More4Apps Material Transaction Wizard to process Average Cost Updates, or, use the More4Apps Item Cost Wizard to help set up your Standard Costs

Summary

- Three approaches for changing your Cost Method
- Determine which approach is best for you
- Questions, yes please contact Doug Volz @ doug@volzconsulting.com
- Or More4Apps at David.Wright@more4apps,com
- Or for eprentise, Ingrid Houghton at ihoughton@eprentise.com

Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Appendix

- Which costing method to use?
- Sharing costs across organizations
- Item cost controls
- How Oracle stores cost information
- Default cost accounts
- Standard vs. Average Cost Updates

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Appendix

- Which costing method to use?

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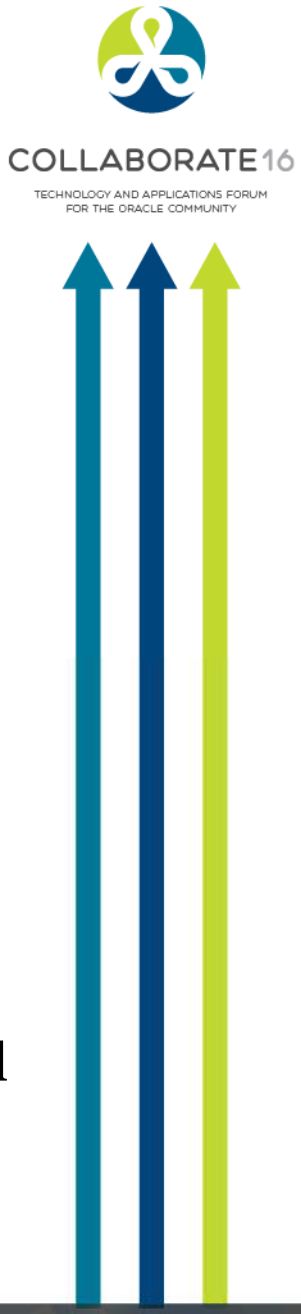
Average Costing



- Oracle supports a moving or weighted average cost
  - The unit cost changes with each receipt transaction
- Unit costs reflect the average of the incoming receipts from
  - purchase order receipts,
  - purchase order returns
  - inter-organization receipts
  - and for manufacturing, for WIP assembly completions
  - miscellaneous issues may or may not affect the unit cost
- All issues occur at the existing average costs
- Assembly costs come from the cost of your assemblies
- You may have indirect costs (material overheads, etc.) as well

Caution: must have accurate PO costs for Average Costing

Standard Costing

- The primary objective of standard costing is to provide a performance measurement system
  - Unit costs are set up in advance as an *expected* cost
  - Component costs (material costs) are defined using the projected average acquisition costs, plus any indirect costs
  - Assembly costs are rolled up
  - Standards are reset periodically, depending on how quickly your costs change

- All manufacturing and distribution activities are measured against the expected costs
  - Typical variances include:
    - Purchase Price Variance
    - Invoice Price Variance
    - Manufacturing Variances (material usage, resource efficiency, etc.)

Other Costing Methods

FIFO Costing

- FIFO costing values inventory by assuming that the oldest inventory (first in) is the first to be used or sold (first out), but there is no necessary relationship to the physical movement of specific items
- FIFO costing supports WIP costing

LIFO Costing

- LIFO costing values inventory by assuming that the most recently received item (last in) is the first to be used or sold (first out), but there is no necessary relationship to the physical movement of specific items
- LIFO costing supports WIP costing
- IFRS does not allow LIFO costing

Periodic Costing

- Periodic has dual costing capabilities, using Periodic Costing while using transaction-based "real-time" costing
- Periodic supports WIP costing
- Mostly used where legally required

Average Costing Pros

- Unit costs automatically reflect the average of the incoming receipts
- There is limited exposure to LCM adjustments (lower of cost or market) as the average cost is constantly being "re-averaged"
- Average costing is preferred when you have little or no control over your component costs, as common for many electronic component or distribution companies

Average Costing Cons

- Average costing is useless if your purchase order prices are inaccurate
- Average costing may be time-consuming to maintain
  - The multi-layer maintenance for average costing can be very time-consuming, for when the purchase order (or WIP completion costs) are incorrect
  - Especially for FIFO or LIFO costing, you correct the average costs by adjusting the individual receipt/WIP completion cost layer
- You only have one valuation account for each inventory organization (unless using PJM or WMS)
- The average unit costs are kept at the organization level, you cannot have separate valuation accounts by subinventory

Average Costing Cons

- No built-in expected vs. average cost analysis tools
- Custom reporting is required to compare your average costs results against expected target results
  - You can only compare any two sets of unit costs (like average vs. a set of budgeted unit costs), but you cannot compare your transactional results without significant manual effort
- If you change your average unit costs, average costing does not revalue WIP, only your stores/onhand/intransit quantities
- Much harder to track profit in inventory, as your profit in inventory fluctuates with the average cost changes

Standard Costing Pros

- You can easily see your performance against plan
  - As the transactions happen the variances are recorded
  - As a result, standard costing may offer better cost controls than average costing
- Standard costing may be preferred when you have some control over your component or raw material costs, as common for many manufacturing companies
  - Gives your non-cost accounting departments a consistent unit cost for pricing comparison purposes; it may be easier to understand than a constantly moving average
  - If your purchase order prices or WIP costs are inaccurate, your inventory balances still reflect your standard costs (and you see the problems immediately as variances)
  - You can use separate accounts by subinventory
- With constant values much easier to track profit in inventory

Standard Costing Cons

- Standard costing may not work when you cannot control your costs or do not have any influence over your suppliers, leading to large cost fluctuations for most items
- Standard costing doesn't work well if your costs are constantly changing with large fluctuations
- Standard costing will not be an effective measurement system if your line managers do not believe that the expected, predefined costs are attainable
- Even with standard costing, you need to have a way to track your running actual/average costs
- Standard absorption costing can lead Operations to incur positive manufacturing variances at the expense of inventory levels and cash flow

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Appendix

- Sharing costs across organizations

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Sharing Costs Across Organizations

- Under certain conditions, you can share standard costs across organizations
  - For example, you could designate one of the distribution inventory organizations as the “Cost Master” organization for the other distribution organizations
  - This feature reduces your standard cost maintenance, the costs are stored in one organization instead of multiple
  - Unfortunately, you cannot share costs with Average, LIFO or FIFO costing, or for manufacturing sites or even when you use bills of material without WIP

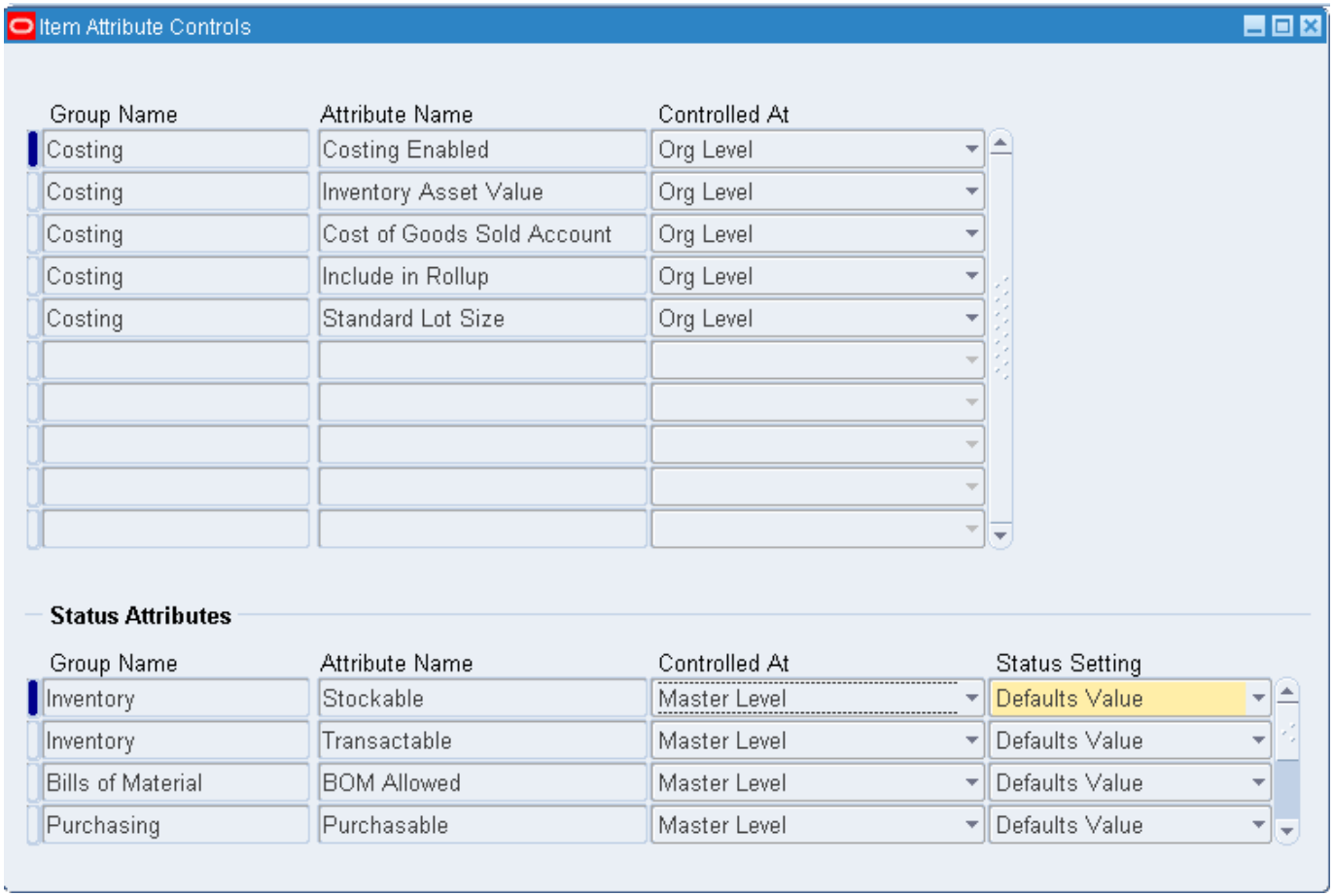
Cost Control Levels

- **Item Attributes**
  - Over 150 item attributes, grouped into categories such as:
    Asset Management, Bills of Material, Costing, General Planning, Inventory, Lead Times, MPS/MRP Planning, Main, Order Management, Physical Attributes, Process Manufacturing, Purchasing, Receiving, Service, Web Option, and Work in Process
  - They can be the same across multiple inventory orgs (Master Level) or different by inventory organization (Org Level)
  - For example, the item attribute **Item Status** is usually set by organization
- **Costing Enabled and Inventory Asset Item Attributes**
  - Controls how costs are maintained for all your inventory orgs
  - Set control level to **Master** if you want to share standard costs
  - Set control level to **Org** to maintain costs in each organization

Warning: for these two Costing Attributes use **Org level** control settings, only set to Master if sharing costs. Inventory valuation reports look at the Master Org controls if set to **Master**.

Cost Control Levels

Menu path: Inventory => Setup => Items => Attribute Controls



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- Item cost controls

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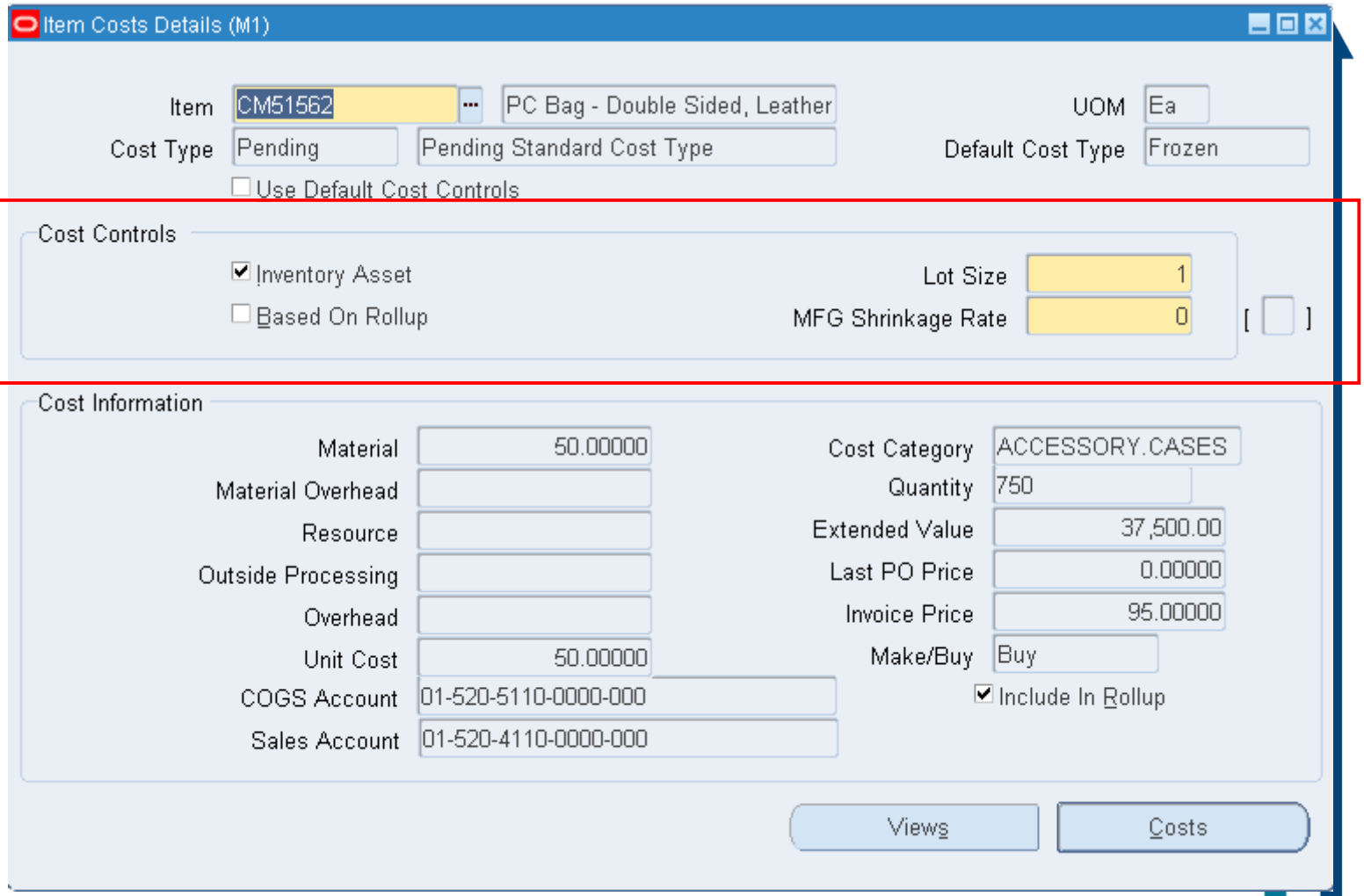
Item Cost Controls by Cost Type

Menu path: Cost Management – SLA => Item Costs => Item Costs => Open



Item Cost Controls – By Cost Type

- **Costing Enabled**
  - Checked (yes) means the item is available for item costing
  - Unchecked (no) means the item may not hold a cost at all
- **Inventory Asset**
  - Checked (yes) means the item is costed
  - Unchecked (no) means the item does not hold costs (but you can change this via the Cost Update)
- **Based on Rollup**
  - Determines if the cost comes from the cost rollup
  - Used for items sourced from another org or
  - Used for items whose costs come from a bill or routing

Item Cost Controls – By Cost Type

Use Default Cost Controls

- Determines if cost controls are defaulted for rolled up items
  - When set to **Yes**, the Cost Rollup replaces any previously rolled up costs and uses information from the default cost type
  - When set to **No**, the Cost Rollup still replaces any previously rolled up costs, but it only uses information from the rolled up cost type
- If Use Rollup Defaults is **Yes** the form also prevents you from changing your item controls or costs (because it is defaulted)

Item Cost Controls

- **Use Default Cost Controls to:**
  - Avoid rolling up obsolete or inactive items
    - Set the **Use Rollup Defaults** to **No** and change the **Based on Rollup flag** to **No** (so the Cost Rollup then ignores the item)
  - Manually enter assembly costs
    - Change the **Use Rollup Defaults** to **No** to be able to manually enter item costs for your rolled up items

- **Lot Size Controls**
  - Costing has a lot size separate from planning
  - Used to calculate item costs with a basis type of lot (amount / lot size)
  - With Standard Costing you change the Frozen lot size by using the Standard Cost Update

MFG Shrinkage Rate

- **Used for Assembly Cost Rollups**
  - Used to indicate the overall shrinkage or loss for the assembly
  - Not used on buy items
  - If you have no shrinkage the value is 0 (zero)
  - The shrink factor is a derived number, representing the effect the MFG shrinkage rate has on the cost of the item. The formula is:

    1/(1-MFG shrinkage rate)
  - Shrinkage factors affect and change all of the component costs from the assembly to the bottom of the bill of material

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How Oracle Stores Cost Information

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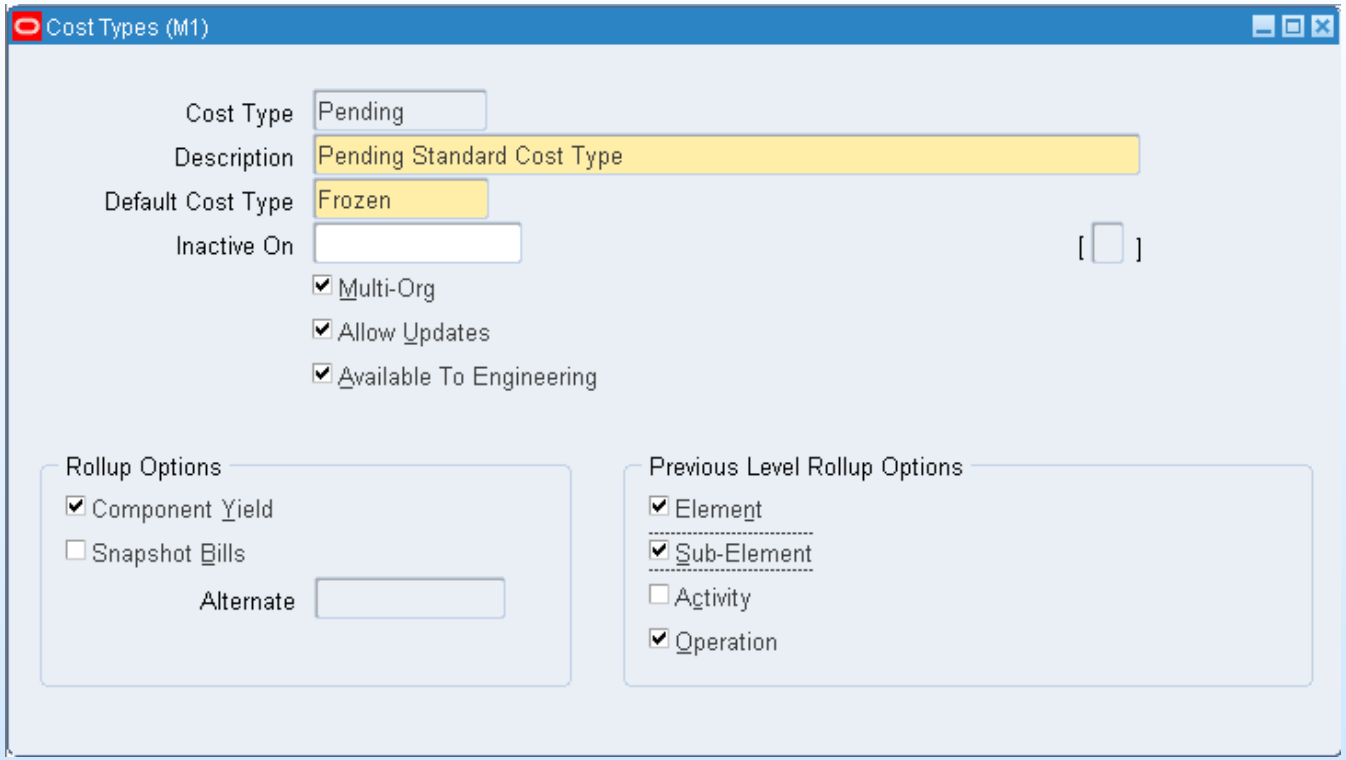
Cost Type Definition – Std Cost Example

Menu path: Cost Management - SLA => Setup => Cost Types



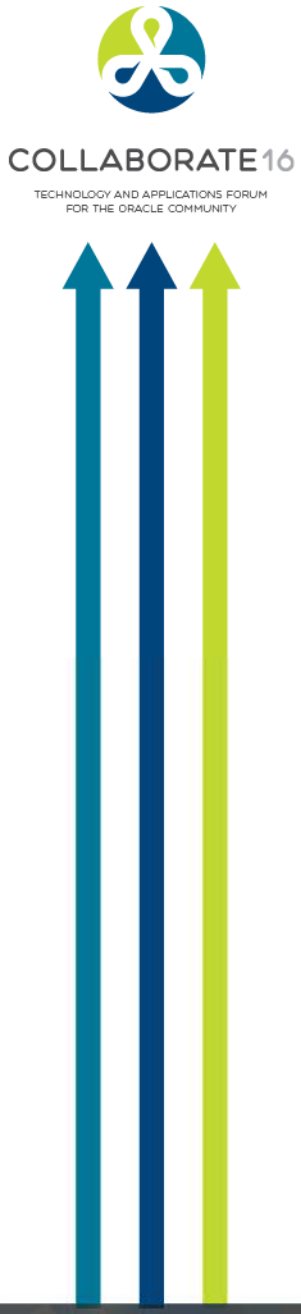
- Multi-Org so all inventory organizations can share the name
- Rollup Options and Previous Level Rollup Options used by Std Costing
- "Inactive On" controls date availability various forms and lookups

Item Costing Setup

- Seeded Cost Types (from CST_COST_TYPES)

COST TYPE	COSTING METHOD	Cost Type Id	Cost Method Id
FROZEN (Standard)	Standard	1	1
AVERAGE	Average	2	2
PENDING	Any	3	N/A
FIFO	FIFO	5	5
LIFO	LIFO	4	4
CTO (Configure to Order)	Any	6	N/A
DPP (Price Protection)	DPP	7	N/A

Cost Elements



- Five, count'em five …
  - Material
  - Material Overhead
  - Resources
  - Outside Processing
  - Overheads (Production Overheads)
- Account by cost element
  (R12 distributions always by cost element …)
- Valuation accounts by cost element
- Valuation reporting by cost element

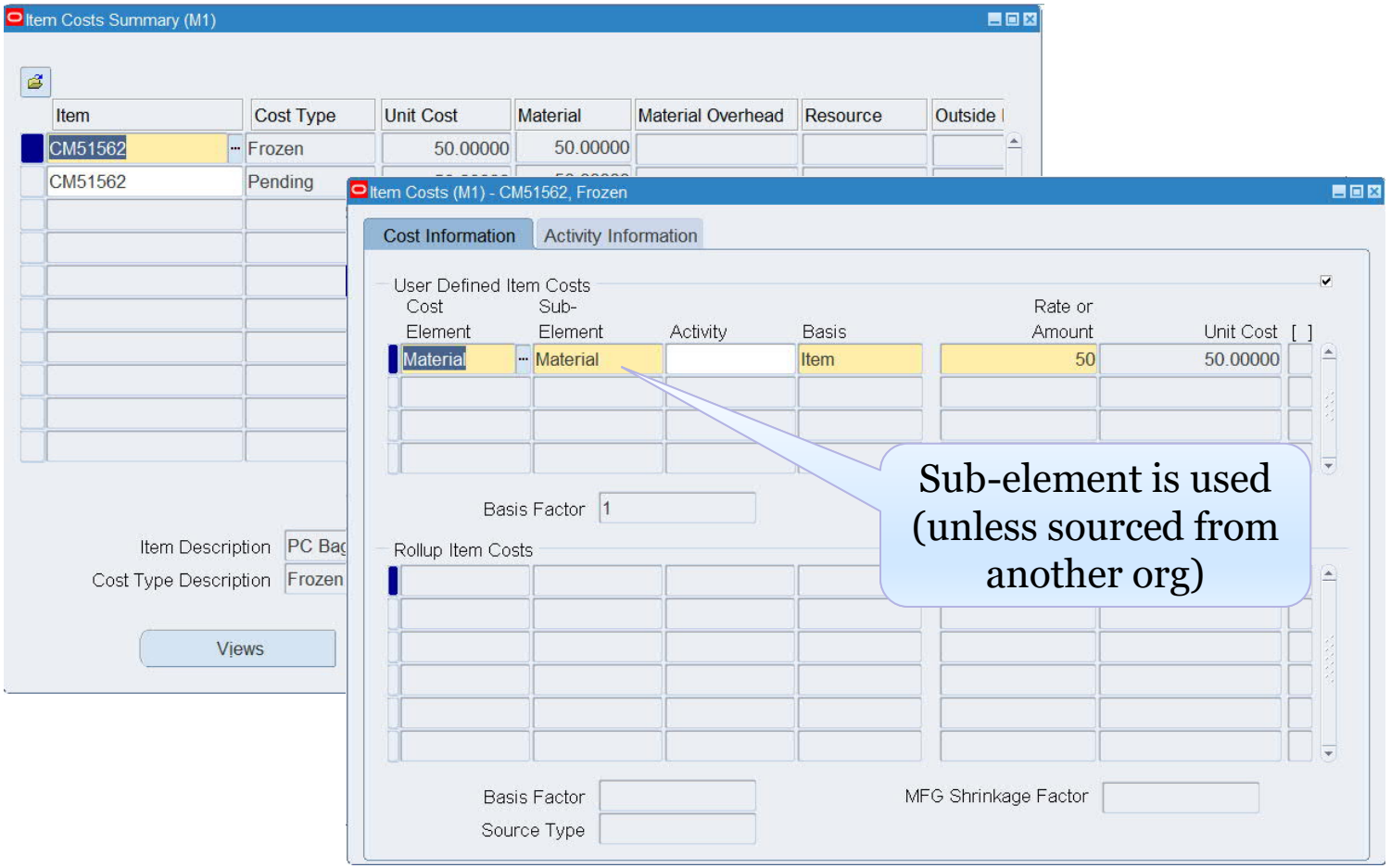
Cost Sub-Elements

- For Standard Costing, unlimited sub-elements
  - Material (metal, plastic, etc.)
  - Material overhead (in-bound freight, etc.)
  - Resources (labor, machine groups, etc.)
  - Outside Processing (subcontract vendor, service1, service2, etc.)
  - Production Overheads (Factory Burdens, etc.)

Sub-Elements for Standard Costing

Menu path: Cost Management – SLA => Item Costs => Item Costs => Costs

- Standard costing holds costs by element and sub-element



Cost Sub-Elements (continued)

- For Average Costing, different use of sub-elements
  - Material – material sub-elements are not used, not included in the item cost details
  - Material overhead - details only in the AvgRates cost type
  - Resources, Outside Processing, Production Overheads defined by sub-element but not included in the item cost details

Sub-Element Differences for Average Costing

Menu path: Cost Management – SLA => Item Costs => Item Costs => Costs

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- Average costing only holds costs by cost element

Item Costs Summary (M3)

Item	Cost Type	Unit Cost	Material	Material Overhead	Resource	Outside F
CM51562	Average	115.47414	115.47414			

Item Description PC Ba

Cost Type Description Averag

Views

Item Costs (M3) - CM51562, Average

Cost Information | Activity Information

User Defined Item Costs

Cost Element	Sub-Element	Activity	Basis	Rate or Amount	Unit Cost	[ ]
Material			Item	115.474137931034	115.47414	

Basis Factor 1

Rollup Item Costs

Basis Factor

Source Type

MFG Shrinkage Factor

Sub-element is not used

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Default Cost Accounts

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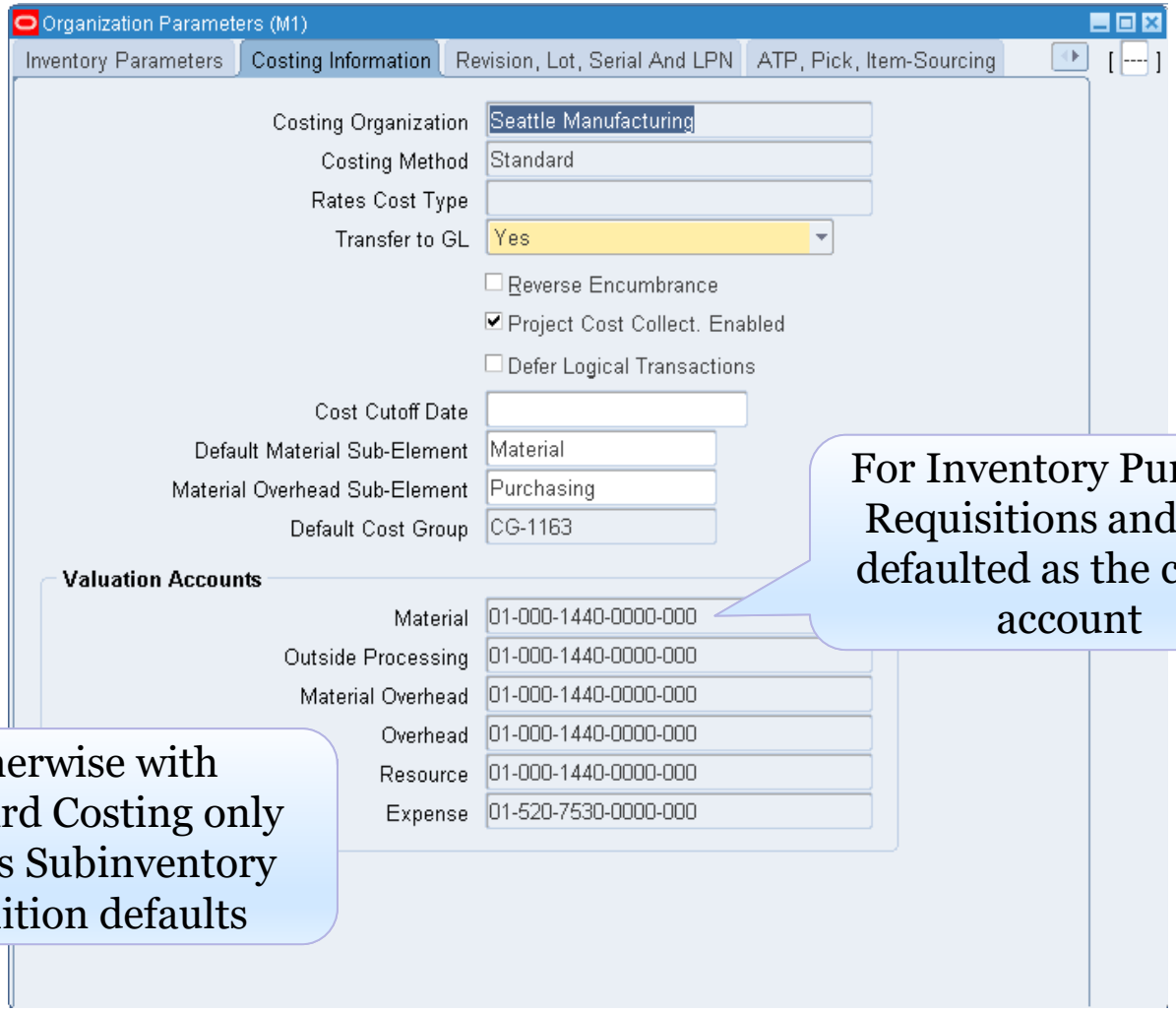
Default Cost Accounts

Menu path:
Cost Management - SLA => Setup => Account Assignment => Organization Parameters

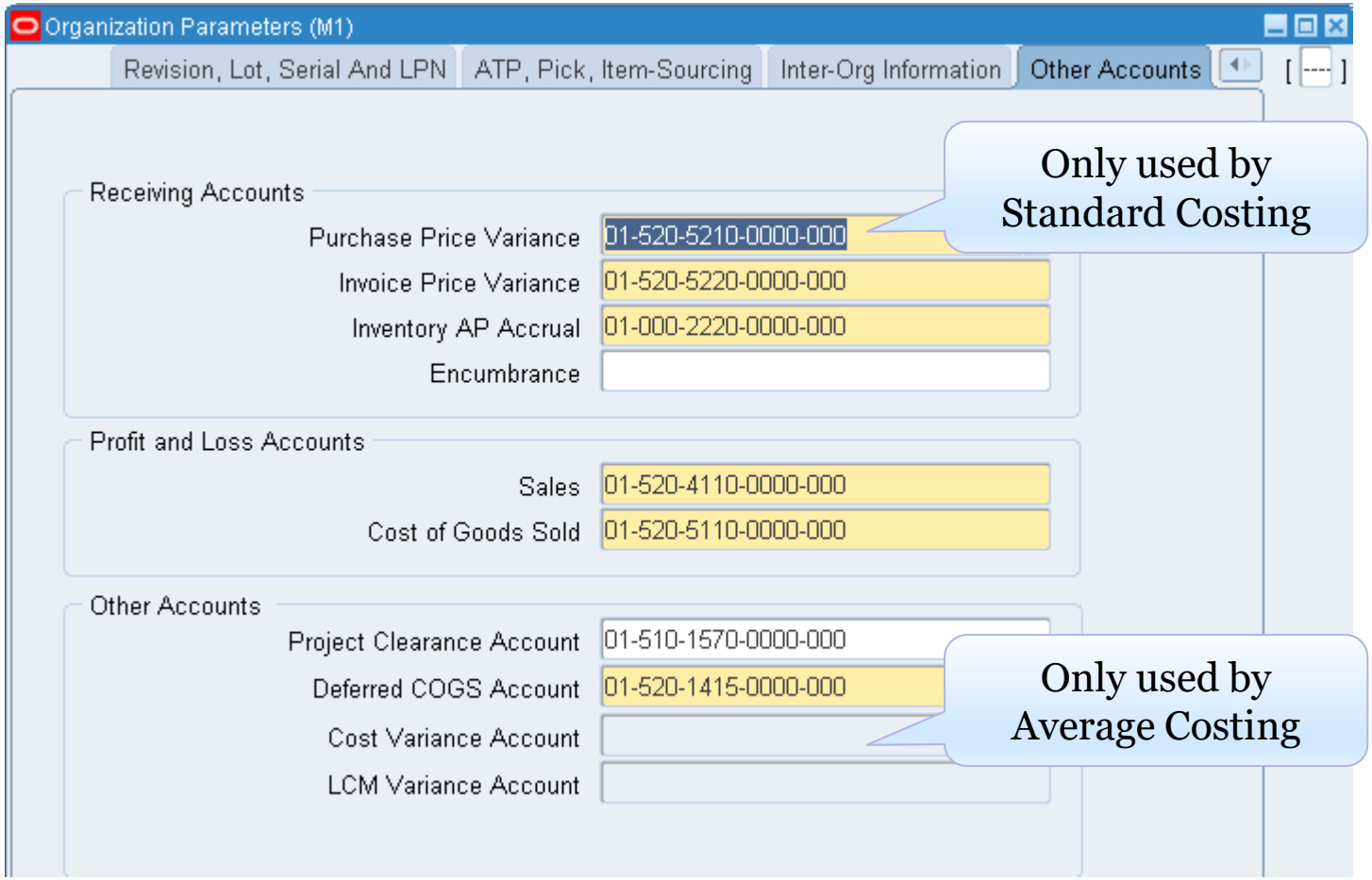


For Inventory Purchase Requisitions and POs, defaulted as the charge account

Otherwise with Standard Costing only used as Subinventory definition defaults

Default Cost Accounts

Menu path:
Cost Management - SLA => Setup => Account Assignment => Organization Parameters



Use of Default Cost Accounts

- Standard and Average both use:
  - Expense and Inventory Accrual Accounts
  - Receiving Valuation Accounts
  - Invoice Price Variance, Inventory A/P Accrual Accounts
  - Sales and Cost of Sales Accounts
  - WIP Accounting Classes
  - Inventory Account Aliases
- Standard Costing uses:
  - Purchase Price Variance
  - Inter-org Purchase Price Variance Accounts
  - Subinventory valuation and expense accounts
- Average Costing uses:
  - Cost Variance
  - Organization level valuation accounts (defaulted from the Cost Group Assignment & Accounts)

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Appendix

- Standard vs. Average Cost Updates

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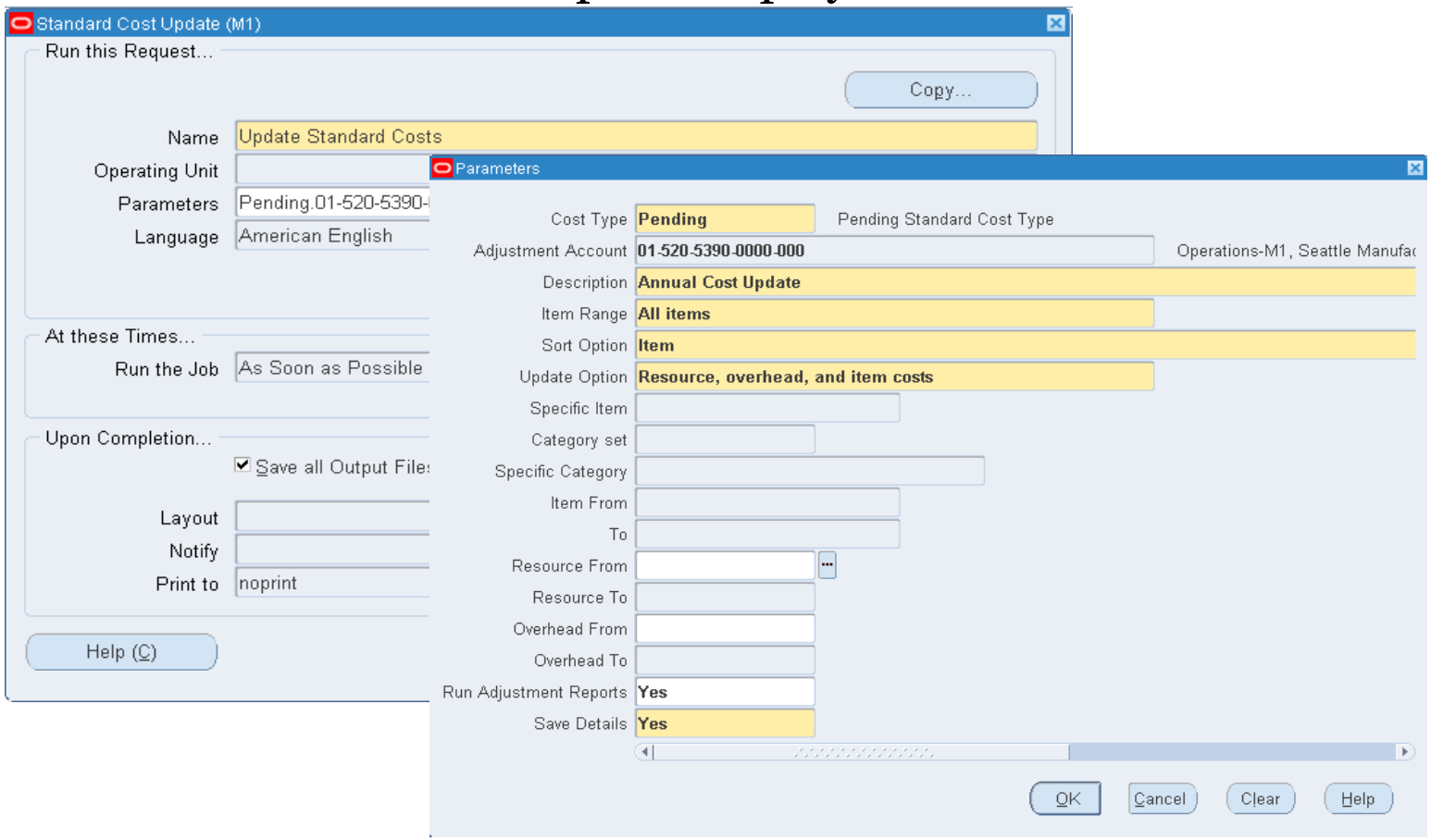
Updating Standard Costs

Menu path:
Cost Management – SLA => Item Costs => Standard Cost Update => Update Costs

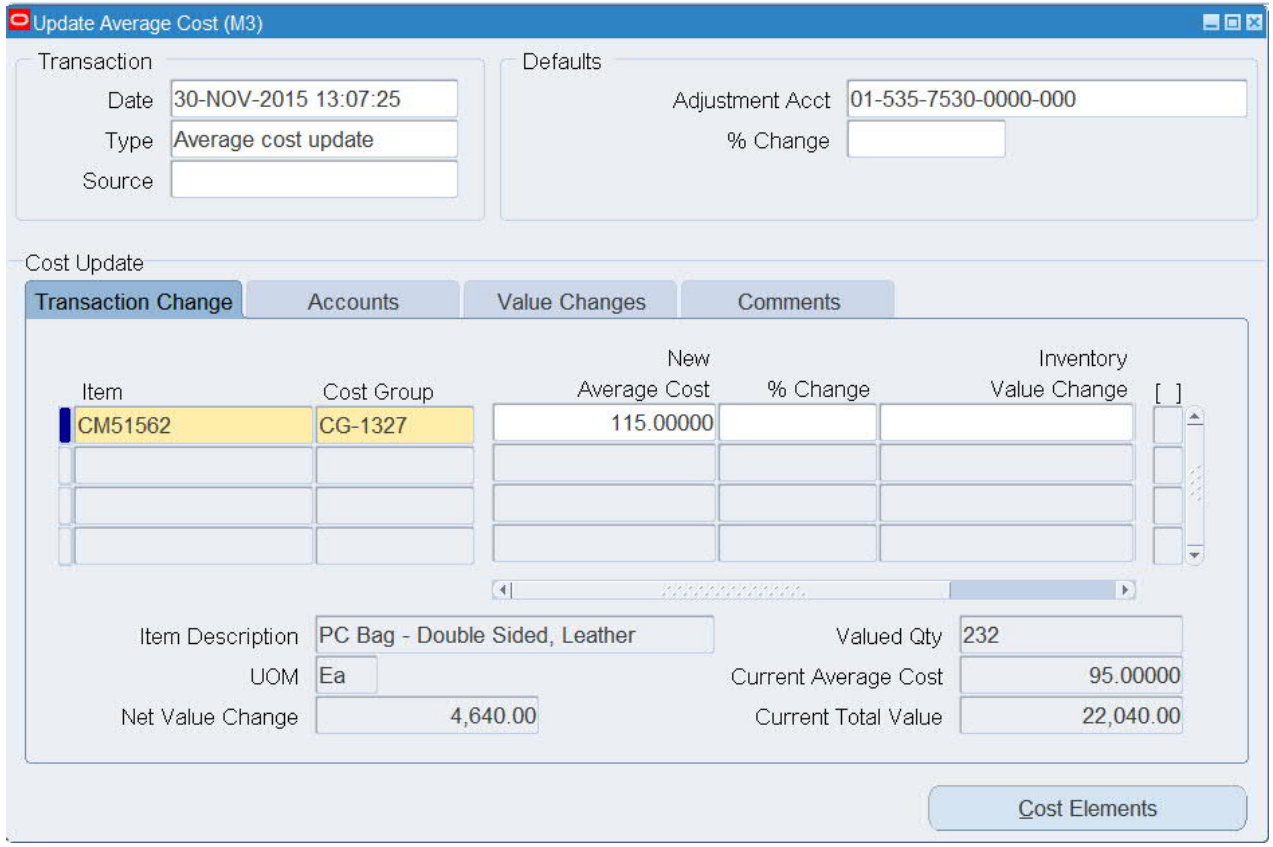
- The Standard Cost Update program creates material transactions which are picked up by the Inv. Cost Processor



Updating Average (FIFO/LIFO) Costs

Menu path:
Cost Management – SLA => Item Costs => Average Cost Update => Update Costs

- The Average Cost Update program creates a Open Transaction Interface entry



End of Presentation