

BONANZA OF ACTUAL COSTING FOR THE SAP ERP RUN BUSINESSES WHO HAVE MIGRATED TO S/4 HANA

Abstract

SAP AG, a global market leader in ERP segment, had launched SAP S/4 HANA, a more advanced new generation ERP software in the year 2015 and consequently, SAP wants all its customers to move to this new advanced ERP suite from the older version of SAP ECC 6.0 through migration. By 2027, SAP AG will no longer extend maintenance to SAP ECC so that all SAP run businesses have to migrate to this new ERP suite. Through this major and long-pending upgrade, SAP AG launched SAP S/4 HANA, which not only streamlined its features and complex processes but also enabled the use of emerging technologies like AI, Machine learning, cloud databases, etc., in its products. This brings in long awaited necessary automation for the SAP run businesses to improve business efficiency and speed of the business.

Introduction

In this article, we take up one of the features and processes which was streamlined, that is the functionality of Material Ledger (ML) which was optional in earlier version of SAP ECC and now it has been made mandatory in S/4 HANA. Material Ledger is a sub-ledger like AP, AR, Fixed Assets, and a tool that fulfills two basic objectives: firstly, the ability to manage material prices in multiple currencies and valuation, and secondly, in running the Actual costing functionality.

Earlier, most of the businesses and SAP implementation partners were very much scared to activate this ML, since it brings in many aggregate and index tables which will complicate many of the processes and the system had to face lots of challenges. Its deactivation at a later date is not at all possible and earlier some businesses had aborted their go-live plan and, in some cases, they scraped the whole system which had gone live, in some cases after some period of running the system, they scraped the system with huge loss of money and efforts. Now, in S/4 HANA, ML is a part of huge table ACDOCA and the scariness towards the ML is a thing of the past. But this ML is a prerequisite to activate Actual Costing functionality which is an important costing strategy in the realm of Product Costing, Management Accounting and particularly in inventory valuation of in-house produced materials. Hence, those SAP



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run businesses who have migrated to S/4 HANA, can retroactively activate Actual Costing and Actual Cost component structure since ML is activated by default during the migration to S/4 HANA.

During the migration, almost all organizations are opting to activate only the Material Ledger Functionality for material valuation which is mandatory, and deferring the activation of Actual Costing functionality. In this article, we will try to enlighten the readers about the practical steps and tips how to go about subsequent activating the Actual Costing once ML is active with the existing Cost Component Structure or with the new cost component structure. To explain about what is meant by Cost Component Structure, it groups the costs for each material according to cost component (such as

material costs, internal activities, external activities, and overhead). In some organisations, they go for a change to new Cost Component Structure with different split due to changing ecosystem of the organisations from the new period onwards. Let us understand what and how this Actual Costing functionality brings a huge change in the costing environment and strategies of the SAP run businesses.

Actual Costing and Inventory Valuation

Actual Costing is a process in SAP ERP that identifies the differences between the standard price and the real procurement prices of the goods from third parties and actual manufacturing cost of the in-house manufactured products. These procurement price differences are recorded in the ML when the materials are procured and issued to production. In the period end, all these records in the ML are consolidated to calculate the periodic unit price (PUP). The incremental and decremental between the standard price and PUP is passed on to the Production orders as per the consumption in terms of quantities as multi-level differences. Initially, the customer will not be comfortable with having procured materials at the standard price (Price Control 'S') since they are used to having the Weighted Moving average (Price control 'V'). Here, we need to convince the customer that this change will bring in Periodic Unit price which is nothing but a periodic moving price instead of transaction based moving average prices. In my experience, I found that the said changes have helped a lot in the case of Metal industries, where the raw materials are procured based on London Metal Exchange (LME) prices, and the price will be known only at the end of the month through the monthly invoice. At the time of Invoice verification (MIRO), we can update the invoice price for all the multiple consignments received (MIGO) in a month in one go so as to capture all the variances.

In the case of in-house produced materials, the production variances are calculated and settled to the materials at the time of settlement of production orders. These Production variances along with the purchase price differences of raw materials are consolidated to arrive at the PUP of the in-house produced materials. These PUP of both raw materials and in-house produced products will be taken up for the inventory valuation in the month end. The best part is that we get the actual cost at Cost Component wise in the case of SFG and FG. During the closing step of the Actual Costing Cockpit execution, the closing postings to finance happens and the postings

are reversed in the 1st day of the following month simultaneously so that the materials are valued again at Standard price. These postings help in getting accurate and realistic profitability when we apply the PUP of the in-house produced materials as actual COGS of the product sales income.

Configuration

There is a simple configuration of activation of Actual costing for the Plants and activating the Actual cost component structure which are the mandatory configuration to be done any time and tested by replicating procurement, production, sales and financial postings, period end closing activities and lastly executing Actual Costing Cockpit in Development servers before moving to Production client. We need to execute the program FCML4H_STARTUP which activates the Actual Costing functionality in S/4 HANA by generating new data structures.

When there is a change in Cost Component structure, we need to take lots of precautions so that it will not leave any scope for any kind of data inconsistency in the system. We need to take up the period end closing activities for the previous month (Period 1) immediately and then do the changes in the Price determination to 3-Single/Multi Level in all BOM relevant Material Masters from 2-transaction based. Then we can move to the new period and do the costing run to release the estimated standard cost for all the SFG and FG in one go in new cost component structure. After that we need to run another program FCML4H_CCS_CHANGE in the new period (Period 2). Then only we can allow all goods movements and other transactions in the system. In the period end, the customer has to undertake an additional activity of the execution Actual Costing Cockpit (CKMLCP) after the settlement of production orders in the new period (Period 2).

In this connection, we need to go through the OSS notes 3136485 and 3012656 in detail and adopt the procedure as explained above accordingly.

Conclusion

Thus, SAP-run businesses, which have migrated to S/4 HANA, could benefit from its flexibility in swiftly activating not only the Actual Costing functionality but also reaping the full potential of SAP S/4 HANA investment. They can now upgrade its Cost and Management Accounting strategies in response to global competition and evolving business dynamics. 