



Tanya Duncan

Practical Guide to SAP® CO-PC (Product Cost Controlling)

- ▶ Cost Center Planning Process
- ▶ Costing Run Execution
- ▶ Actual Cost Analysis & Reporting
- ▶ Controlling Master Data
- ▶ Month End Processes in Detail
- ▶ Configuration for Product Costing

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2 Product Cost Planning

The beginning of the product cost planning cycle is *cost center planning*. The goal of cost center planning is to create activity rates used in product costing, as well as allow for variance analysis and under/over absorption by cost center.

Before explaining details on cost center variance analysis and activity rate calculation, we will start with foundational knowledge of controlling master data. Profit centers, cost centers, cost elements, statistical key figures, and activity rates are key controlling master data required in product costing. An understanding of these components of master data is important as you build your understanding of product cost planning.

2.1 Profit centers

Profit centers represent an organizational unit in the accounting and controlling modules in SAP. They reflect a management-oriented structure of the enterprise for the purpose of internal control. Both expense and revenue postings require a profit center in order to build a profitability view by profit center. Profit centers are created for revenue generating areas such as product lines, divisions, regions, or functions.

Profit center postings are generated in parallel to postings made in the controlling module and the results are reviewed in a separate ledger. The configuration for activating profit center accounting can be accessed through transaction OKKP or through the IMG menu

path CONTROLLING • GENERAL CONTROLLING • ORGANIZATION • MAINTAIN CONTROLLING AREA.

Profit centers are assigned to balance sheet items like assets, payables, receivables, and inventory. Profit centers are also assigned to material masters and cost centers in order to derive a profit center on each posting.

Profit centers are created in transaction KE51. They are specific to a controlling area and are extended to relevant company codes in the company code tab. You can also assign profit centers to company codes in mass using transaction KE56 (see Figure 2.1).

Display Profit Center

Drilldown Period of Examination

General Data

Profit Center	1000		
Controlling Area	1000	Sample company Mexico	
Validity period	01.01.2014	To	31.12.9999

Basic data Indicators Company codes Address Communication History

Descriptions

Profit Center	1000	Status	Active
Analysis Period	01.01.2014	to	31.12.9999
Name	Men's Cologne		
Long Text	Men's Cologne		

Basic Data

User Responsible	
Person Respons.	Sally Draper
Department	
Profit Ctr Group	HEALTH Health & Beauty
Segment	

Figure 2.1: Display profit center

A *dummy profit center* '999' should be created in each company code. The dummy profit center is used as a default profit center when a profit center cannot be determined. The balance in this profit center should be reviewed at month-end and year-end to move any costs that are not assigned properly. Dummy profit centers are created in transaction KE59 and the dummy profit center indicator is automatically set on the indicators tab.

Partner profit center is important in profit center consolidations where costs and revenues result from inter or intracompany transactions. Partner profit center is configured to show the sender and receiver relationship between costs. It can be used in postings resulting from cost allocations or purchases where costs are moved from one profit center to another.

Partner profit centers can be derived from the supplying object if the sender is in the same SAP version. Derivation rules can also be configured if the supplier is not in the same SAP version using vendor, customer, material, company, etc.

Profit center analysis period tip



When creating a profit center, ensure that the analysis period date range matches the date range of cost centers. If a profit center is created with a smaller date range than that of a cost center, you will receive an error when you try to assign the profit center to a cost center.

The person responsible and profit center group are required fields. You can assign profit centers to company codes on the company code tab. The address and communication tabs are optional and provide fields for indicating contact information for a profit center owner.

Activate profit center warning!



After you save a newly created or changed profit center, note that the status on the basic data tab is inactive. You must click the matchstick button to activate the new profit center after you make modifications.

2.1.1 Profit center hierarchy

A *profit center hierarchy* is required for each controlling area. Within a profit center hierarchy, you create profit center groups to combine like profit centers for reporting and profit center allocations (if applicable). Typically hierarchy requirements for grouping profit centers come from executive leadership.

Profit center group example



You may want to group together profit centers that are produced using a certain type of product, or multiple profit centers that represent a division of the company. P&G, for example, may group health products in one profit center group separate from home cleaning products.

You can build your hierarchy many levels deep to achieve the level of reporting desired. The profit center group you assign in the profit center master data is the lowest level group above the profit center. The profit center hierarchy can be changed or displayed in transaction KCH6N (see Figure 2.2).

Standard Hierarchy	Name	Activation sta...	Person Respo...
BP	Best Practices		
H19	Dummy		
9999	Dummy	<input checked="" type="checkbox"/>	Best Practices
H18	Allocation		
8000	Allocation	<input checked="" type="checkbox"/>	Best Practices
H17	Service		
7000	Service	<input checked="" type="checkbox"/>	Best Practices
H16	Value Added		
H111	Product		
1100	Product A	<input checked="" type="checkbox"/>	Best Practices
1200	Product B	<input checked="" type="checkbox"/>	Best Practices
H119	Shared Services, Default		
8000	Shared Services	<input checked="" type="checkbox"/>	Best Practices
9000	Default	<input checked="" type="checkbox"/>	Best Practices

Figure 2.2: Display profit center hierarchy

2.2 Cost centers

Cost centers are used to manage the expenses of departments and provide decision-making data for management. This requires that all costs be assigned according to their source. While expenses may temporarily be held on projects, internal orders, or manufacturing orders, they are eventually settled to cost centers as a final cost object.

Cost center accounting lets you analyze overhead costs according to where they were incurred within the organization. In addition to plan versus actual analysis, you can also see the under/over absorption by cost center. This is an important analysis to perform when planning activity rates for product costing. If a cost center was

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