Reading Sample

In this chapter, you'll learn how to perform profit center transfer pricing via the Material Ledger in SAP S/4HANA. You'll follow step-by-step instructions for setting up standard cost estimates, work in process, manufacturing orders, and more.

"Profit Center Valuation"

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Chapter 4
Profit Center Valuation

Profit center valuation provides a separate view for valuing inventory in accordance to transfer pricing condition values that are set up between profit centers that transact with each other.

In the previous chapter, we discussed one of the main valuation views used with the Material Ledger: group valuation. In this chapter, we'll discuss another common valuation view—profit center valuation. Before we start this discussion, let's look at what a profit center is typically used for. Of all the master data objects in SAP, the profit center is the one that has had the most facelifts. This is partly because SAP has been changing the purpose of a profit center since introducing it.

Another factor that contributes to the variability of the profit center is that SAP customers tend to use profit centers in a variety of ways (apart from SAP's intended purpose), such as the following:

- A strict representation of plants
- A one-to-one match with cost centers
- A catchall for any controlling postings that don't have a cost object

These uses probably have something to do with the fact that most traditional accounting systems didn't have profit centers. Therefore, when companies implemented SAP for the first time, they couldn't quite figure out what to do with it and used it more as a placeholder for technical purposes, rather than as an organization unit for management reporting purposes.

A profit center represents a business unit that is used to determine profit for internal areas of responsibility. Most companies have an idea of what represents a profit center, but they may not have structured the SAP system in a way that they can easily isolate the results of their profit centers. In cases where different business units in an organization report their profits on a profit center level, it's useful to identify the revenues that take place for both internal and external entities. It's easier to identify the external revenue for a profit center because this is simply the sales that occur from billing transactions with external customers which get posted to revenue (and cost of sales) accounts. However, it's a little trickier to record internal revenues on a profit center basis because most of these transactions don't create postings to revenue accounts. Instead, they are either stock transport orders, which involve the transfer of materials from one plant (and profit center) to a different plant (and profit center), or production

orders, which occur when the consumption of a material in one profit center is used in the manufacturing order of a material in a different profit center.

In this chapter, we'll look at the transfer pricing logic with profit center valuation (Section 4.1) and show how a standard cost can be calculated for profit center valuation (Section 4.2). We'll then show how to configure profit center valuation for work in process (WIP) (Section 4.3), as well as walk through scenarios where profit center transfer pricing is calculated when there are material transfers across profit centers (Section 4.4) and when manufacturing orders are created using materials in a different profit center (Section 4.5).

4.1 Transfer Pricing Logic with Profit Center Valuation

If you want to record the internal profit between profit centers, you'll need to use the transfer pricing functionality with profit center valuation. This allows you to activate transfer prices for exchanges between profit centers and hence monitor their internal profits. Therefore, a stock transfer between two plants (with different profit centers) in the same company code will constitute a sale for the sending plant in the profit center valuation view, even though it will simply be a consumption in the legal valuation view.

In this section, we'll show the configuration that is needed to define a currency type for profit center valuation, define transfer pricing for profit center valuation, and define the accounts that are used for internal goods movements.

4.1.1 Defining the Currency Type for Profit Center Accounting

The first setting you'll make is to define the group currency as the profit center currency. This will enable the display of profit center reports in this currency. To do this, go to configuration menu path **Controlling • Profit Center Accounting • Basic Settings • Controlling Area Settings • Maintain Controlling Area Settings** or use Transaction OKE5. The screen shown in Figure 4.1 appears.

Figure 4.1 Defining the Profit Center Currency in the Controlling Area

Enter currency type "30" (group currency) as the **PCtr Local Currency Type**. This will ensure that profit center reports are updated in this currency (in addition to the document currency and company code currency). Then select **Profit Center Valuation** in the **Valuation View** dropdown, which will ensure that the data is stored in the profit center valuation view of the controlling area. Click the **Save** button to save your settings.

4.1.2 Defining Transfer Pricing for Profit Center Valuation

Now you'll define the transfer pricing for profit center valuation. To do so, go to configuration menu path **Financial Accounting • General Ledger Accounting • Business Transactions • Parallel Valuation Approaches/Transfer Prices • Basic Settings for Pricing** or use Transaction 8KEZ. On the **Pricing: Maintain Condition Type** main screen that appears, go to the **Condition types** section (top-left), as shown in Figure 4.2.

Condition types	Description
🗋 Create	
> 🗁 Base condition from costing	
> 🗁 Base cond.from material ledger	
> 🗁 Fixed Price	
> 🗁 Percentage Overhead	
🗁 Other Condition Types	

Figure 4.2 Condition Types Section

You can see several folders in which condition types can be created, depending on how you want to enter the transfer price.

> **Note: Standard Condition Types**
>
> Depending on your system, you may find that the transfer price settings are already available with the standard condition types TPB2 (Costing Basis), TPB1 (Material Ledger), TP01 (Transfer Price – Fix), and TP02 (Markup). In our case, we'll assume that there are no standard condition types set up and create them from scratch.

Let's walk through the various conditions that must be created.

Planned Transfer Price

To create the transfer price as a percentage of the standard cost, you first need to create a base condition. To do this, click the **Base condition from costing** folder, and then click the **Create** button. You can then enter the details that appear on the right side of the screen, as shown in Figure 4.3.

Figure 4.3 Creating a Base Condition Type

Enter a base **Condition Type** "TPB2", label it "Standard Cost", and select the **Base Condition Type from Costing** option that appears at the bottom of the screen.

Now let's create another condition type that represents a percentage applied to this base condition. Click on the **Percentage Overhead** folder shown earlier in Figure 4.2, click on the **Create** button, and then enter the details shown in Figure 4.4. Enter a **Condition Type** as "TPO2" (and enter "Markup Standard"), and select the **Percentage Overhead** option shown at the bottom of the screen.

Figure 4.4 Creating a Percentage Condition Type

Now let's create the condition records for this condition type by clicking on the **Records for Cond. Type** button shown in Figure 4.4, which will bring up the **Key Combination** popup box shown in Figure 4.5.

Figure 4.5 Key Combination for Percentage Condition Type

The **Key Combination** popup shows criteria that can be chosen to enter the percentage condition. These criteria are called access sequences and are usually combined with condition types to determine which fields the condition type applies to. You can create your own access sequences (using Transaction 8KEA) if the criteria shown don't match your requirements. However, for this example, you'll use one of the standard access sequences. Select the **Dependent on material and receiver profit center** option, and click the **Choose** button to arrive at the screen shown in Figure 4.6.

Figure 4.6 Selection Screen for the Condition Record

Enter the **Controlling Area** ("AJOO") and **Plant** ("DEO1") for this condition record. Plant DE01 represents the *sending* plant for the material that you want to apply a markup to. Click the **Execute** button (not shown) to arrive at the screen shown in Figure 4.7.

Enter a 10% markup for material **1871** in the **Amount** field in profit center **DE00PC2**. Profit center **DE00PC2** represents the *receiving* profit center. This means that if you calculate the standard cost for this material in profit center DEOOPC2, a 10% markup will be added to the standard cost from plant DE01. Clicking on the **Save** button saves your settings and returns you to the main **Pricing** screen.

Figure 4.7 Entering the Transfer Price Markup

The next step is to create a pricing procedure, which will link the two condition types (TPB2 and TPO2) that were created. To do so, click on the **Create** button in the **Pricing procedures** section (left-middle part of the main screen), as shown in Figure 4.8.

Figure 4.8 Pricing Procedures Section

After you've clicked the **Create** button, you'll arrive at the screen shown in Figure 4.9.

Figure 4.9 Pricing Procedure for Transfer Pricing

This screen links the markup condition type to the base condition type for standard cost. Enter the **Pricing procedure** as "TPO0O2" and a description. Then in the first row, enter "010" in the **Step** column, but leave **Cntr** blank; it will default to **000**. Then enter the base condition type for standard cost "TPB2" in the **CTyp** column. Don't enter anything in the **Reqt** and **AltCBV** columns, and they will default to a number of zeros. In the second row, enter **Step** "020", leave **Cntr** blank, and enter the markup condition type "TPO2" in the **CTyp** column. Then enter the number "010" in the **From** column and "010" in the **To** column. This means that this condition type (TPO2) will be based on the condition type in step 010 (which is the standard cost condition type TPB2).

The next condition type you'll create is a base condition type from the Material Ledger price (as opposed to the standard cost, which we created earlier). To do this, go back to the **Condition types** section of the **Pricing** screen, and click the **Create** button to access the screen shown in Figure 4.10.

Enter a **Condition Type** of "TPB1" and description of "ML Base Condition", and select the **Base Condition Type from Material Ledger** option shown at the bottom part of the screen. You can use the same percentage condition type (TPO2) that you applied to the standard cost condition as the Material Ledger condition. This means that the same transfer price condition that applies to the standard cost will be applied to the Material Ledger cost.

Figure 4.10 Creating a Base Condition Type for the Material Ledger

You can therefore create a pricing procedure that links both condition types by clicking the **Create** button in the **Pricing procedures** section (refer to Figure 4.8). The screen shown in Figure 4.11 appears.

Figure 4.11 Pricing Procedure for the Material Ledger Transfer Price

This screen links the markup condition type to the base condition type for the Material Ledger (TPB1). Enter the **Pricing procedure** name as "TP0004" and a description. Then in the first row, enter "010" in the **Step** column, and leave **Cntr** blank to default to **000**. Then enter the base condition type for Material Ledger "TPB1" in the **CTyp** column. Don't enter anything in the **Reqt** and **AltCBV** columns, and they will default to a number of zeros. In the second row, enter **Step** "020", leave the **Cntr** field blank, and enter the markup condition type "TP02" in the **CTyp** column. Then enter the number "010" in the **From** column and "010" in the **To** column. This means that this condition type (TP02) will be based on the condition type in step 010, which is the Material Ledger condition type TPB1.

Actual Transfer Price

Now, let's create another condition type—a fixed condition type—which will represent a fixed transfer price that is posted when an actual transfer posting (or consumption posting) is done between materials in different profit centers. To do this, go back to the **Condition types** section of the **Pricing** screen, and click the **Create** button to arrive at the screen shown in Figure 4.12.

Figure 4.12 Creating a Fixed Condition Type

Enter a **Condition Type** as "TP01" and a description as "Fixed Price". Select the **Fixed Price** option at the bottom of the screen.

Now, create the condition record for this condition type by following the same steps you used for condition type TP02. You'll then get to the screen shown in Figure 4.13.

Figure 4.13 Entering the Fixed Transfer Price Amount

Enter a transfer price in the **Amount** field ("120" for **Material 1871** in **Partner PC DE00PC2**, in this example). This transfer price will be charged anytime there is a transfer (or consumption) posting from plant **DE01**. Save your settings to return to the **Pricing** screen.

Next, create a pricing procedure for condition type TP01 by clicking on the **Create** button in the **Pricing procedures** section shown earlier. The screen shown in Figure 4.14 appears.

Figure 4.14 Pricing Procedure for Fixed Transfer Price

Enter the name of the **Pricing procedure** as "TP0001" and the description as "Transfer prices - fixed". Then enter condition type (**CTyp**) "TP01" and press the ⌈Enter⌋ key, and the **Description** of this condition type (**Fixed Price**) will default automatically. Then enter "000" in the **From** and **To** fields, and press the ⌈Enter⌋ key again. The other two columns (**Reqt** and **AltCBV**) will default as **0000000**.

Next you need to add the pricing procedures that you've created to the plan and actual transfer price variants. To do this, click the **Create** button in the **Transfer price variants** section (bottom-left of the screen) shown in Figure 4.15.

Figure 4.15 Transfer Price Variants Section

After you've clicked the **Create** button, you'll arrive at the screen shown in Figure 4.16.

Figure 4.16 Assigning the Pricing Procedure to the Actual Transfer Price Variant

Enter the actual transfer pricing variant "000" in the **Trans. Price Variant** field for **Controlling Area** "AJ00", and assign the pricing procedures **TP0001** and **TP0004** that we created for the fixed transfer price and Material Ledger transfer price markup, respectively, to the **Proc.** column. Put pricing procedure **TP0001** before **TP0004** by entering an **Or** (order of pricing procedures) value of "01" for **TP0001** and an **Or** value of "02" for **TP0004**. Now, when there is an actual posting that involves a sending and receiving profit center, the system will first look for a fixed transfer price (TP0001) between the two profit centers; if it doesn't find one, the system will use the transfer price markup of the Material Ledger (TP0004) of the sending profit center as the transfer price. Finally, check the **Condition Analysis** checkbox so that you can analyze how the transfer price was derived when the relevant postings are made.

Now go back to the **Transfer price variants** section, and click the **Create** button again to arrive at the screen shown in Figure 4.17.

Figure 4.17 Assigning the Pricing Procedure to the Plan Transfer Price Variant

Enter the plan transfer pricing variant "PC0" in the **Trans. Price Variant** field for **Controlling Area** "AJ00", and assign the pricing procedure (**TP0002**) that you created to the

Proc. column. This means that the pricing procedure will be valid for standard cost calculation of materials transferred between profit centers. Once again, select the **Condition Analysis** checkbox. Now click the **Save** button to complete the transfer pricing setup.

4.1.3   Settings for Internal Goods Movement

Now we'll define the accounts that will be posted in the profit center view when there are goods movements between profit centers. These postings will generate revenue in the sending profit center and a goods receipt in the receiving profit center.

To configure the relevant accounts, go to configuration menu path **Accounting • General Ledger Accounting • Business Transactions • Parallel Valuation Approaches/Transfer Prices • Settings for Internal Goods Movements • Define Account Determination for Internal Goods Movements**. Click **New Entries** to arrive at the screen shown in Figure 4.18.

Figure 4.18 Defining Accounts for Internal Goods Movements

Define the accounts for internal goods movements according to the material types of **FERT** (finished goods), **HALB** (semifinished goods), and **ROH** (raw materials). The columns that the accounts have been assigned to are described here:

- **Internal rev.**
  This internal revenue account for the sending profit center is based on the transfer price amount multiplied by the quantity transferred to the receiving profit center.

- **Chg. stock**
  This internal cost of goods sold (COGS) account for the sending cost center is based on the value of inventory in the profit center valuation view of the sending profit center.

- **Delivery from PrCtr**
  This internal goods receipt account in the receiving profit center is based on the transfer price amount multiplied by the quantity transferred from the sending profit center.

- **Chg in Stock:RecSide**
  This offset to the **Delivery from PrCtr** amount in the receiving profit center ensures that the values in the receiving profit center don't affect profits.

> **Note: Creating Internal Goods Movement Accounts**
>
> Internal goods movement accounts should be set up as nonoperating expense or income accounts (in Transaction FS00) and not as cost elements. In addition, they should be created in all company codes that have profit center valuation active in the controlling area.

Let's walk through a simple scenario that shows how these accounts are posted. In this scenario, 100 PC of a material (with a cost of $1) in profit center A are transferred to a different plant in profit center B. The transfer price is $1.20. The posting in the legal view is shown in Table 4.1.

	Account	Debit	Credit
Profit center A	**Inventory**	–	$100
Profit center B	**Inventory**	$100	–

Table 4.1 Sample Posting in the Legal View

The same posting in the profit center view is shown in Table 4.2.

	Account	Debit	Credit
Profit center A	**Inventory**	–	$100
Profit center A	**Internal rev.**	–	$120
Profit center A	**Chg. stock**	$100	–
Profit center B	**Inventory**	$120	–
Profit center B	**Delivery from PrCtr**	$120	–
Profit center B	**Chg. stock**	–	$120

Table 4.2 Sample Posting in the Profit Center View

As you can see in Table 4.2, there are several more lines on the profit center posting, including the generation of **Internal rev.** in the sending profit center and **Delivery from PrCtr**, which can be interpreted as internal COGS, in the receiving profit center.

The next setting is to assign an account for production variances that occur from the delivery of one profit center to another. To do that, go to configuration menu path **Accounting • General Ledger Accounting • Business Transactions • Parallel Valuation Approaches/Transfer Prices • Settings for Internal Goods Movements • Define Account Determination for Prod. Variance for Delivery to Another PrCtr**. Click **New Entries** to access the screen shown in Figure 4.19.

CO Area: AJ00		Controlling Area AJ00			
ValCl	Description	VGCd	Prod. variances	Short Text
☐ 3000	Raw Materials	0001	54540000	PC Production Varian
☐ 7900	Semifinished Goods	0001	54540000	PC Production Varian
☐ 7920	Finished Goods	0001	54540000	PC Production Varian

Figure 4.19 Profit Center Production Variance Account

Assign account "54540000" to the **Prod. variances** column as the production variance account when a material that exists in one profit center is delivered to a production order that has a different profit center *and* there is a difference between the plan and actual cost of goods manufactured (COGM). You'll notice that we assigned the valuation classes (**ValCl**) for **Raw Materials**, **Semifinished Goods**, and **Finished Goods**, as well as the valuation grouping code (**VGCd**) **0001**, to the same account **54540000** because we want this account to be valid for all valuation classes in **Controlling Area AJ00**.

Another setting to make for internal goods movement between profit centers is to define the movement types that should not be considered relevant for transfer pricing. A typical example is with the scrapping goods movements because scrapping is usually posted to a cost object linked to a profit center that isn't necessarily relevant for internal profit reporting. Note that in the standard SAP system, all the movement types that shouldn't be considered as internal goods movements between profit centers have already been defined. However, if you've created any custom movement types, you can add them to the table by going to configuration menu path **Accounting • General Ledger Accounting • Business Transactions • Parallel Valuation Approaches/Transfer Prices • Settings for Internal Goods Movements • Define Special Handling for Internal Goods Movements**. You can then click **New Entries** and enter any custom movement types, as shown in Figure 4.20.

Special handling		
Acti	MvT	Movement Type Text
☐ RMWA	551	GI scrapping
☐ RMWA	552	RE scrapping

Figure 4.20 Defining Movement Types for Special Handling

You can see the definition of the scrapping movement types (**MvT**) **551** and **552**, which have a category of **RMWA** (meaning they are material management goods movements) as special handling movements. Therefore, they won't be represented as flows of materials between profit centers. Click the **Save** button to save the settings.

4.2   Standard Cost and Profit Center Valuation

Let's now look at how you can create a standard cost estimate for profit center valuation. Just as we said with group valuation (in Chapter 3), this process isn't mandatory, as you can manually update the profit center valuation cost in standard or moving average price without calculating it through the system. However, if you already calculate a standard cost estimate in the legal view, you should also calculate the standard cost in the profit center view if profit center valuation is active. This profit center valuation standard cost will then serve as a basis for the transfer price from actual goods movements between profit centers to be compared to.

In this section, we'll walk through the several required configuration steps and then show the results of the cost estimate in both the legal view and profit view, including how they differ.

4.2.1   Defining a Costing Variant for Profit Center Valuation

First, you need to define a costing variant for profit center valuation. A costing variant controls all the settings for calculating a standard cost estimate. The costing variant has six components:

- Costing types
- Valuation variants
- Date control
- Quantity structure control
- Transfer control
- Reference variants

For profit center valuation purposes, you'll only need to create two of these components: costing types and valuation variants. The other components can be the same as the ones for the legal view.

Costing Types

Let's start by creating a costing type for profit center valuation. The costing type specifies which field in the material master the costing results will be transferred to. To configure a costing type for profit center valuation, go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Material Estimate with Quantity Structure • Costing Variant: Components • Define Costing Types** or use Transaction OKKI. In the subsequent screen, click the **New Entries** button, and you'll go to the screen shown in Figure 4.21.

Figure 4.21 Costing Type for Profit Center Valuation

Enter your **Costing Type** and description ("PV" and "Profit Center Valuation", in this example). In the **Price Update** tab, select **Standard Price** from the **Price Update** dropdown and **Profit Center Valuation** from the **Valuation View** dropdown. This means that when the standard cost for profit center valuation is released, it will be stored in the **Standard Price** field of the material master.

Now click the **Misc.** tab to arrive at the screen shown in Figure 4.22.

Figure 4.22 Misc. Tab of Profit Center Costing Type

For your **Calculation Base**, select **Cost of Goods Manufactured** from the dropdown. This means that any overhead will be calculated using the COGM value as a basis. For the **Partner Version**, select **Profit Center Valuation** from the dropdown. The partner version shows the value-added chain for every stage of the internal procurement process. By defining a partner version, you're specifying which organizational unit represents a partner. To define your partner version, click the **Create** icon highlighted in Figure 4.22, and enter the data shown in Figure 4.23.

Figure 4.23 Partner Version for Profit Center Costing Type

Create a **Partner Version** ("20") called "Profit Center Valuation", and check the **Profit Center** checkbox in the **Partner** tab. Then, assign this partner version to the costing type shown previously in Figure 4.21. Now click the **Save** button to save the costing type.

Valuation Variant

Next, you'll create a valuation variant for profit center valuation. The valuation variant contains the parameters that are required to calculate the standard cost. To configure a valuation variant for group valuation, go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Material Estimate with Quantity Structure • Costing Variant: Components • Define Valuation Variants** or use Transaction OKK4. In the subsequent screen, click the **New Entries** button to access the screen shown in Figure 4.24.

Figure 4.24 Valuation Variant for Profit Center Valuation

Create **Valuation Variant/Plant** "ZPV" with description "Val Var Prf Ctr Valuation". Copy all the settings from the valuation variant of the legal view so that the costing parameters of the legal view and profit center view are the same. Click the **Save** button to save the settings for the valuation variant.

Costing Variant

Now that you've created a costing type and valuation variant for profit center valuation, you'll create a costing variant for profit center valuation and add these components to it. To do this, go to configuration path **Controlling • Product Cost Controlling • Product Cost Planning • Material Estimate with Quantity Structure • Define Costing Variants** or use Transaction OKKN. In the subsequent screen, click the **New Entries** button to arrive at the screen shown in Figure 4.25.

Create **Costing Variant** "AJPV" for profit center valuation ("AJ00 Profit Ctr Valuation"). Select **Profit Center Valuation** from the **Costing Type** dropdown, and **Val Var Prf Ctr Valuation** from the **Valuation Variant** dropdown. Select the **Date Control** and **Qty Struct. Control** settings that are used for the legal valuation costing variant.

Figure 4.25 Defining the Profit Center Costing Variant

Now click the **Qty Struct.** tab. You'll see the screen shown in Figure 4.26.

Select **No** from the **Pass On Lot Size** dropdown, and select the **Cost Beyond Profit Center Boundaries** checkbox in the **Qty Struct.** tab of the costing variant for profit center valuation. By making this setting, for any costs that are done across profit centers, the receiving profit center will also be able to recost the sending profit center. If you don't check this box, the receiving profit center will simply inherit the cost from the sending profit center and won't recost it.

Figure 4.26 Cost Beyond Profit Center Boundaries

Click the **Save** button to save this costing variant.

4.2.2   Assigning Transfer Price Variant to the Costing Version

In Section 4.1.2, you created a plan transfer price variant of PC0, in which you assigned the pricing procedure TP0002 for adding a markup to the standard cost. You'll now assign this transfer price variant to the costing type for profit center valuation (PV) that you created previously. To do this, go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Selected Functions in Material Costing • Define Costing Versions**. In the subsequent screen, click the **New Entries** button to open the screen shown in Figure 4.27.

Figure 4.27 Assign Transfer Price Variant to Costing Version

Assign **Variant for Transfer Price PC0** to **Costing Version 1** and **Costing Type PV**. **Costing Version 1** is the default costing version, which is used in combination with the costing variant to calculate the standard cost. By making this assignment, anytime you use the profit center costing variant, the system will search for a transfer price markup that should be added to the standard cost of the receiving profit center. Click the **Save** button to save your settings.

4.2.3   Configuring a Delta Cost Component

When you use transfer prices, you'll most likely want to identify the profit that is made between the profit centers. This way, you can easily recognize the profit in inventory in

the cost of a product. To achieve this, you'll need to create a delta cost component by going to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Basic Settings for Material Costing • Define Cost Component Structure** or using Transaction OKTZ. Click the **Cost Component Structure Y1**, and then double-click the **Cost Component with Attributes** folder. Click **New Entries** to arrive at the screen shown in Figure 4.28.

Figure 4.28 Delta Profit for Profit Center Valuation

Create a delta cost component (**Cost Comp.**) "998" in cost component structure (**Cost Comp. Str.**) "AJ". This delta cost component will be available in the group costing cost component reports. The key fields highlighted in Figure 4.28 are explained here:

- **Roll up Cost Component**
  By clicking on this field, the delta cost component value will be retained through the supply chain if there are transfers between multiple profit centers.

- **Not Relevant**
  Although the delta cost component will be available, it won't be relevant for inventory valuation or any other category specified.

- **Delta Profit for Group Costing**
  Checking the **Profit Center** checkbox enables the delta profit between profit centers to show up in this cost component. This checkbox can only be set up for one cost component in the cost component structure.

Now double-click the **Cost Component Views** folder on the left panel of the screen (not shown), which shows the different ways to look at the cost components of the standard cost. Click the **New Entries** button to arrive at the screen shown in Figure 4.29.

Figure 4.29 Delta Profit Center Cost Component View

Create **Cost Comp. View** "9" named "Delta Profit Center", and check the **Delta Profit, Profit Ctr** checkbox. In addition to the COGM, this will show the delta profit that is made between profit centers in group costing. Note that this delta profit will only be shown in the group costing variant (ZPC1, which you created in Chapter 3) and not the profit center costing variant. Click the **Save** button to save your settings.

4.2.4   Configuring a Special Procurement Key

In Chapter 3, Section 3.2.2, we showed you how to configure a special procurement key so that the cost of a receiving product can access the cost from a sending product in a different plant. In that scenario, you configured a special procurement key between plants BK01 and DE01, which were in different company codes. Here, you'll use the same transaction to configure another special procurement key between plant DE01 and a different plant, 3050.

Go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Material Cost Estimate with Quantity Structure • Settings for Quantity Structure Control • Material Data • Check Special Procurement Types**. In the subsequent screen, click **New Entries** to arrive at the screen shown in Figure 4.30.

Set up special procurement key (**Sp.Pr.Type**) **Z1** in **Plant 3050**. Set the **Procurement type** to **External procurement** (**F**), and specify a **Special procurement** of **Stock transfer** (**U**) from **Plant DE01**. Click the **Save** button to save your settings.

Figure 4.30 Configuring a Special Procurement Key between Plants

Next, add this special procurement key to the material master of the receiving plant (3050) by going to Transaction MM02, as shown in Figure 4.31.

Figure 4.31 Adding the Special Procurement Key to the Material Master

Enter the special procurement key "Z1" to the **SpecProcurem Costing** field, and enter your **Costing Lot Size** as "1". This will allow the material to access the cost of the material in sending plant DE01.

4.2.5   Calculating Standard Cost

Now that you've made all the relevant configuration setting for profit center valuation costing, you can calculate the standard cost for material 1871 in the legal, group, and profit center views. Let's start with calculating the standard cost in the legal view. To do this, go to Transaction CK11N (this will typically be done en masse using Transaction CK40N); enter the **Material** "1871", **Plant** "3050", and **Costing Variant** "PPC1"; and press the ⌤Enter⌤ key twice. This will take you to the screen shown in Figure 4.32.

As you can see in Figure 4.32, the cost estimate for material **1871** in plant **3050** is €100. Now let's look at the standard cost in the group view. To do this, go back to the selection screen of Transaction CK11N; enter the **Material** "1871", **Plant** "3050", and **Costing Variant** "ZPC1"; and press the ⌤Enter⌤ key twice. The next screen that is displayed is the **Transfer Price Condition Record** screen (which you set up earlier in Figure 4.13). This is shown in Figure 4.33.

Figure 4.32 Cost Estimate in Legal View

Figure 4.33 Transfer Price Simulation Screen for TP01

As you can see, the **Transfer Price Condition Record** screen is shown with the $120 price that you entered when creating condition record TP01. This is a simulation screen that shows what the transfer price calculation is going to be. This screen is displayed because you selected the **Condition Analysis** checkbox when you created the transfer price variant PC0 (refer to Figure 4.17). Now you can exit the **Transfer Price Condition Record** screen, which will take you to the group cost calculation shown in Figure 4.34.

There are a couple of things to note in Figure 4.34. First, the standard cost in group valuation is $125. In addition, one of the views in the **Cost Component View** column (called **Delta Profit Center**) shows the standard cost as $120. This is the cost component view that you created earlier in Figure 4.29, and it shows the profit that was transferred (in the profit center view) between affiliated entities. To add this delta profit center cost component view to the standard cost calculation screen, you have to click on **Settings • Cost Display** in the menu bar and then enter the **Delta Profit Center** view in the second row of the **Costs for View** section shown in Figure 4.35.

Figure 4.34 Cost Estimate in the Group View

Figure 4.35 Delta Profit Center in Costs for View

Now, go back to the standard cost calculation screen, and double-click the **Delta Profit Center** view shown earlier in Figure 4.34, which will take you to the **Cost Components in Controlling Area Currency** screen shown in Figure 4.36.

As you can see, the cost components of the delta profit view show a breakdown of the **Direct Material** cost as well as the **Delta Profit: PRCTR** of (-$5.00) that is contained in the transfer price from the sending profit center. This profit will be viewable on any cost component report (as long as you select the **Delta Profit Center** view) and will help you identify any intracompany in inventory.

Figure 4.36 Delta Profit PRCTR in Cost Component Split

Now let's look at the standard cost in the profit center view. To do this, go back to the selection screen of Transaction CK11N; enter the **Material** "1871", **Plant** "3050", and **Costing Variant** "ZPC2"; and press the [Enter] key twice. The next screen that is displayed is the **Transfer Price Condition Record** screen (similar to the one shown earlier in Figure 4.33). However, this time it shows the transfer price from condition record **TP02** (created earlier in Figure 4.4), which has a 10% markup on the standard cost of plant DE01 (see Figure 4.37) .

Figure 4.37 Transfer Price Simulation Screen for TP02

This simulation screen is displayed because you selected the **Condition Analysis** checkbox when you created the transfer price variant PC0 (refer to Figure 4.17). Exit this screen by clicking the **Exit** button, which will take you to the standard cost calculation screen shown in Figure 4.38. You can see that the standard cost in the profit center view amounts to $110. This represents the standard cost from the sending plant 3050 plus a 10% markup, which was entered in condition record TP02.

Figure 4.38 Cost Estimate in the Profit Center View

Now let's look at the released standard cost in the material master by going to Transaction MM03 and viewing the **Accounting 1** view, as shown in Figure 4.39.

As you can see, material **1871** has a standard cost in legal valuation (**Company Code Currency**) of 100 EUR, group valuation (**Group Currency, Group Valuation**) of 125 USD, and profit center valuation (**Group Currency, Profit Center**) of 110 USD. The parallel views will be reflected with every material movement and thereby provide multiple approaches for valuing this material.

Figure 4.39 Material Master after Releasing Standard Cost

4.2.6   Manually Updating the Material Cost

Material cost in the profit center view can also be updated manually. This can be done when the material is initially created with Transaction MM01 or by changing the cost using Transaction MR21. This is normally the case when the material is valued at moving average price (price control V) or when a cost estimate doesn't need to be calculated for the material.

Let's walk through the process of manually updating the cost in the profit center view of a material. First of all, we'll take a look at the material before the cost has been updated, as shown in Figure 4.40.
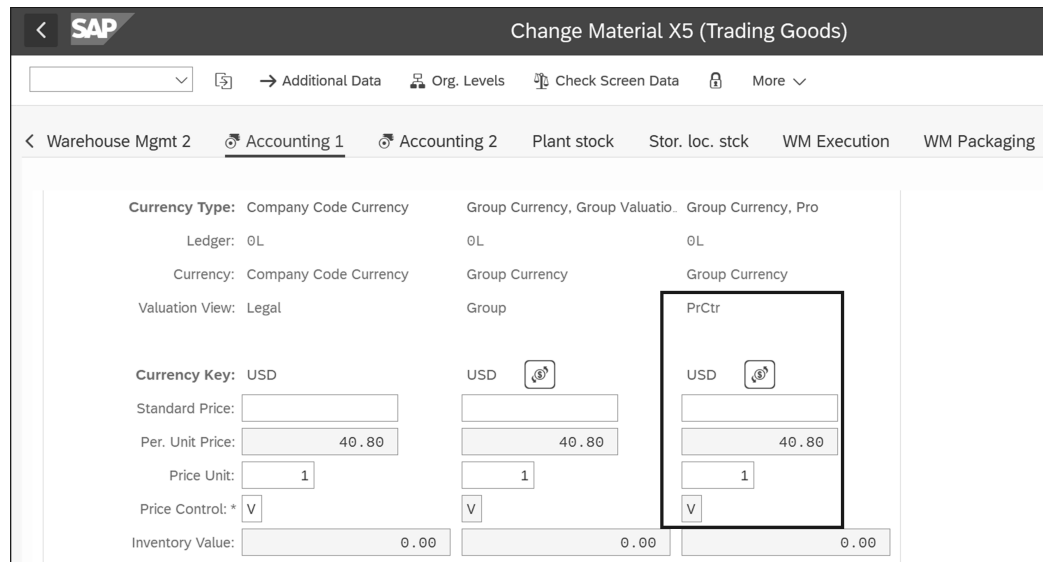
Figure 4.40 Material Master before Manually Updating Material Cost

As you can see, material **X5** has a cost (**Per. Unit Price**) of $40.80 in the profit center (**PcCtr**) view. You can also see that the **Price Control** of this material is **V** (moving average price). You'll now change the cost by going to Transaction MR21 and entering the relevant details, as shown in Figure 4.41.

Enter a cost of $45.00 in the **New price** field of **USD Grp, PrCtr / 0L**, as shown Figure 4.41. This represents the cost in the profit center view. We won't change the cost in the legal and group views so that you can see the impact of only updating the profit center view manually, as shown in Figure 4.42.

Here, the profit center view (**PrCtr**) of material **X5** is now changed to $45.00, while the **Legal** and **Group** views remain at $40.80.
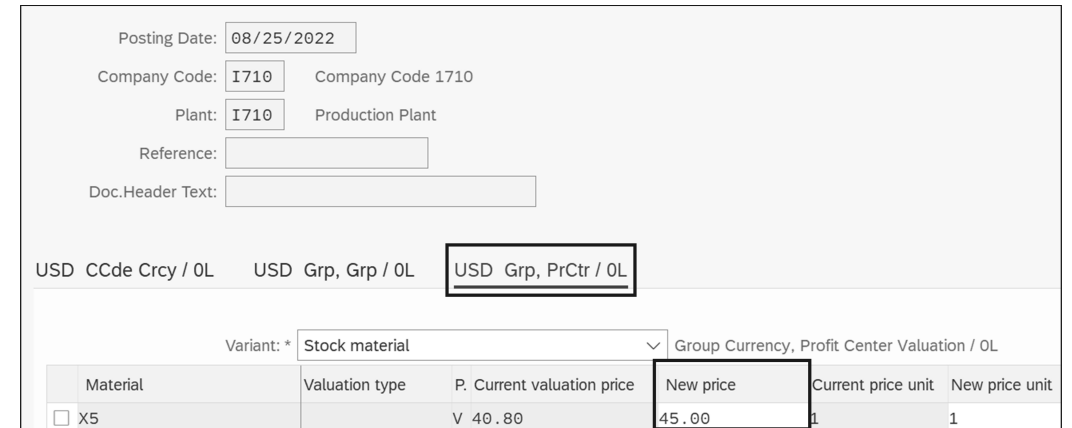
Figure 4.41 Manually Updating the Material Cost
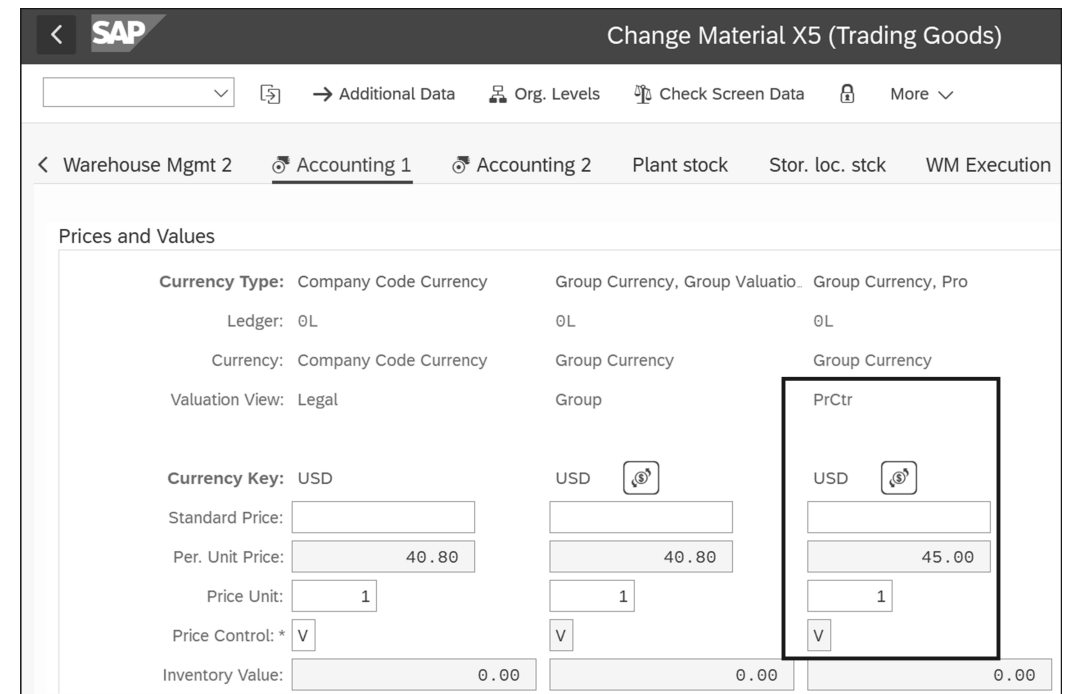
Figure 4.42 Material Master after Manually Updating Material Cost

4.3   Profit Center Valuation Configuration for WIP

In Chapter 2, we created three actual versions that represented the three valuation views of legal, group, and profit center valuation. These versions also need to be created

as results analysis (RA) versions, if the WIP functionality is used on manufacturing orders (using Transaction KKAO).

Set up the profit center version as an RA version by going to configuration menu path **Controlling • Product Cost Controlling • Cost Object Controlling • Product Cost by Order • Period End Closing • Work in Process • Define Results Analysis Versions**. The details are shown in Figure 4.43.
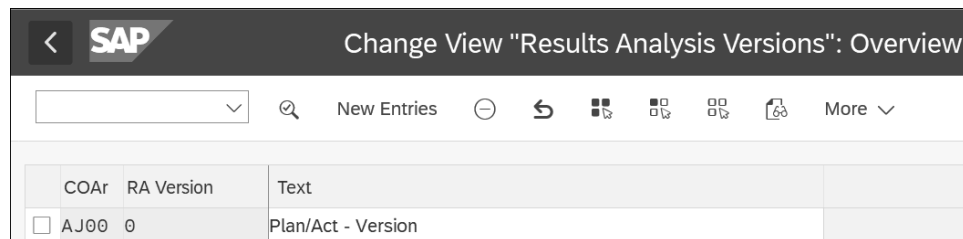
Figure 4.43 Results Analysis Versions: Overview

Here, **RA Version 0** in controlling area (**COAr**) **AJ00** is already available. This is because the operative version (which is usually version **0**) is automatically activated as the reference RA version for that controlling area.

To add the profit center valuation version, click on the **New Entries** button, and enter "PV" in the **RA Version** field with description "Profit Center Valuation", as shown in Figure 4.44.
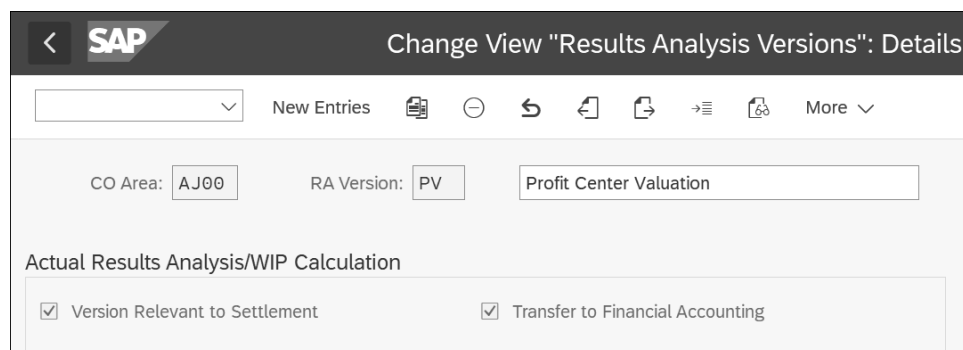
Figure 4.44 Profit Center Valuation Results Analysis Version

This RA version is a reference version of the base RA version 0. Therefore, you can't make specific changes to this version because it simply inherits the settings from RA version 0. Now you need to check three configuration settings to ensure that the RA version just created has adopted the values of the operative version:

- **Define Valuation Method (Actual Costs)**
  The setting determines which statuses are valid for the calculation of WIP. To check the valuation method for the profit center valuation RA version, go to configuration

menu path **Controlling • Product Cost Controlling • Product Cost Planning • Cost Object Controlling • Product Cost by Order • Period End Closing • Work in Process • Define Valuation Method (Actual Costs)**. Make sure that the details for **RA Version PV** are available, as shown in Figure 4.45.

CO Area	RA Version	RA Key	Status	Status Number	RA Type
AJ00	PV	000002	REL	2	WIP Calculation on Basis of Actual Costs
AJ00	PV	000002	DLV	3	Cancel Data of WIP Calculation and Results Ana
AJ00	PV	000002	PREL	1	WIP Calculation on Basis of Actual Costs
AJ00	PV	000002	TECO	4	Cancel Data of WIP Calculation and Results Ana

Figure 4.45 Valuation Method for Profit Center RA Version

- **Define Assignment**
  This setting assigns the cost elements used in production to the appropriate line ID categories, which in turn will determine whether the WIP for that line should be capitalized. To check the assignment settings for the profit center valuation RA version, go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Cost Object Controlling • Product Cost by Order • Period End Closing • Work in Process • Define Assignment**. Make sure that the details for **RA Version PV** are available, as shown in Figure 4.46.

CO Area	RA Version	RA Key	Masked Cost Element	Origin	Masked Cost Center	Masked Activity Type	Business Proc.	D.	V.	Apportio...	Account...	Valid-From	...	ReqToCap
AJ00	PV	000002	0051100000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0051500000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0051600000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0051700000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0051950000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0054083000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0054300000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0054400000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0061002000	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0065008300	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0065008500	++++	++++++++++	++++++		+	+		++	001.2007		MAT
AJ00	PV	000002	0094111000	++++	++++++++++	++++++		+	+		++	001.2007		OVH
AJ00	PV	000002	0094112000	++++	++++++++++	++++++		+	+		++	001.2007		OVH
AJ00	PV	000002	0094113000	++++	++++++++++	++++++		+	+		++	001.2007		OVH
AJ00	PV	000002	0094114000	++++	++++++++++	++++++		+	+		++	001.2007		OVH
AJ00	PV	000002	0094301000	++++	++++++++++	++++++		+	+		++	001.2007		OVH

Figure 4.46 Define Assignment for Profit Center RA Version

- **Define Update**
  This setting assigns the RA cost elements for WIP and reserves to the line ID (**LID**) categories and indicates whether these cost elements are debits or credits for WIP calculation. To check the update settings for the profit center valuation RA version, go to configuration menu path **Controlling • Product Cost Controlling • Product Cost Planning • Cost Object Controlling • Product Cost by Order • Period End Closing • Work in Process • Define Update**. Make sure that the details for RA version **PV** are available, as shown in Figure 4.47.

COAr	Vsn	RA Key	LID			Creation	Usage	ApptNo	UM
AJ00	PV	000002	LBR	K	WIP	93113000		0.00	
					Reserves	93114000		0.00	
AJ00	PV	000002	MAT	K	WIP	93111100		0.00	
					Reserves	93112000		0.00	
AJ00	PV	000002	OVH	K	WIP	93115000		0.00	
					Reserves	93116000		0.00	
AJ00	PV	000002	REV	N					

Figure 4.47 Define WIP Update for Profit Center RA Version

You've now verified that the profit center valuation version (PV) is complete for the necessary WIP settings. These settings ensure that the WIP calculation will take place for multiple valuations without creating any errors.

4.4   Cross-Profit Center Purchasing

Let's now look at a material transfer across profit centers and how the postings look in the legal view and the profit center view. Using material 1871, for which a transfer price was set up in the condition record TP01 (refer to Figure 4.13), you'll transfer 10 KG of inventory of this material from plant DE01 (and profit center DE00PC1) to plant 3050 (and profit center DE00PC2). Use Transaction MIGO to do the transfer with movement type 301, and then enter the data as shown in Figure 4.48.

Figure 4.48 Material Transfer Entry Screen

Enter the document and posting date for the posting. In the **Transfer Posting** tab, enter the **Material** number "1871" in the lower field, the **Plant** "DE01", and the **Stor. Loc.** "1000" in the **From** section. This is the material/plant where the inventory is being transferred from. Then, enter the **Material** number "1871" in the lower field, the **Plant** "3050", and the **Stor. Loc.** "4005" in the **Dest** section. This is the material/plant where the inventory is being transferred to. Enter the quantity of "10" in the **Qty in UnE** field. This represents the amount of inventory being transferred.

Now click the **Post** button, which will take you to the **Transfer Price Simulation** screen shown in Figure 4.49.

Figure 4.49 Transfer Price Simulation for Material Transfer

You can see that the transfer price amount that is simulated in the **Condition Value** field is 1,200 USD. This is because you set up a fixed transfer price from plant DE01 to profit center DE00PC2 of $120, and you're transferring 10 KG.

Click the **Exit** button to exit the **Transfer Price Simulation** screen so that the document is posted. Take a look at the posted document by clicking the **Display** button at the top of the Transaction MIGO screen, entering the number of the document that was posted, and clicking the **FI Documents** button, as shown in Figure 4.50.

Figure 4.50 Displaying the Financial Accounting Document from the Materials Management Document

This will take you to the **List of Documents in Accounting** popup box shown in Figure 4.51.
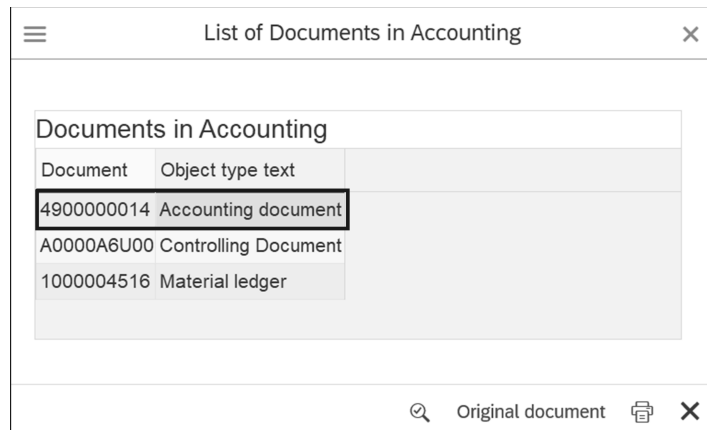
Figure 4.51 List of Documents in Accounting Popup Screen

Double-click the **Accounting document** line to view the document posted in the legal view, as shown in Figure 4.52.
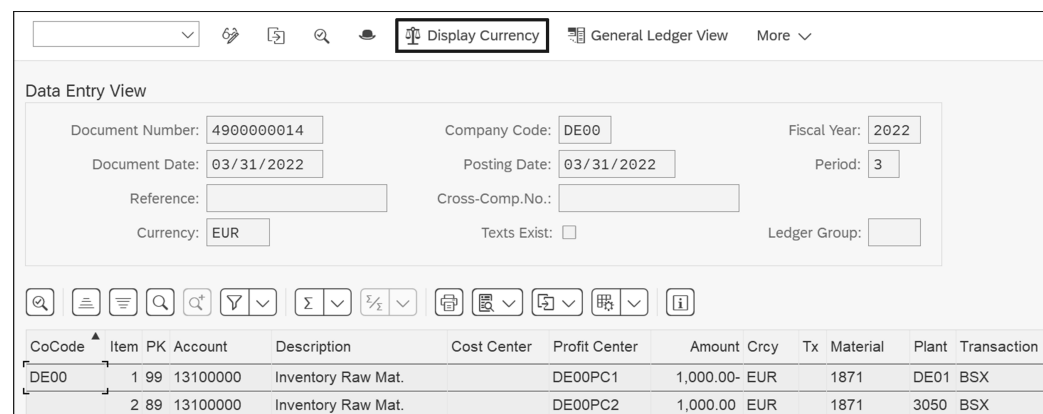
Figure 4.52 Legal View of Accounting Document

The legal view of the document that was posted shows a credit of €1,000 to the inventory account for material **1871** in profit center **DE00PC1** and plant **DE01**. The €1,000 is calculated as the €100 standard cost of the material in the legal view (refer to Figure 4.39) multiplied by the transferred quantity of 10 KG.

Now let's look at the posting in the profit center view. To do this, click the **Display Currency** button highlighted at the top of Figure 4.52. This will take you to the **Display Currency for Document** popup screen, where you'll select the **Group Crcy/Prof.Cent.Val.** option shown in Figure 4.53 so you can see the document in the group currency/profit center valuation view.
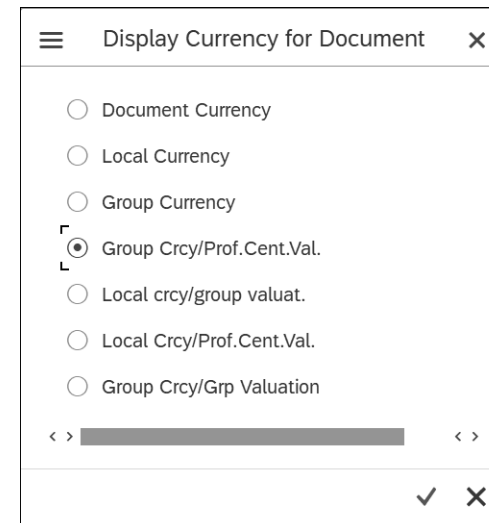
Figure 4.53 Display Currency for Document Screen

After you click the **Continue/Confirm** button at the bottom of the screen, this will take you to the profit center view of the document shown in Figure 4.54.

Figure 4.54 Profit Center View of the Accounting Document

As you can see, the profit center view of the document contains several more lines than the legal view. We'll explain each of the lines shown in order of their line-item number (**L.item**) in Table 4.3.

Line	Account	Amount	Explanation
1	13100000	−1,250	The inventory value transferred from the sending profit center valued at the profit center view standard cost
2	13100000	1,100	The inventory value transferred into the receiving profit center valued at the profit center view standard cost
3	54510000	−1,200	The internal revenue in the sending profit center valued at the transfer price ($1.20 for 10 PC)

Table 4.3 Explanation of Profit Center View Postings

Line	Account	Amount	Explanation
4	54520000	1,250	The internal COGS in the sending profit center valued at the profit center view standard cost
5	54530000	1,200	The internal goods receipt in the receiving profit center valued at the transfer price
6	54520000	−1,200	The offset to the internal goods receipt in the receiving profit center valued at the transfer price
7	52011000	100	The difference between the profit center view standard cost in the sender ($1,000) and receiver ($1,100) profit center

Table 4.3 Explanation of Profit Center View Postings (Cont.)

Now let's take a look at this document in the Universal Journal by going to Transaction SE16N and entering "ACDOCA" in the **Search in Table** field, as shown in Figure 4.55.

Figure 4.55 Profit Center Document in the Universal Journal

As you can see, the Universal Journal (table ACDOCA) shows the document with the legal view (**Amnt in CC**) and the profit center view (**AmntCrcy2**) side by side for each combination of profit center (**Profit Center**) and partner profit center (**Partner PC**).

4.5   Manufacturing Orders with Profit Center Valuation

Now let's consider profit center transfer pricing scenarios as they relate to production. Let's first take a look at the data of the two materials you'll be using in this section in Table 4.4.

Material	Profit Center	Standard Cost Legal View	Standard Cost Profit Center View
1871	DE00PC1	€100	$125
1840	DE00PC2	€580	$725

Table 4.4 Materials for Profit Center Valuation Manufacturing Scenario

As you can see in Table 4.4, the raw material 1871 and semifinished material 1840 belong to different profit centers (DE00PC1 and DE00PC2). The raw material consumption will be shown in our first scenario, and the semifinished material receipt will be shown in our second scenario. We'll now take a look at what happens in profit center valuation when there is a material consumption in a different profit center and when there is a goods receipt in a different profit center.

4.5.1   Material Consumption in a Different Profit Center

In the first scenario, we'll see what happens when a raw material that belongs to one profit center is consumed in a production order of a material that belongs to a different profit center with a transfer price between the two profit centers. To view the transfer price that has been set up between these profit centers, go to Transaction 8KEZ, as you did earlier in this chapter, and look at condition record TP01, as shown in Figure 4.56.

Figure 4.56 Transfer Price for Material 1871

Here, a transfer price of 120 USD has been set up for **Plant DE01** and **Material 1871** with a **Partner PC** of **DE00PC2**. This means that anytime material 1871 is consumed in a production order for a material with profit center DE00PC2, there will be a transfer price of $120 that is earned by profit center DE00PC1, which is the profit center of material 1871.

Now let's look at a production order that was created for material 1840 by going to Transaction KKF3, entering the production order number, and pressing the Enter key (see Figure 4.57).
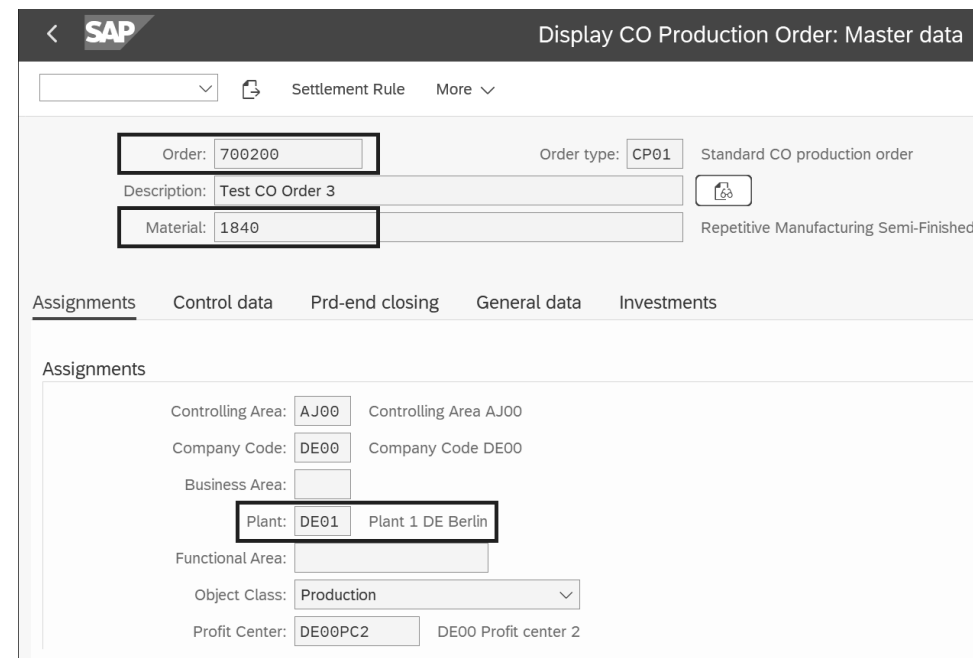
Figure 4.57 Production Order for Material 1840

You can see that production order **700200** for material **1840** in plant **DE01** has been created.

Let's now see the cost of the raw material consumption that has been done for this production order. In the menu bar, choose **Goto • Costs • Analysis**, which will take you to the screen shown in Figure 4.58.

Figure 4.58 Cost Analysis for Production Order 700200

You can see that the cost element **51100000** for raw material **1871** (not shown) has been consumed in production order **700200**, with **Total Actual Costs** of 12,000 EUR (because the cost of material 1871 is €100 translated to $120 at a rate of €1 to $1.20, and the quantity consumed is 100 KG).

Navigate to the accounting document for the raw material consumption. To do this, double-click the **Consumption – Raw Material** line, and in the subsequent screen, choose **Environment • Accounting Documents** from the menu bar. Double-click the **Accounting Document**, which will take you to the screen shown in Figure 4.59.
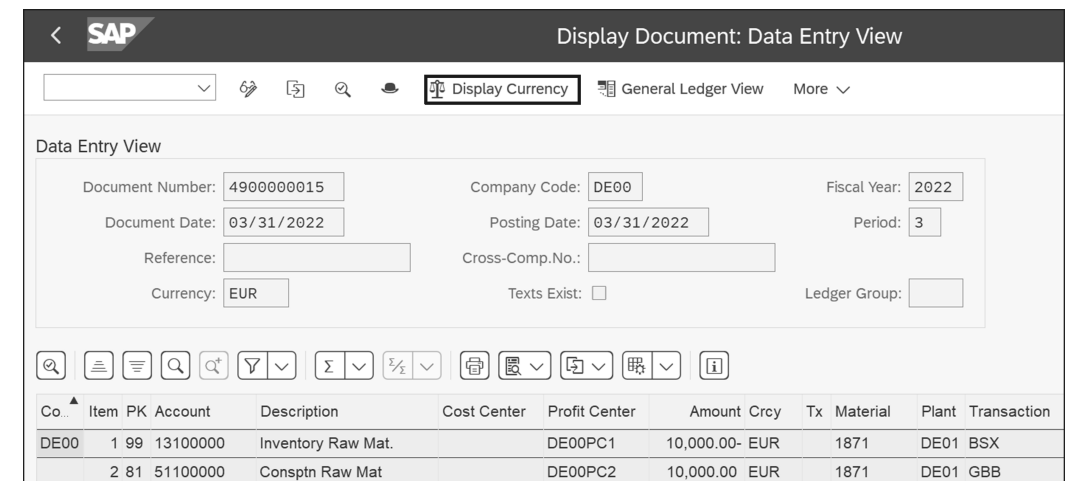
Figure 4.59 Accounting Document of Raw Material Consumption

You can see the accounting document from the raw material consumption posting. It shows a credit of €10,000 coming out of the inventory account and a debit of €10,000 going into the consumption account. The €10,000 is based on the standard cost of the raw material ($100) multiplied by the quantity consumed (100 KG). This accounting document represents the legal valuation view of the posting.

Next, navigate to the profit center view by clicking on the **Display Currency** button highlighted in Figure 4.59, selecting the **Group Crcy/Prof.Cent.Val.** option, and clicking on the **Confirm** button. This will take you to the screen shown in Figure 4.60.

Figure 4.60 Profit Center View of Raw Material Consumption Posting

The profit center view of the documents shows several more lines, including the sending (**DE00PC1**) and receiving (**DE00PC2**) profit centers. This posting is similar to the one shown earlier in Figure 4.54 where we explained the logic of that document, so we won't do so again here. However, note that the $12,500 in lines 1 and 4 represents the standard cost in profit center view ($125), and the $12,000 in all the other lines

represents the transfer price that we set up of $120 (refer to Figure 4.56) multiplied by the quantity consumed (100 EA) .

4.5.2   Goods Receipt in a Different Profit Center

In the second scenario, we'll see what happens when a material that belongs to one profit center is received on a production order that is in a different profit center with a transfer price between the two profit centers. In this example, the material in question is the semifinished material 1840 (shown earlier in Table 4.4), which belongs to profit center DE00PC2 and will be produced on a production order that belongs to profit center DE00PC1.

Let's go to the production order that was created to view the profit center assignment to the order by entering the production **Order** number, pressing the Enter key, and then clicking the **Assignments** tab (see Figure 4.61).

Figure 4.61 Profit Center Assigned to a Production Order

As you can see, **Profit Center DE00PC1** has been assigned to the production **Order 700220**, which was used to produce **Material 1840**, even though this material's own profit center is DE00PC2.

Now navigate to the delivery cost of material 1840 on production order 700220 by selecting **Goto • Costs • Analysis** to open the screen shown in Figure 4.62.

You can see in the highlighted line that an **Actual Quantity** of **1 KG** of **Material 1840** has been received in production **Order 700220**, with **Total Actual Costs** of **696.00 USD** (meaning the cost of material 1840 is €580, which is translated to $696 at a rate of €1 to $1.20).

Figure 4.62 Cost Analysis for Production Order 700220

Navigate to the accounting document for the received material by double-clicking on the **Consumption – Raw Material** line and choosing **Environment • Accounting Documents** in the subsequent screen. Double-click the **Accounting Document**, which will take you to the screen shown in Figure 4.63.

Figure 4.63 Accounting Document of Goods Receipt in the Legal View

The accounting document from the material receipt posting shows a debit of €580 going into the **Inventory Semi Fin** account (**13300000**) and a credit of €580 to the actual **Inv Chg SF Goods** account (**54300000**). The €580 is based on the standard cost of the material 1840 (€580) multiplied by the quantity received (1 KG). This accounting document represents the legal valuation view of the posting.

Next, navigate to the profit center view by clicking the **Display Currency** button highlighted in Figure 4.63, selecting the **Group Crcy/Prof.Cent.Val.** option, and clicking the **Confirm** button. This will take you to the screen shown in Figure 4.64.

CoCd	Item	L.item	PK	Account	Description	Cost Center	Profit Center	Amount	Crcy	Tx	Material	Plant	Transaction
DE00	1	000001	89	13300000	Inventory Semi Fin		DE00PC2	725.00	USD		1840	DE01	BSX
	2	000002	91	54300000	Inv Chg SF Goods		DE00PC1	725.00-	USD		1840	DE01	GBB
		000003	40	54530000	PC Delivery from PCt		DE00PC2	750.00	USD		1840	DE01	
		000004	50	54520000	PC Change in Stock		DE00PC2	750.00-	USD		1840	DE01	
		000005	50	54510000	PC Internal Revenue		DE00PC1	750.00-	USD		1840	DE01	
		000006	40	54520000	PC Change in Stock		DE00PC1	725.00	USD		1840	DE01	
		000007	83	52070000	Loss Prodn Variance	DE00PRD	DE00PC1	25.00	USD		1840	DE01	PRD

Figure 4.64 Profit Center View of the Material Receipt Posting

You can see that the profit center view of the documents shows several more lines, including the sending (**DE00PC1**) and receiving (**DE00PC2**) profit centers. This posting is similar to the one shown earlier in Figure 4.54, so we won't explain the logic again here.

Now, let's calculate a variance for the production order. To do this, go to Transaction KKS2, enter the production order number, and click **Execute**, which will lead to the screen shown in Figure 4.65.

Figure 4.65 Variance Calculation for the Production Order

As you can see, the variance calculation shows a **Variance** of €480. This is because the consumption amount based on the legal view standard cost (of €100) of the raw material 1871 of €100 is deducted from the receipt amount based on the standard cost of 1840 of €580 (refer to Figure 4.63).

Now that you've calculated a variance for the production order, you can settle the variance of the order. Go to Transaction KO88, enter the production order number, and click the **Execute** button. Then in the subsequent screen, click the **Detail Lists** button to reveal the screen shown in Figure 4.66.

Figure 4.66 Settlement of the Production Order

As you can see, the settled value of the production order is €480.

Navigate to the accounting documents to show the legal and profit center views. First, click the **Accounting documents** button highlighted in Figure 4.66, and then double-click **Accounting documents** in the subsequent screen. This will take you to the screen shown in Figure 4.67.

Figure 4.67 Accounting Document of Settlement in the Legal View

You can see the accounting document from the settlement posting. It shows a €480 posting in both the debit and credit accounts. This accounting document represents the legal valuation view of the posting.

Navigate to the profit center view by clicking the **Display Currency** button highlighted in Figure 4.67, selecting the **Group Crcy/Prof.Cent.Val.** option, and clicking the **Confirm** button. This will take you to the screen shown in Figure 4.68.

As you can see, the accounting document in the profit center view shows a favorable variance of $600, which is debited to account **54300000** and credited to account **54540000**. You configured account **54540000** in Figure 4.19 earlier in this chapter. The amount of $600 represents the difference between the profit center view standard cost of the raw material ($125) and the profit center view standard cost of the semifinished good ($725) multiplied by the delivered quantity (1 KG).

Figure 4.68 Accounting Document of Settlement in the Profit Center View

4.6   Summary

In this chapter, we discussed the profit center valuation view. First, we defined the term "profit center" and explained how it had served different purposes in SAP through the years. We then showed the different ways to set up transfer prices between profit centers, such as a markup of the standard cost of a material that is transferred to a different profit center, and a fixed price that is set when the material in one profit center (or plant) does business with another profit center. We then walked through the configuration of the accounts for internal goods movements and production variances in the profit center view, as well as the configuration of profit center valuation for WIP. After that, we explained how costing variants were set up to calculate a standard cost for profit center valuation.

We then rounded out the chapter by looking at a couple of scenarios where transfer pricing can be used in the manufacturing process. In the first scenario, we showed the transfer pricing process when a raw material in one profit center is consumed by a production order for a material in a different profit center. In the second scenario, we showed a semifinished good that was received on a production order in a different profit center. In both scenarios, we examined the relevant accounting documents in the legal view and profit center view, including how they differed.

In the next chapter, we'll discuss the configuration needed to set up actual costing with the Material Ledger.

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3   Group Currency and Valuation

4   Profit Center Valuation

5   Configuring Actual Costing

Index

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Paul Ovigele

Material Ledger in SAP S/4HANA

Functionality and Configuration

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