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ORACLE APPLICATIONS & TECHNOLOGY USERS GROUP

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

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

Douglas Volz

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  Aug. 15 – 19
- **EBS Upgrade Week**
  Sept. 12 – 16
- **Cloud ERP Week**
  Oct. 10 - 14

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ASCEND 2022

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JUNE 12-15, 2022

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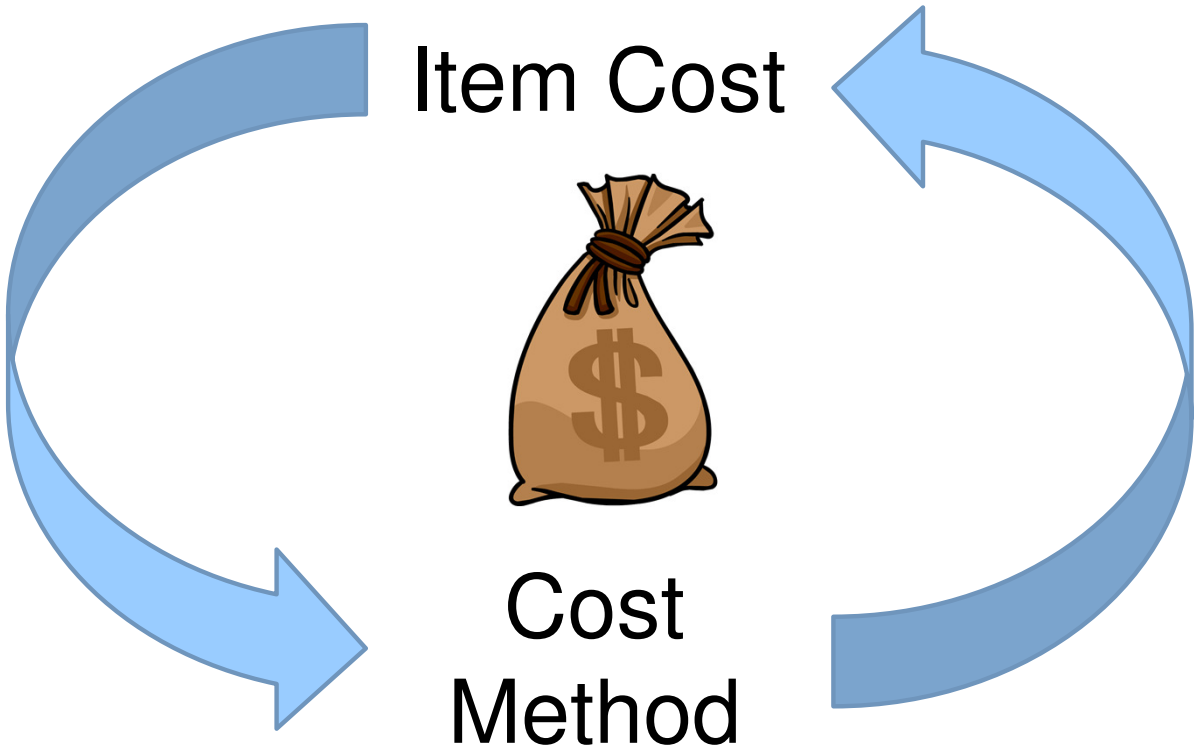
Learning Points



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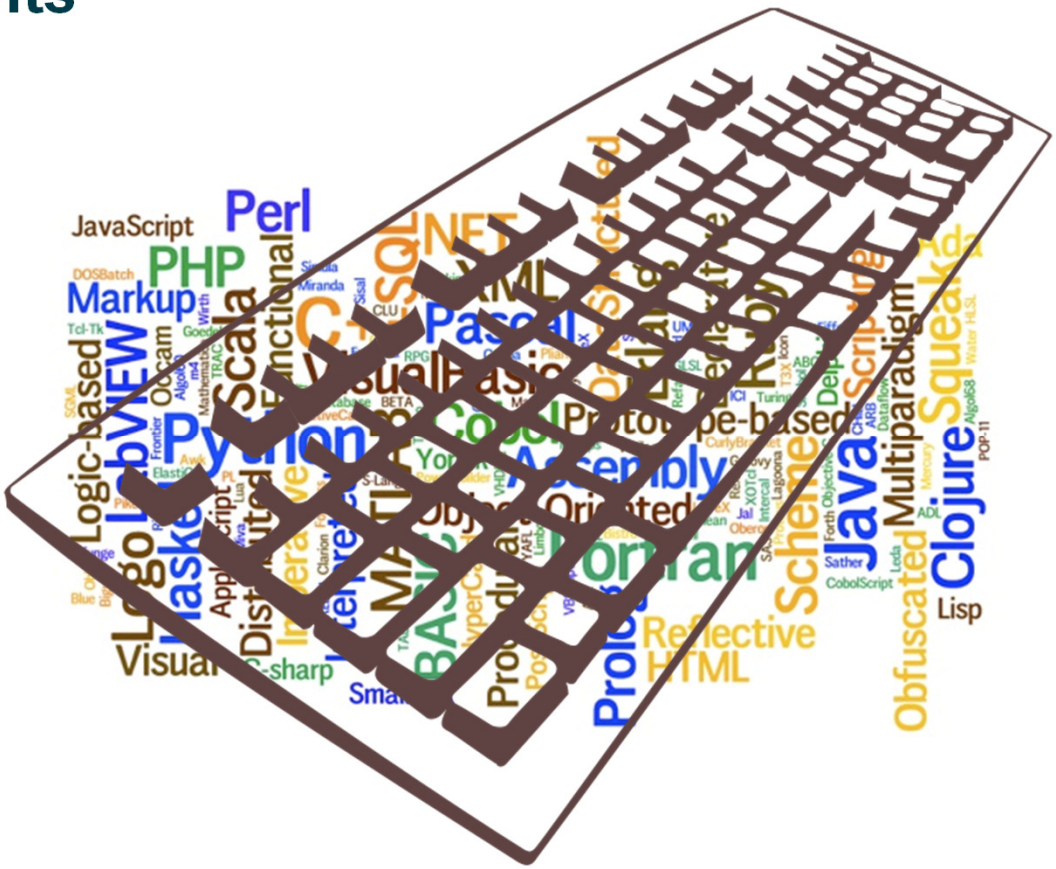
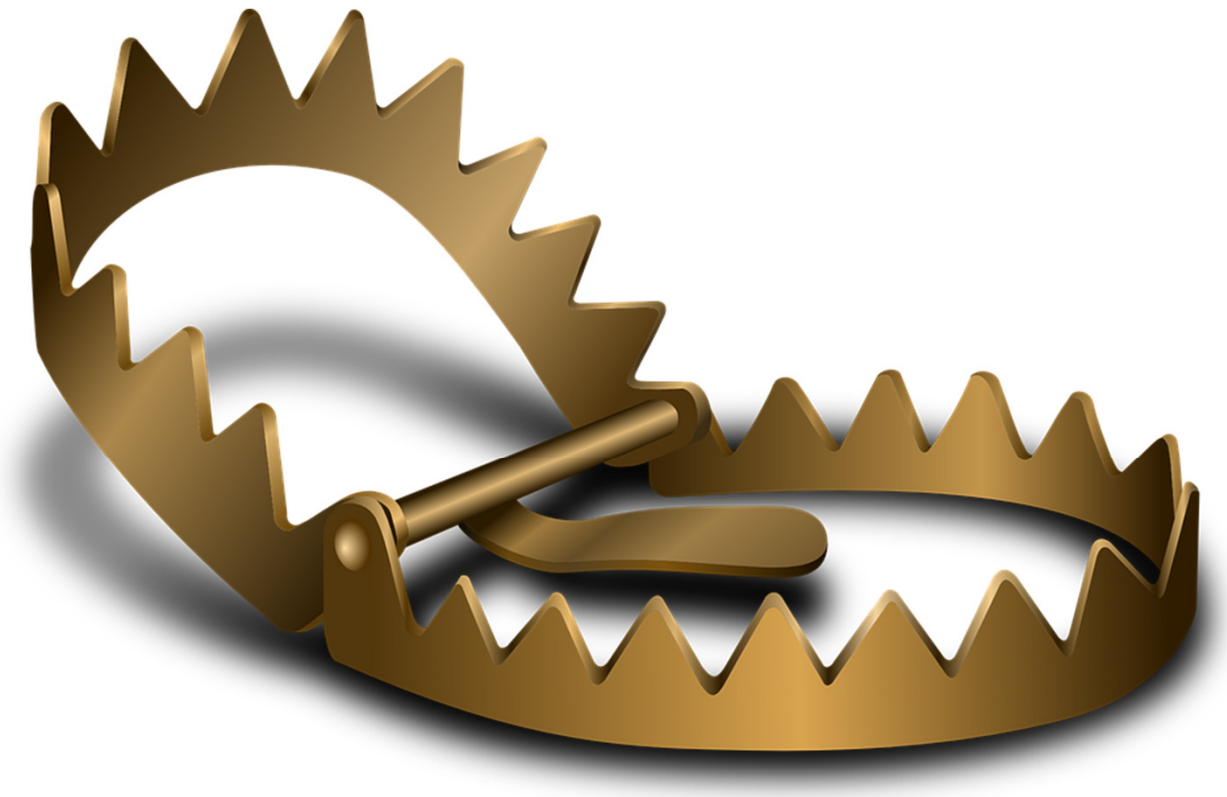
Learning Points



Learning Points

Learning Points



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

Doug Volz has Solutions for You

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2018 Presenter of the Year
2014 Member of the Year

Professional Summary

- 35+ years industry, design and consulting and "firefighting" experience
- Specializing in Cost Management business solutions
- Prior industry positions for General and Cost Accounting management
- Co-designed Oracle Cost Management at Oracle
- Implementations with international consulting firms, in over 15 countries

Business Solutions for Cost Accounting

- Change cost methods
- Inventory reconciliation
- Profit in inventory
- Intercompany
- A/P accrual reconciliation
- Fix system account setups
- Multi-org cost accounting reports
- Product line & margin analysis
- Item costing, cost rollup and update
- Cost accounting training

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Doug Volz has Solutions for You

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2018 Presenter of the Year
2014 Member of the Year

User Group Relationship

- Recognized by Industry Peers with numerous OATUG awards:
  - 2014 OATUG Member of the Year
  - 2018 OATUG Presenter and 2018 Special Interest Group of the Year
- Led the OATUG Special Interest Group for Cost Management since 2007
- Presenter at Collaborate (OAUG), OpenWorld and UKOUG since 1996

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Some Satisfied Clients



Solutions You Can Use – Over 30 Presentations!

– http://www.volzconsulting.com/resources.html

Cloud Costing vs. EBS Costing: OATUG/Collaborate & AUSOUG
- 2020/21: Cloud Costing Comparison and Setup: How Does Oracle Cloud Costing Stack Up Against Oracle EBS Costing?

Inventory Reconciliation: OATUG/Collaborate , UKOUG & AUSOUG
- 2021/2014/2011: Reconcile Your Inventory to G/L Balances With Ease, From 1 to 1,000 Inventory Organizations!
- 2017: Managing Oracle EBS Reconciliation in Manufacturing and Distribution Organizations
- 2010: Can We Actually Reconcile Project MFG to Inventory, WIP, Projects & G/L? What Was I Thinking?

Profit in Inventory Solutions: OATUG/Collaborate
- 2018: INTL: Cloud and EBS Costing, You Can Track & Eliminate Profit in Inventory (And Still Have a Life!)
- 2010: Does Rel. 12 Solve Global Inter-Company Issues for Multiple Ledgers, Profit in Inventory and COGS?

Period Close: OATUG/Collaborate & UKOUG
- 2016: How to Manage the Inventory and Manufacturing Period Close and Remain Sane…

Changing Cost Methods: OATUG/Collaborate
- 2016: Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Discrete & Process Cost Accounting Integration: OATUG/Collaborate
- 2015: We Can Create Combined Oracle Cost Accounting Reports for Both Discrete and Process MFG!

Cost Management & SLA: OATUG/Collaborate & UKOUG
- 2014: How to Create Shipping Burdens for Oracle Cost Management, in Spite of Subledger Accounting
- 2013: Subledger Accounting for Discrete & EAM Cost Accounting: Product Line and Expense Accounting Made Easy
- 2009: Cost Accounting As You Want It — EBS R12 Cost Accounting with SLA

Transaction Interfaces for Period Close: OATUG/Collaborate
- 2012: Egads! How in the Dickens Do I Handle Those Month-End Interfaces? (And Why Can't I Close My Books)

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

Oracle Cost Training

1: Cost Management Introduction
2: General Oracle Navigation and Training
3: Costing Structural Overview
4: Costing Security
5: Item Costing Setup
6: Buy Item Costing for Avg and Std Costing
7: More4apps Item Cost Wizard
8: Cost Rollup And Item Cost Review
9: Update Average and Standard Costs
10: Copying and Editing Costs
11: Purging Costs, Cost Rollups and Cost Update History
12: Cost Accounting Transactions Setup
13: COGS Accounting Solutions
14: Intercompany Transactions Setup
15: Receiving Accounting Transactions
16: Inventory (Avg and Std) Cost Accounting Transactions
17: Intercompany Cost Accounting Transactions
18: COGS Recognition and Margin Analysis
19: Average and Standard Cost Variances
20: View Receiving, Inventory and WIP Accounting Transactions
21: How to Setup, Transact and Use Outside Processing
22: Analyze and Close WIP Jobs
23: Review Pending and Uncosted Transactions
24: Create Accounting, Period Open & Close
25: Inventory Reconciliation and Reporting
26: ICP/PII Tracking and Reporting
27: A/P Accruals
28: Custom Reporting
29: Cost Accounting Checklists
30: Year-End Tasks
31: Appendix
32: Periodic Costing

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Who Said Changing Cost Methods Can't be Done?

Fusion / Cloud Costing

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Fusion / Cloud Costing

- Possible to Change the Costing Method in Fusion? (Doc ID 2338977.1)
  - "For existing items that have already transactions costed with Standard cost method, the cost method cannot be changed to Average."
  - New items have to be created, and the Average Cost profile has to be assigned. Old items have to be discontinued.
  - System doesn't allow such a change because it will mess up the Inventory Valuation data and create data corruption.

System doesn't allow such a change

For existing items that have already transactions costed … the cost method cannot be changed …

New items have to be created, and the (new) Cost profile has to be assigned. Old items have to be discontinued….

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

Why Change Costing Methods

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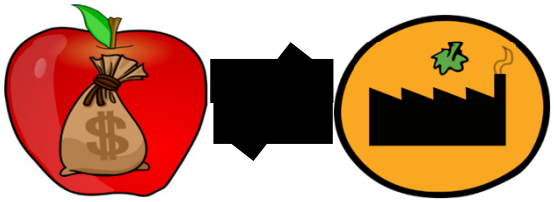
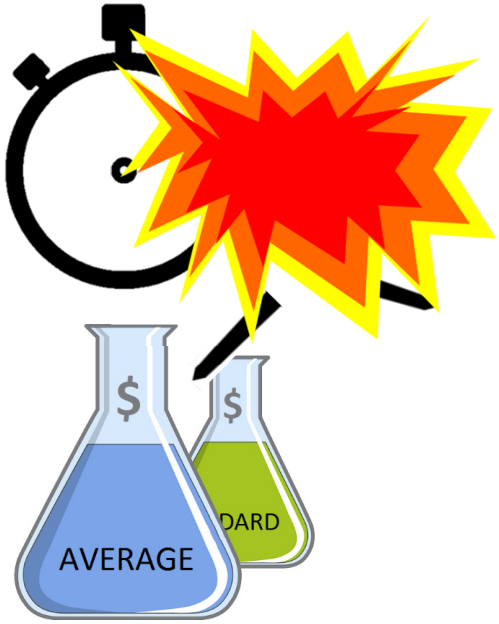
Why Change Costing Methods?





- Your Costing Method does not match your business
- Prior Personnel did not understand the ramifications
- You've been Acquired and have to use a different Costing Method
- You want to value quantities using a different Costing Method

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

Costing Methods Overview

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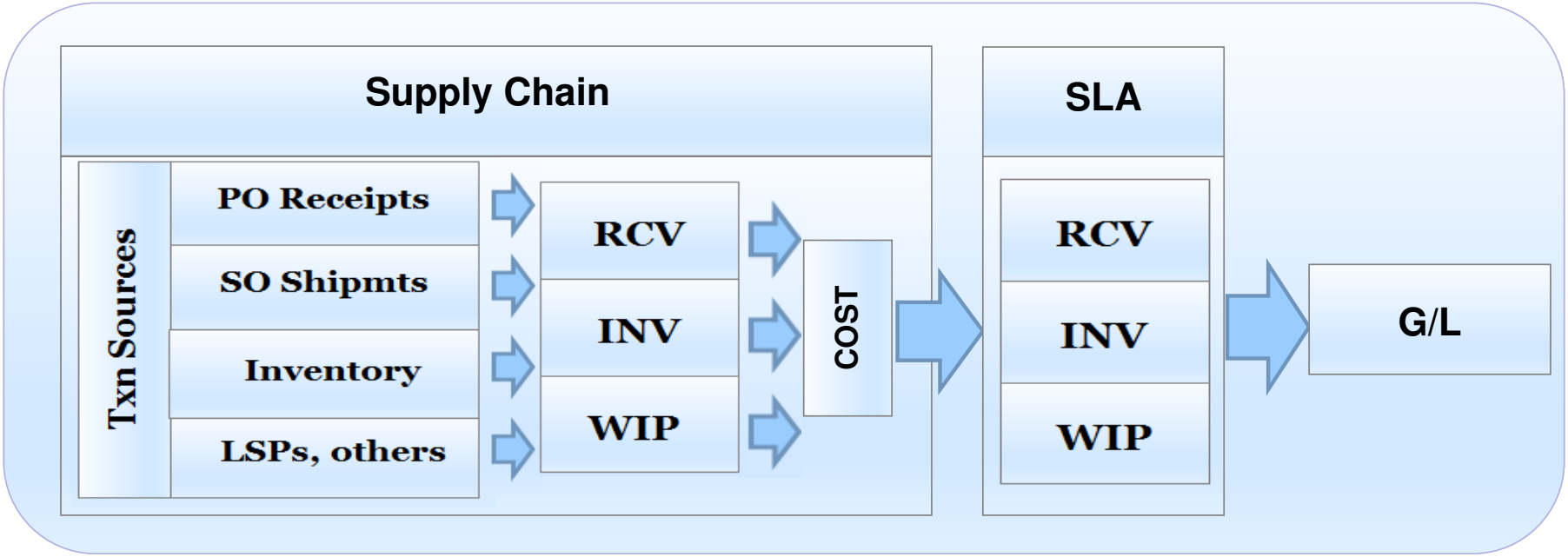
Cost Transactions Overview



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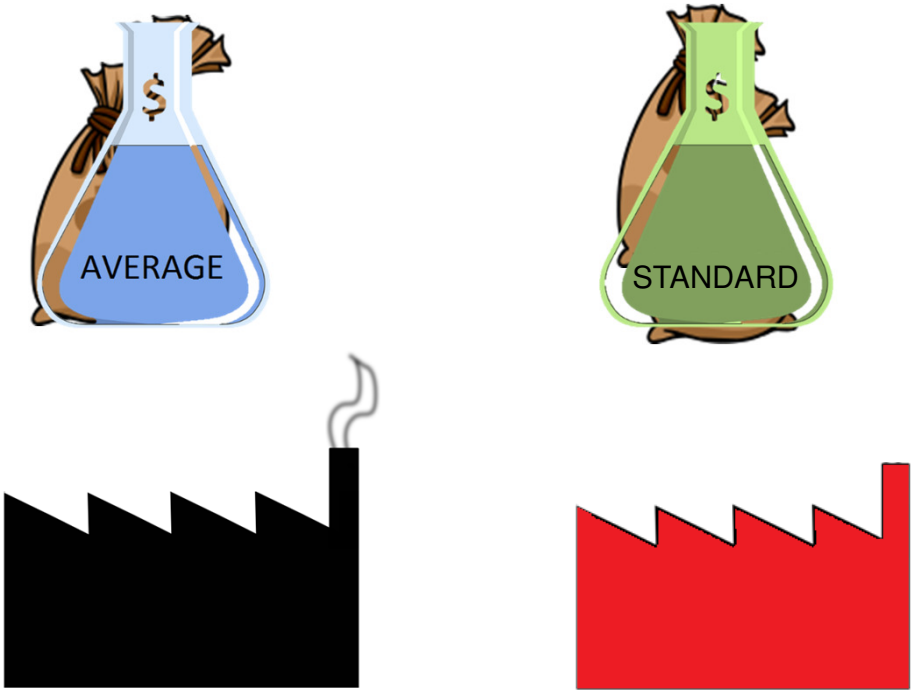
Discrete Organizational Costing



- Costs by Plant or Warehouse (inventory organization)
- Each inventory organization has
  - Its own costing method – For all Items
  - Material, labor, outside processing, and overhead costs
  - One “Active” cost type used to record financial entries

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Define Your Costing Method

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

Organization Parameters (M1)

Inventory Parameters | Costing Information | Revision, Lot, Serial And LPN | ATP, Pick, Item-Sourcing

Costing Organization	Seattle Manufacturing
Costing Method	Standard
Rates Cost Type	
Transfer to GL	Yes
	☐ Reverse Encumbrance
	☑ Project Cost Collect. Enabled
	☐ Defer Logical Transactions
Cost Cutoff Date	
Default Material Sub-Element	Material
Material Overhead Sub-Element	Purchasing
Default Cost Group	CG-1163

Valuation Accounts

Material	01-000-1440-0000-000
Outside Processing	01-000-1440-0000-000
Material Overhead	01-000-1440-0000-000
Overhead	01-000-1440-0000-000
Resource	01-000-1440-0000-000
Expense	01-520-7530-0000-000

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

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

Three Approaches

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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 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,** 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 cost into the new organization. This will become the starting basis for the current average cost in the new organization."

It is not possible to just change the costing method

Standard advice is to create a new Inventory organization

You cannot change the costing method of an existing inventory organization once transactions have taken place

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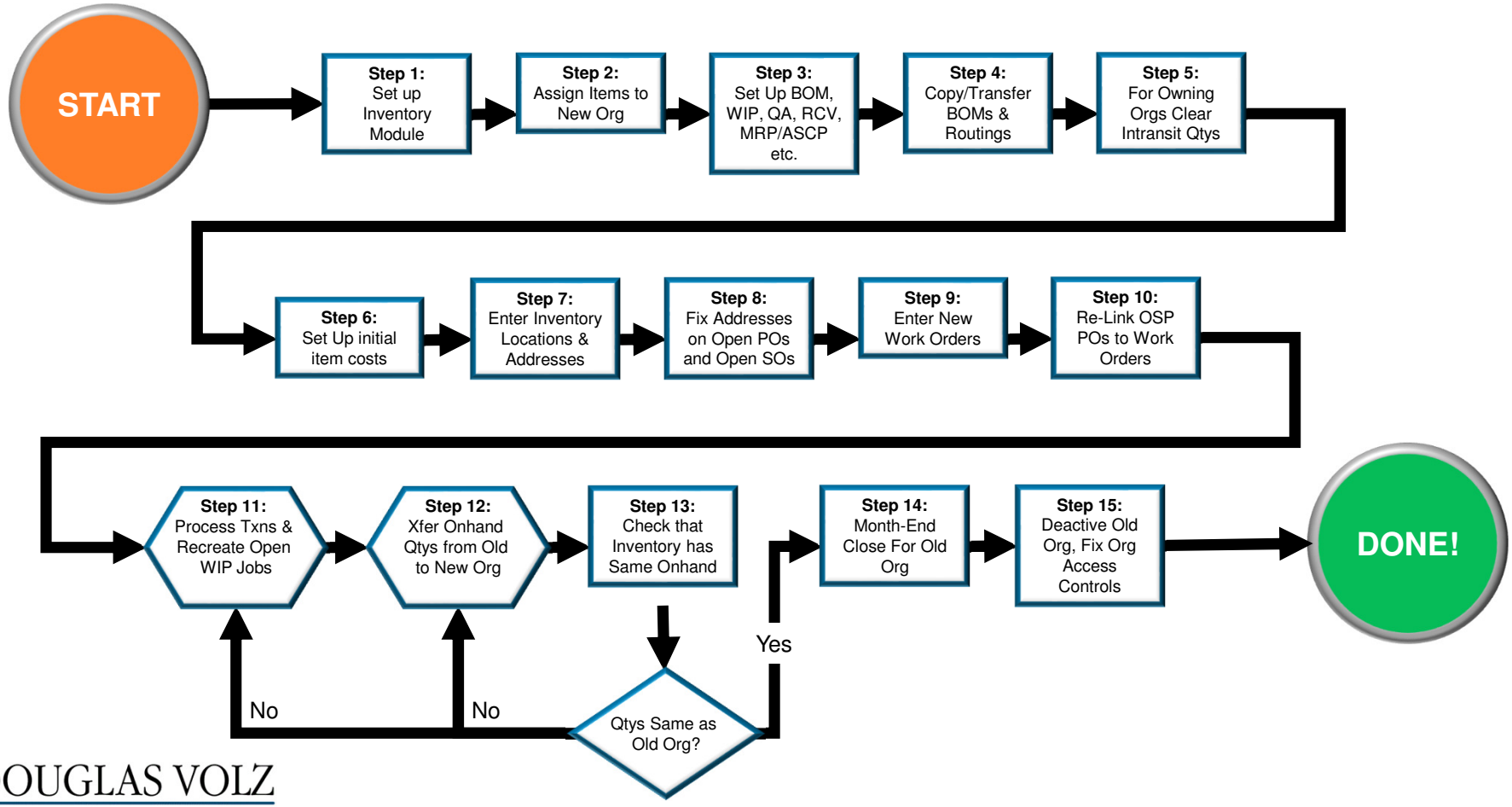
High-Level Setups for New Org



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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

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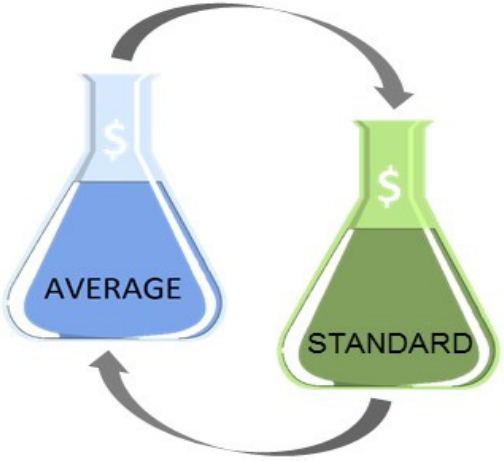
Approach Two:
Change In-Place Transformation with eprentise



- ✗ No transactions
- ✗ No changes to POs & SOs
- ✗ No impact to onhand quantities
- ✗ No impact on values

Compared to High Level Setups for New Org:

⇩ **Time** ⇩ **Risk** ⇩ **Disruption**

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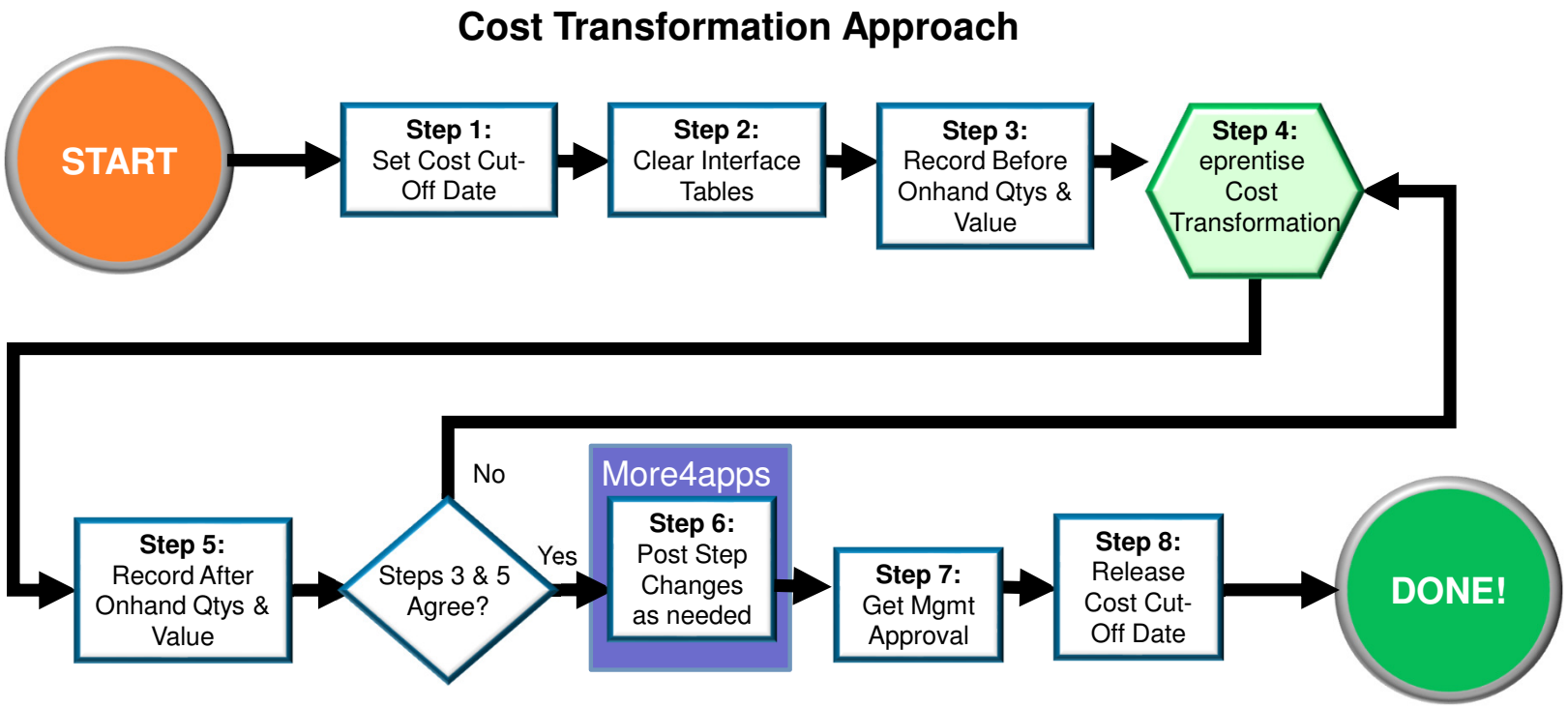
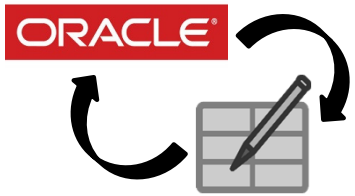
Approach Two:
Change In-Place Transformation with eprentise



Approach Three:
Cost Migration Approach



Safe
POs & SOs
WIP Values
Work Orders
Quantities & Values

Set up initial item costs.

Use SQL to flip the Costing Method.

Compared to High Level Setups for New Org:

⇩ **Time** ⇩ **Risk** ⇩ **Disruption**

Compared to Change In-Place Transformation with eprentise:

⇧ **Time** ⇧ **Technical Knowledge**

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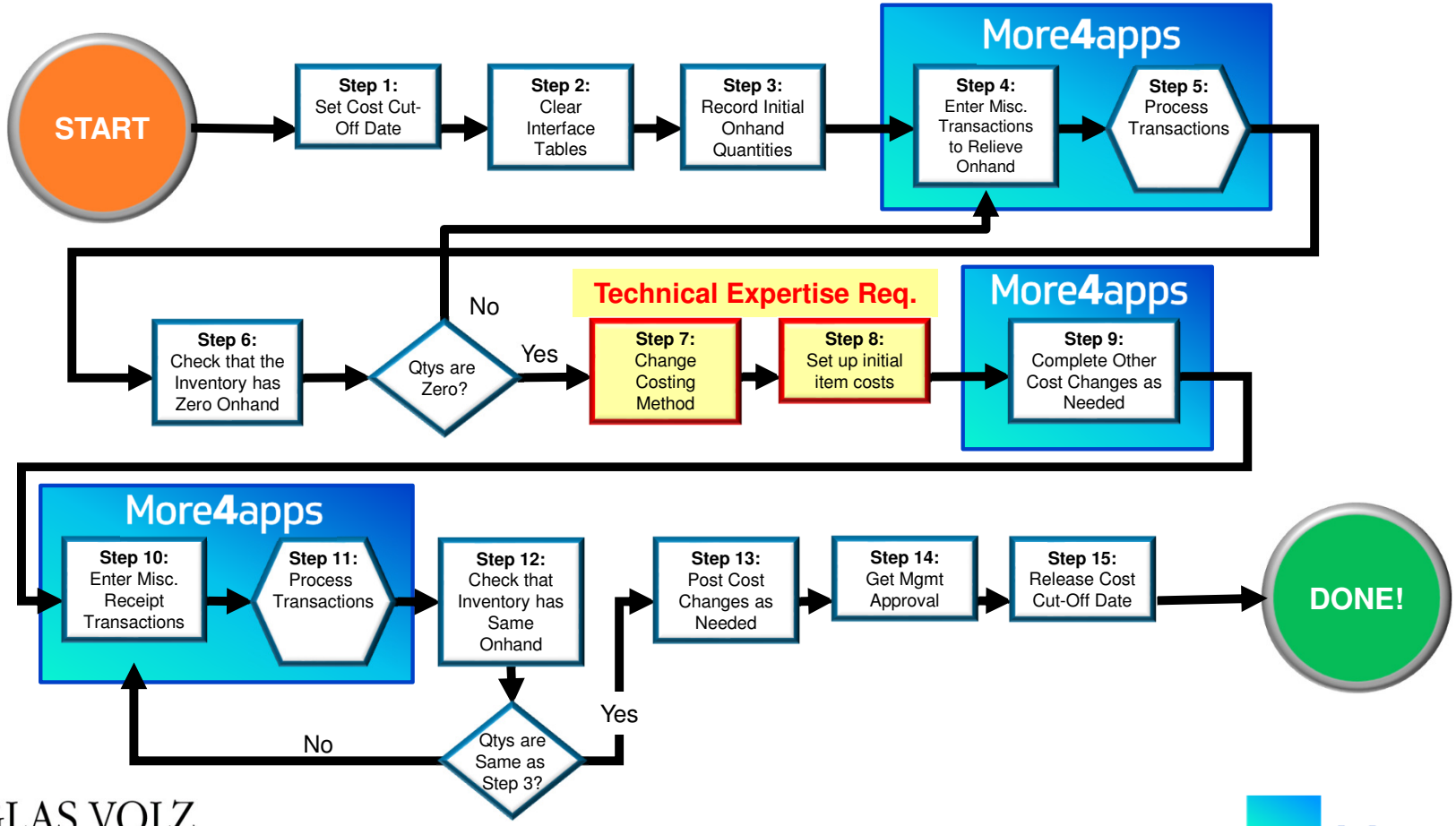
Approach Three:
Cost Migration Approach



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Approach Comparisons
(red is bad, green is good)

Topic or condition	1-Oracle New Org	2-eprentise Cost Transform	3-Same Org Cost Migration
Number of Organizations		2 or more orgs	1 to 3 orgs
Lots of Onhand Inventory			Avg more difficult
Resource, OSP or (Prod) Overheads			Avg more difficult
With POs, SOs, WIP	Recreate or Fix	No Changes	No Changes
Elapsed Time (varies w/complexity)	High	Low	Low to Moderate
Technical Table, Data, "How Stuff Works" Knowledge	Low	Low	High – Cost Tables
Functional Setup Knowledge	High	Low to Moderate	Low to Moderate
Cut-Over Timing	Month-End	Mid or Month-End	Mid or Month-End
Functional User Time	High	Low	Low to Moderate
Overall Disruption and Time Spent	High	Low	Low to Moderate

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Overall Recommendations

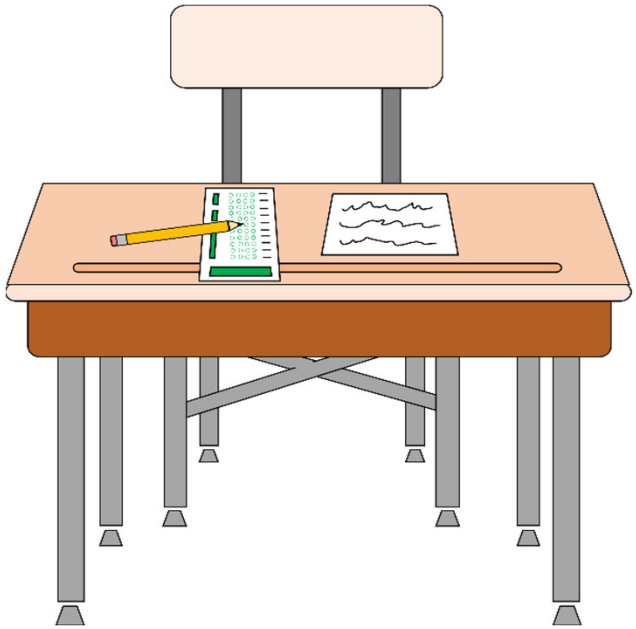
- If have the technical expertise, few inventory orgs and few items in stock
  - Use approach three – Cost Migration
- If missing technical expertise or converting many inventory organizations or have lots of onhand inventory
  - Use approach two – Cost Transformation – is safer with less disruption
- If using serial control with transfers between inventory organizations
  - Use approach two – Cost Transformation – may be easier
- Don't recommend approach one
  - setting up a new org – unless you have no sales orders, purchase orders, items, BOMs, Routings, WIP or onhand quantities in the existing org

Overall Recommendations

- More4apps is quite useful with Cost Migrations
  - Use the Material Transaction Wizard to move quantities in and out
  - Use Material Transaction Wizard to process Average Cost Updates
  - Use the Item Cost Wizard to help set up your Standard Costs

Overall Recommendations (cont'd)

- TEST, TEST, TEST
- For any of these approaches
- Minimum of two conference room pilots



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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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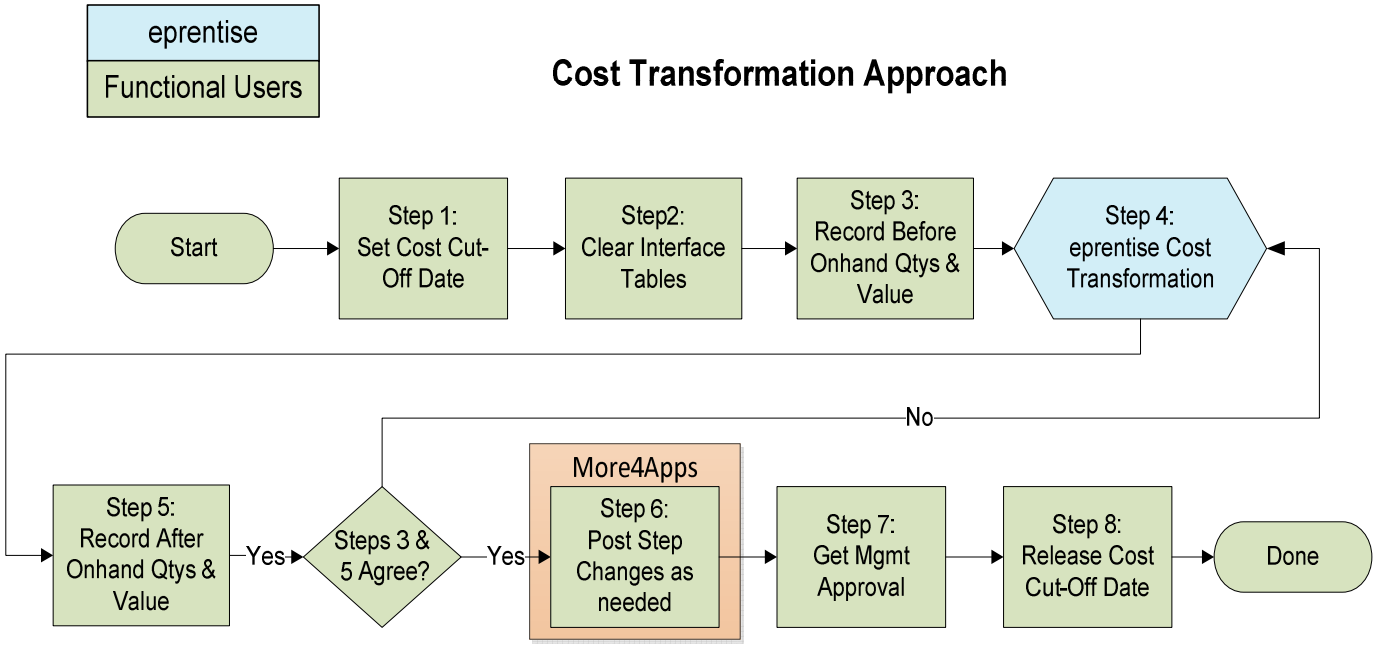
Approach Two:
Change In-Place Transformation with eprentise



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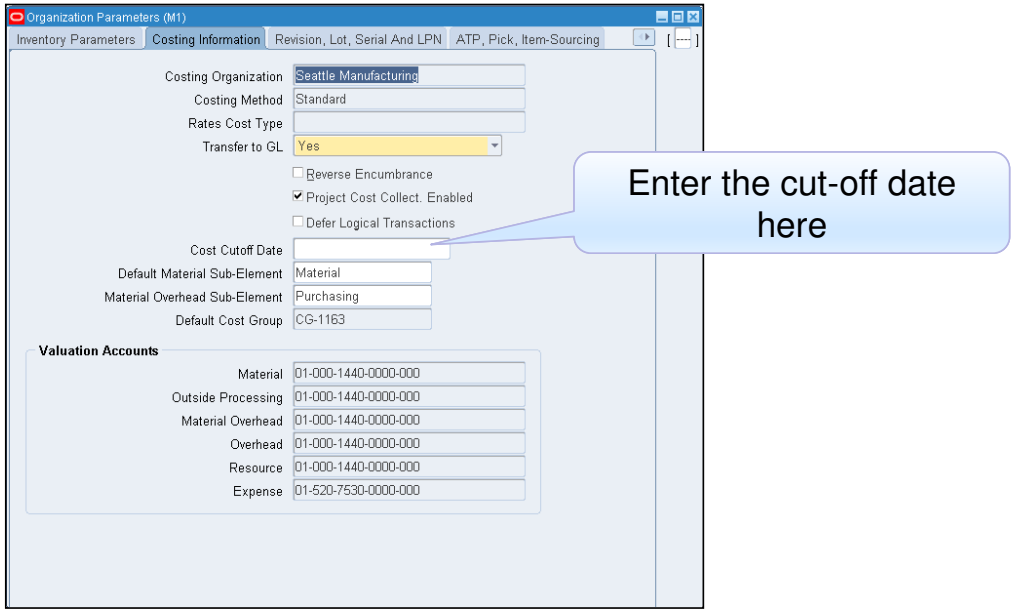
Cost Transformation – Step 1

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



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Cost Transformation – Step 2

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

Clear Transaction Interfaces

- Process all "in-flight" transactions

Inventory Accounting Periods (M3)

Status	Period	Year Num	Year	Period Dates From	Period Dates To	Close Date
Open	Dec-15	12	2015	01-DEC-2015	31-DEC-2015	
Open	Nov-15	11	2015	01-NOV-2015	30-NOV-2015	
Open	Oct-15	10	2015	01-OCT-2015	31-OCT-2015	
Open	Sep-15	9	2015	01-SEP-2015	30-SEP-2015	
Open	Aug-15	8	2015	01-AUG-2015	31-AUG-2015	
Open	Jul-15	7	2015	01-JUL-2015	31-JUL-2015	
Open	Jun-15	6	2015	01-JUN-2015	30-JUN-2015	
Open	May-15	5	2015	01-MAY-2015	31-MAY-2015	
Open	Apr-15	4	2015	01-APR-2015	30-APR-2015	
Open	Mar-15	3	2015	01-MAR-2015	31-MAR-2015	

Pending... | Values at Close | Distributions | Change Status

Pending Transactions (M3) - Dec-15

Number of Transactions

Resolution Required

Unprocessed Material	0
Uncosted Material/WSM	0
Pending WIP Costing	0
Pending WSM interface	0
Pending LCM Interface	0

Resolution Recommended

Pending Receiving	0
Pending Material	0
Pending Shop Floor Move	0

Unprocessed Shipping Transactions

Pending Transactions 0

Resolution: (•) Required ( ) Recommended

Open | Ok

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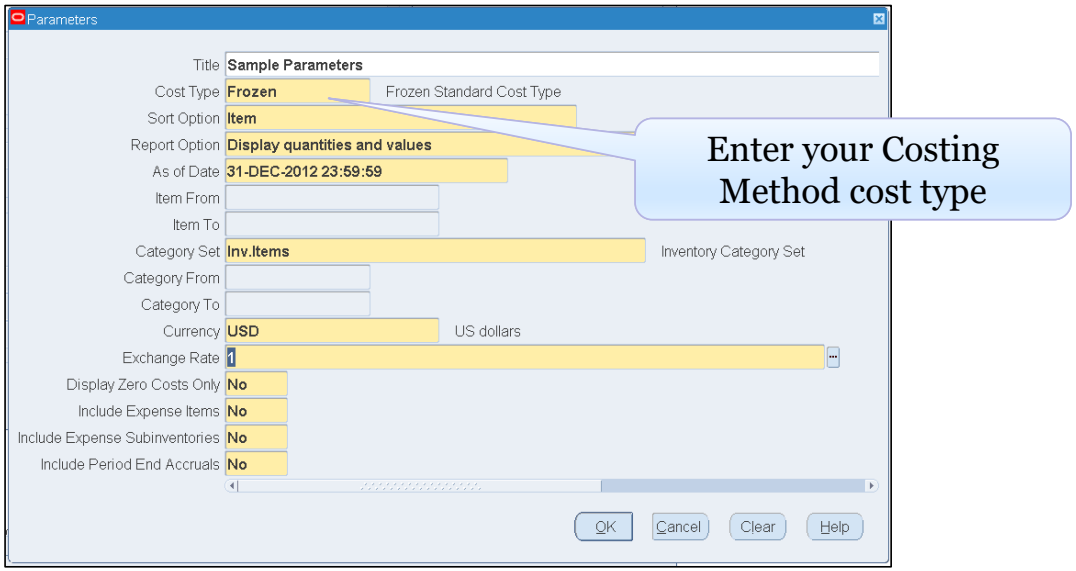
Cost Transformation – Step 3

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



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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

More4apps Item Wizard can help with item attribute values

Cost Transformation – 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 Transformation – 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, based on last A/P invoice cost or your last PO receipt cost

- **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
  - Or use the More4apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost into Excel and transfer to the More4apps Material Transaction Wizard to run Average Cost Updates

Cost Transformation – 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 Transformation – Step 8

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

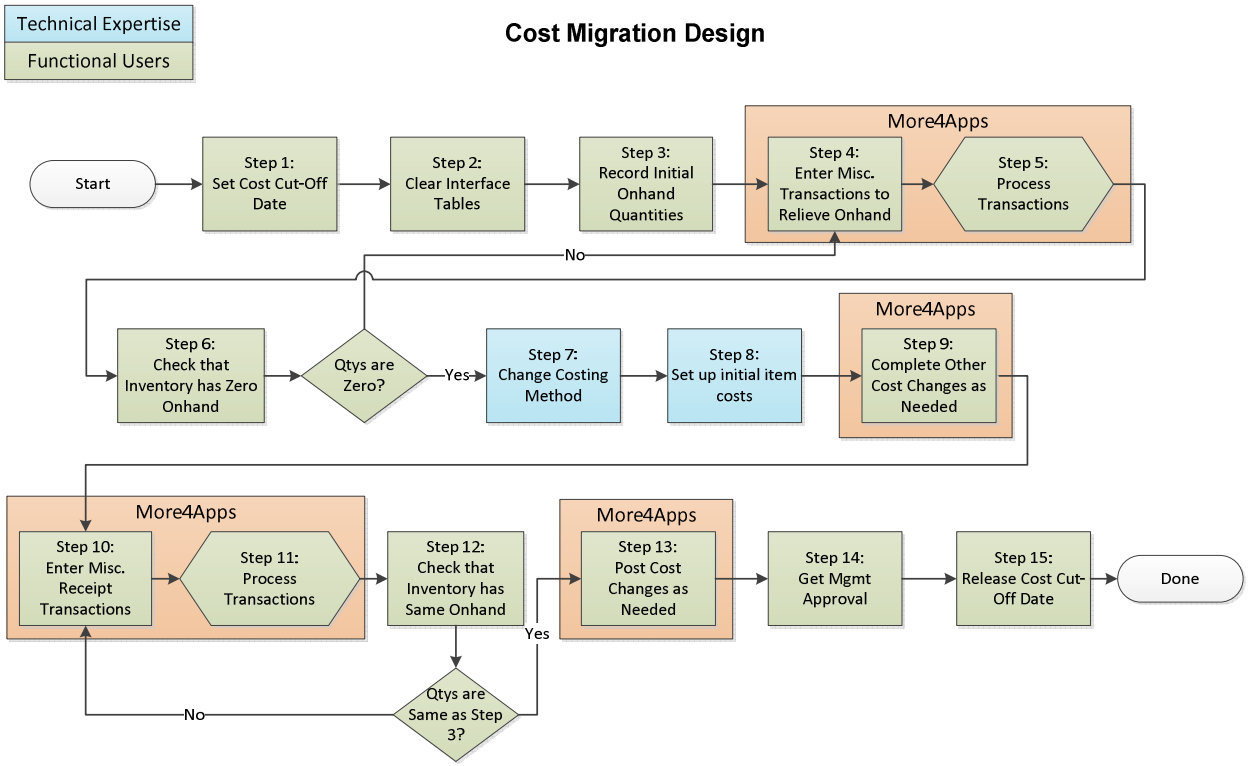
    Allows the Cost Manager / Inventory and Resource Processors to cost transactions using the new item costs

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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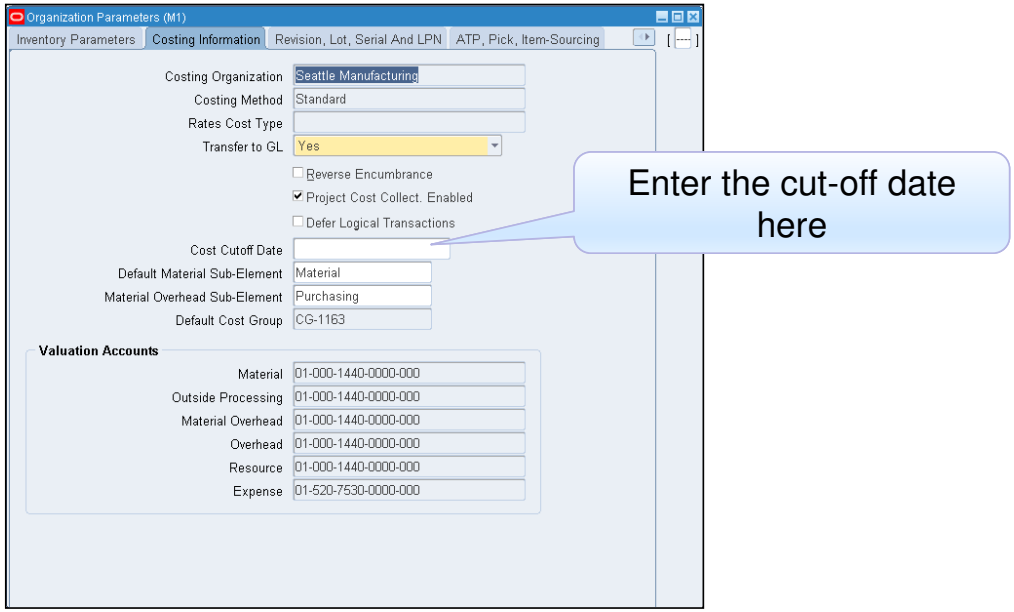
Cost Transformation – Step 1

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



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Cost Transformation – Step 2

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

Clear Transaction Interfaces

- Process all "in-flight" transactions

Inventory Accounting Periods (M3)

Status	Period	Year Num	Year	Period Dates From	Period Dates To	Close Date
Open	Dec-15	12	2015	01-DEC-2015	31-DEC-2015	
Open	Nov-15	11	2015	01-NOV-2015	30-NOV-2015	
Open	Oct-15	10	2015	01-OCT-2015	31-OCT-2015	
Open	Sep-15	9	2015	01-SEP-2015	30-SEP-2015	
Open	Aug-15	8	2015	01-AUG-2015	31-AUG-2015	
Open	Jul-15	7	2015	01-JUL-2015	31-JUL-2015	
Open	Jun-15	6	2015	01-JUN-2015	30-JUN-2015	
Open	May-15	5	2015	01-MAY-2015	31-MAY-2015	
Open	Apr-15	4	2015	01-APR-2015	30-APR-2015	
Open	Mar-15	3	2015	01-MAR-2015	31-MAR-2015	

Pending... | Values at Close | Distributions | Change Status

Pending Transactions (M3) - Dec-15

Number of Transactions

Resolution Required

Unprocessed Material	0
Uncosted Material/WSM	0
Pending WIP Costing	0
Pending WSM interface	0
Pending LCM Interface	0

Resolution Recommended

Pending Receiving	0
Pending Material	0
Pending Shop Floor Move	0

Unprocessed Shipping Transactions

Pending Transactions 0

Resolution: (•) Required ( ) Recommended

Open | Ok

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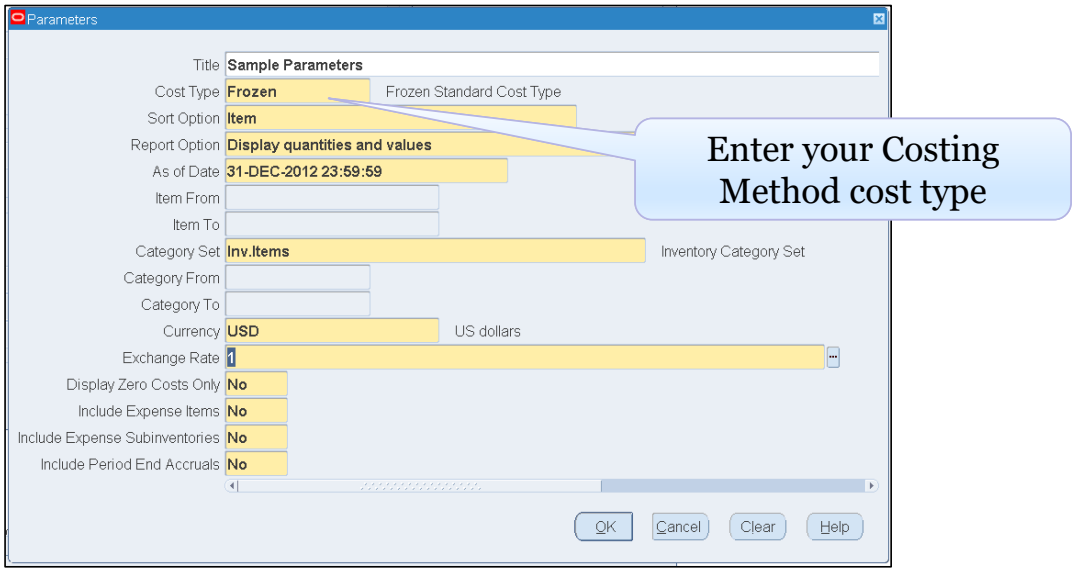
Cost Transformation – Step 3

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



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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 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.

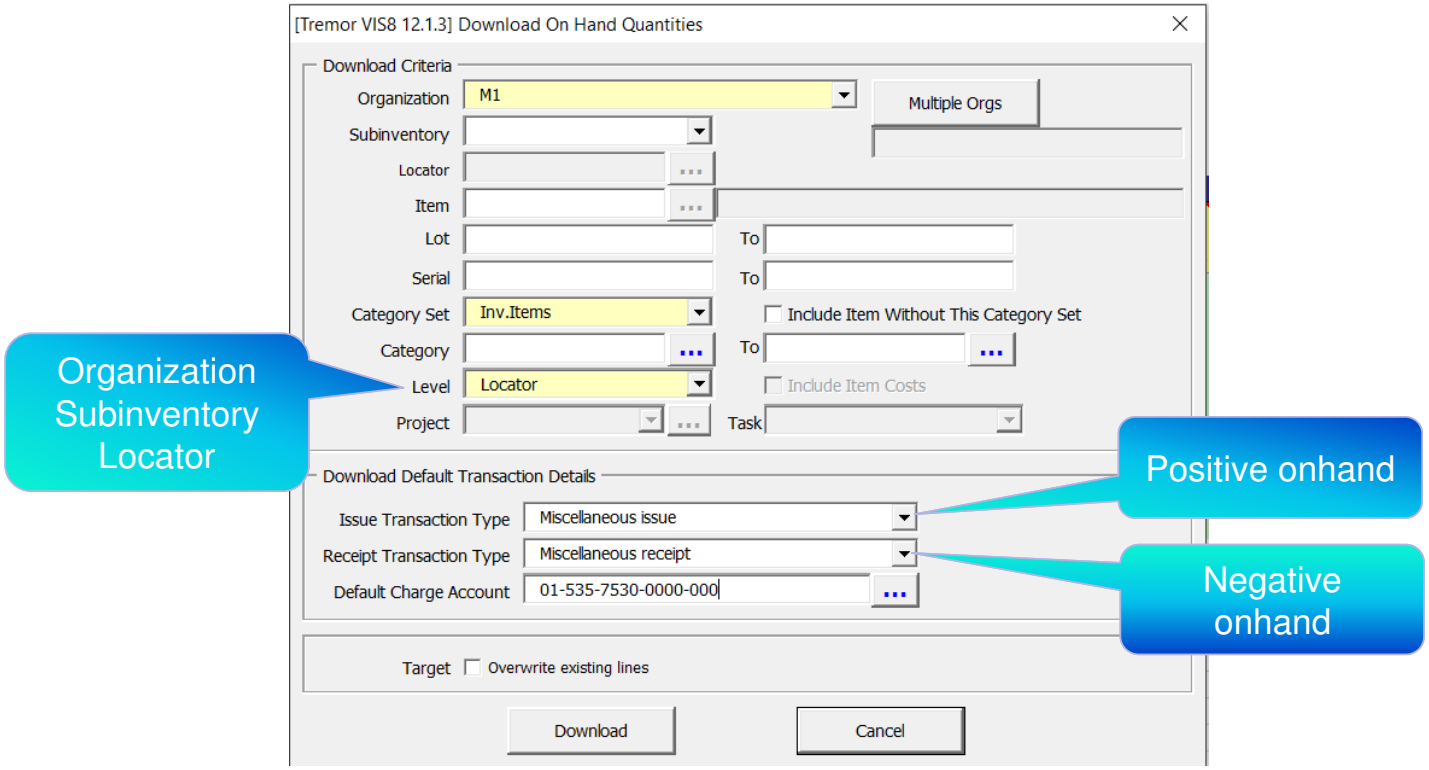
Cost Migration – Step 5 (Continued)

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)

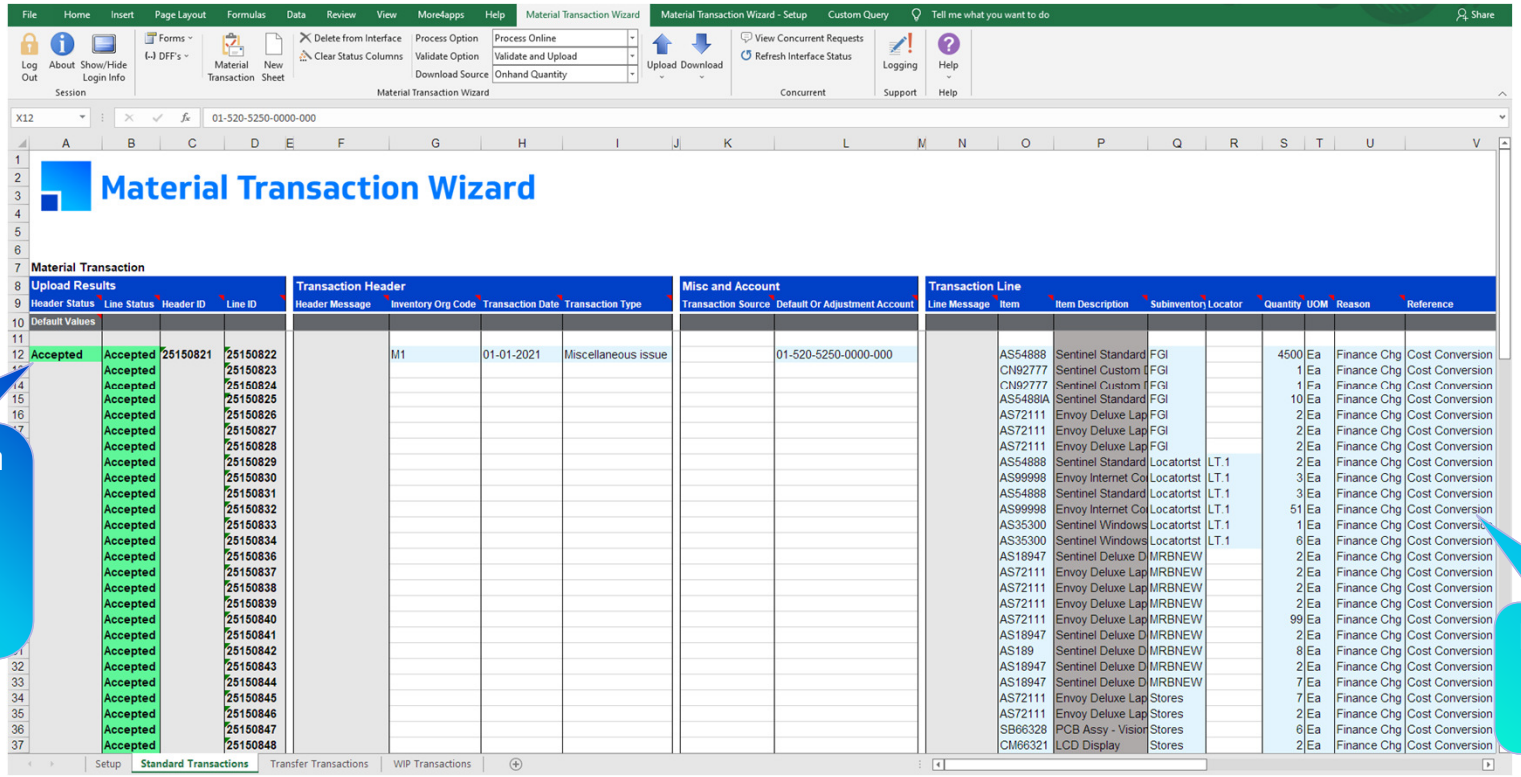
Cost Migration – Step 5 (Continued)

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



Cost Migration – Step 5 (Continued)

- **Process Transactions with More4apps**



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**

You Have to know what you are doing!

Not approved by Oracle

```
-- 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

→ **TIP:** Look at the Item Master database trigger: `MTL_SYSTEM_ITEMS_T1`

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 you need elements then the Material Transaction Wizard can help.
- 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
  - For Material Costs Only
    - Use standard Oracle Item Cost Copy program to copy your Average/FIFO/LIFO costs into your Pending Cost Type
  - For Average Costing for Material Overheads with a basis of Item you can't use mass edits.
    - Must correct material overheads – create correct basis type (ie total value)
      - Recommend Item Cost Wizard for this (Cost Merge/Update not Replace).
    - 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 30,000 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 function 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

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, based on your last A/P invoice or last PO receipt cost

- **Additional Cost Changes for Average Costing**
  - Use the More4apps Material Transaction Wizard to make any necessary Average Cost updates, including re-assigning resource, OSP, overhead costs by cost element
  - May need to fix Average material costs for buy items
  - Use the standard Oracle Cost Mass Edits to calculate average A/P invoice costs or average PO receipt costs
  - Or use the More4apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost

Cost Migration – Step 13 (Continued)

- **Other Caveats – Cost Mass Edits**
  - Copy over the former Costing Method item costs into a Historical Cost Type, such as AverageOld, FIFO Old, LIFO Old or StandardOld
  - Remove (yes delete) your items costs from your former Costing Method
  - This step is required overwise the Cost Mass Edits will not work (will get a duplicate key in index error)
- **Other Caveats – Cycle Count and Physical Inventories**
  - Either close out and after migration re-create any Cycle Count and Physical Inventory Schedules/Counts
  - Or use SQL to point the underlying counts to the new costing method

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

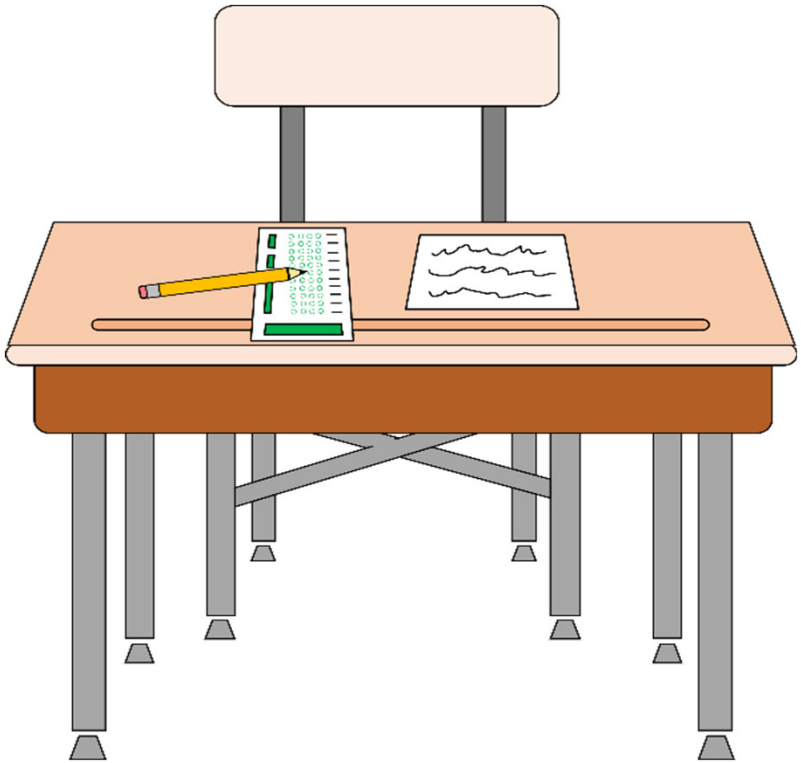
- If have the technical expertise, few inventory orgs and few items in stock
  - Use approach three – Cost Migration
- If missing technical expertise or converting many inventory organizations or have lots of onhand inventory
  - Use approach two – Cost Transformation – is safer with less disruption
- If using serial control with transfers between inventory organizations
  - Use approach two – Cost Transformation – may be easier
- Don't recommend approach one
  - setting up a new org – unless you have no sales orders, purchase orders, items, BOMs, Routings, WIP or onhand quantities in the existing org

Overall Recommendations

- More4apps is quite useful with Cost Migrations
  - Use the Material Transaction Wizard to move quantities in and out
  - Use Material Transaction Wizard to process Average Cost Updates
  - Use the Item Cost Wizard to help set up your Standard Costs

Overall Recommendations (cont'd)

- TEST, TEST, TEST
- For any of these approaches
- Minimum of two conference room pilots



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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

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

Appendix

- Which costing method to use?

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

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

Appendix

- Sharing costs across organizations

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

Item Attribute Controls

Group Name	Attribute Name	Controlled At
Costing	Costing Enabled	Org Level
Costing	Inventory Asset Value	Org Level
Costing	Cost of Goods Sold Account	Org Level
Costing	Include in Rollup	Org Level
Costing	Standard Lot Size	Org Level

Status Attributes

Group Name	Attribute Name	Controlled At	Status Setting
Inventory	Stockable	Master Level	Defaults Value
Inventory	Transactable	Master Level	Defaults Value
Bills of Material	BOM Allowed	Master Level	Defaults Value
Purchasing	Purchasable	Master Level	Defaults Value

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Appendix

- Item cost controls

Item Cost Controls by Cost Type

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

Item Costs Details (M1)

Item: CM51562 — PC Bag - Double Sided, Leather
UOM: Ea
Cost Type: Pending — Pending Standard Cost Type
Default Cost Type: Frozen
☐ Use Default Cost Controls

Cost Controls
☑ Inventory Asset
☐ Based On Rollup
Lot Size: 1
MFG Shrinkage Rate: 0

Cost Information

Material	50.00000	Cost Category	ACCESSORY.CASES
Material Overhead		Quantity	750
Resource		Extended Value	37,500.00
Outside Processing		Last PO Price	0.00000
Overhead		Invoice Price	95.00000
Unit Cost	50.00000	Make/Buy	Buy
COGS Account	01-520-5110-0000-000	☑ Include In Rollup	
Sales Account	01-520-4110-0000-000		

Views | Costs

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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

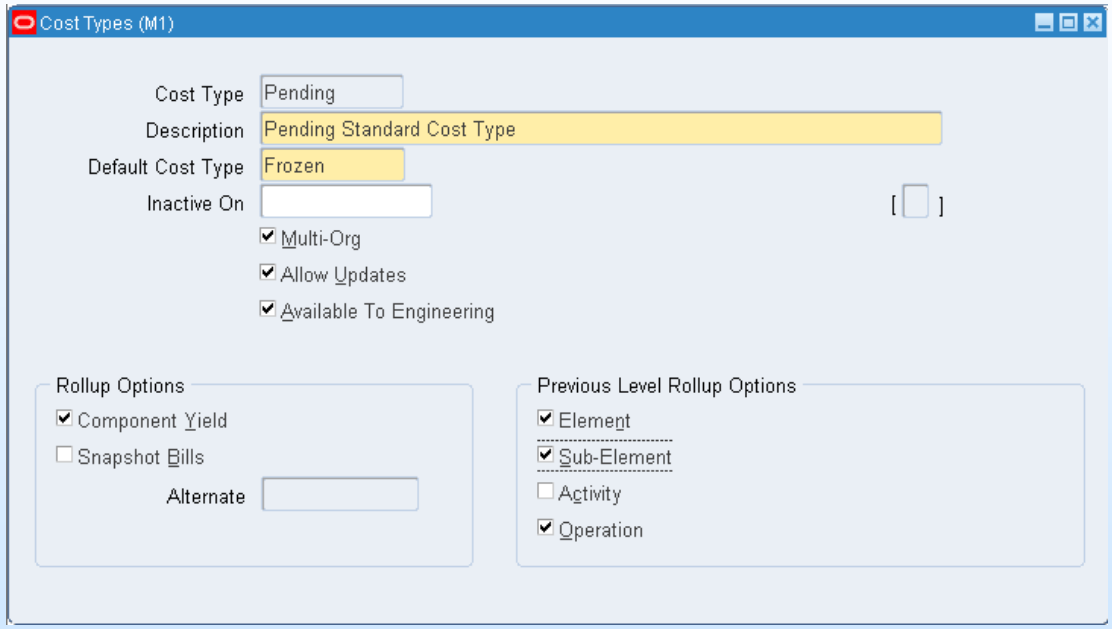
Who Said Changing Cost Methods With Discrete Costing Can't be Done?

Appendix

- How Oracle Stores Cost Information

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

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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	6	6
CTO (Configure to Order)	Any	7	N/A
DPP (Price Protection)	DPP	8	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

Item Costs Summary (M1)

Item	Cost Type	Unit Cost	Material	Material Overhead	Resource	Outside
CM51562	Frozen	50.00000	50.00000			
CM51562	Pending	50.00000	50.00000			

Item Description: PC Bag - Double Sided, Leather
UOM: Ea
Cost Type Description: Frozen Standard Cost Type
Default Cost Type: Fro

Views | Costs | New

Item Costs (M1) - CM51562, Frozen

Cost Information | Activity Information

User Defined Item Costs

Cost Element	Sub-Element	Activity	Basis	Rate or Amount	Unit Cost
Material	Material		Item	50	50.00000

Basis Factor: 1

Rollup Item Costs

Basis Factor
Source Type
MFG Shrinkage Factor

Sub-element is used (unless sourced from another org)

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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

- 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 Bag - Double Sided, Leather
Cost Type Description: Average Cost Type
UOM: Ea
Default Cost Type: Avera

Views | Costs | New | Ope

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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Appendix

- Default Cost Accounts

Default Cost Accounts

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

Organization Parameters (M1)

Inventory Parameters | Costing Information | Revision, Lot, Serial And LPN | ATP, Pick, Item-Sourcing

Costing Organization	Seattle Manufacturing
Costing Method	Standard
Rates Cost Type	
Transfer to GL	Yes
	☐ Reverse Encumbrance
	☑ Project Cost Collect. Enabled
	☐ Defer Logical Transactions
Cost Cutoff Date	
Default Material Sub-Element	Material
Material Overhead Sub-Element	Purchasing
Default Cost Group	CG-1163

Valuation Accounts

Material	01-000-1440-0000-000
Outside Processing	01-000-1440-0000-000
Material Overhead	01-000-1440-0000-000
Overhead	01-000-1440-0000-000
Resource	01-000-1440-0000-000
Expense	01-520-7530-0000-000

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

Otherwise with Standard Costing only used as Subinventory definition defaults

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Default Cost Accounts

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

Organization Parameters (M1)

Revision, Lot, Serial And LPN | ATP, Pick, Item-Sourcing | Inter-Org Information | Other Accounts

Receiving Accounts

Purchase Price Variance	01-520-5210-0000-000
Invoice Price Variance	01-520-5220-0000-000
Inventory AP Accrual	01-000-2220-0000-000
Encumbrance	

Profit and Loss Accounts

Sales	01-520-4110-0000-000
Cost of Goods Sold	01-520-5110-0000-000

Other Accounts

Project Clearance Account	01-510-1570-0000-000
Deferred COGS Account	01-520-1415-0000-000
Cost Variance Account	
LCM Variance Account	

Only used by Standard Costing

Only used by Average Costing

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)

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

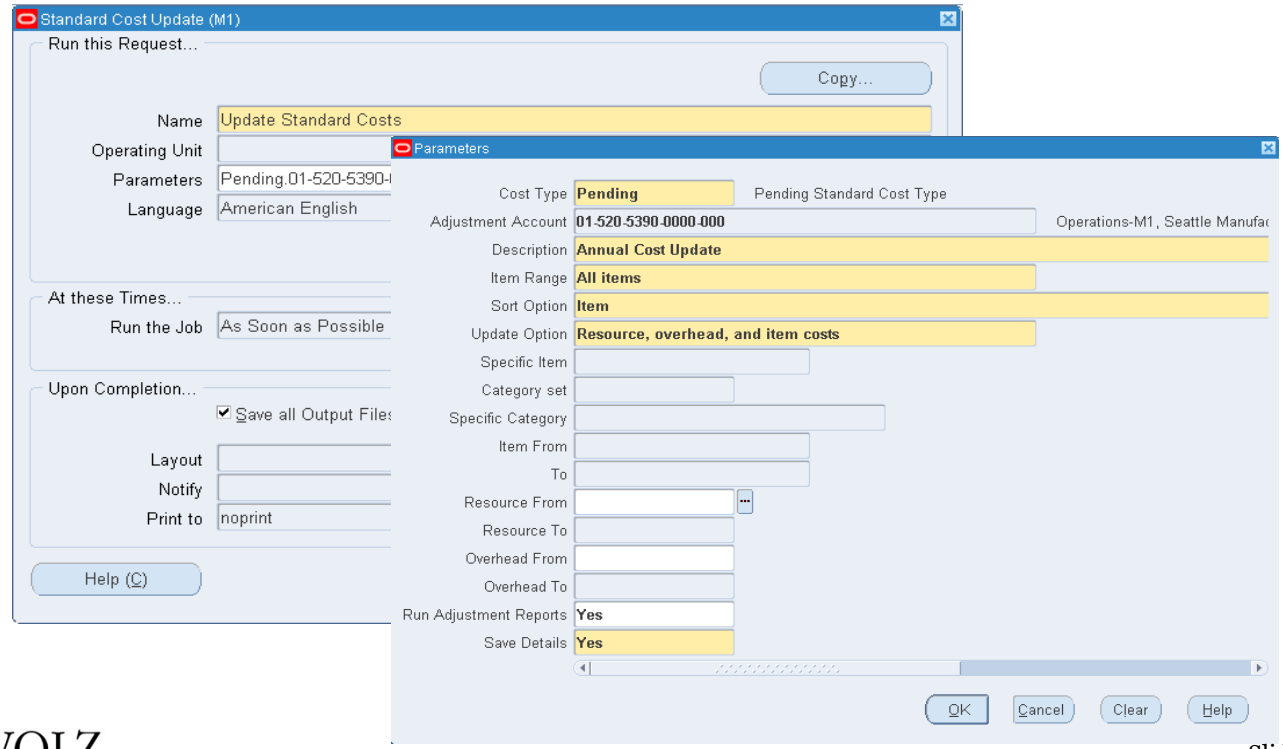
Appendix

- Standard vs. Average Cost Updates

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



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Updating Average (FIFO/LIFO) Costs

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

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

Update Average Cost (M3)

Transaction
Date 30-NOV-2015 13:07:25
Type Average cost update
Source

Defaults
Adjustment Acct 01-535-7530-0000-000
% Change

Cost Update
Transaction Change | Accounts | Value Changes | Comments

Item	Cost Group	New Average Cost	% Change	Inventory Value Change	[ ]
CM51562	CG-1327	115.00000			

Item Description PC Bag - Double Sided, Leather
UOM Ea
Net Value Change 4,640.00
Valued Qty 232
Current Average Cost 95.00000
Current Total Value 22,040.00

Cost Elements

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Any Questions?

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