Profit Center Accounting
Course Objectives

- Understand the functions in Profit Center Accounting.
- Explain Profitability management in SAP.
- Understand and maintain CO-PCA master data.
- Identify the source of actual values.
- Execute planning.
- Use the CO-PCA information system.
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Overview

Profitability Management

Master Data

Transfer Prices

Planning

Actual Data

Information System
PCA Overview

- Profit center accounting, in conjunction with transfer pricing, enables:
  - Structuring of the A Group according to Strategic Business Units (SBUs), leading to: Full Income Statements according to lines of business (Product Groups rolled up to SBU/Sectors)
  - Selected reporting of Balance Sheet items by Product Group/SBU and Sector (e.g. Payables/Receivables, Fixed Assets, Inventories).
  - The ability to reflect material movements between SBUs at commercial prices rather than cost
Terms used in Profitability Management

➢ Accounting Methods
  ✓ Period Accounting
  ✓ Cost-of-Sales Accounting

➢ Values
  ✓ Gross Sales
  ✓ Net Sales
  ✓ Variances

➢ Ratios
  ✓ Return on Investment
  ✓ Margins
  ✓ Economic Profit
  ✓ Cash Flow
  ✓ Contribution Margin
Profitability Management
Aspects of Profitability Management

Responsibility Accounting
(Company oriented)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>468</td>
</tr>
<tr>
<td>Materials</td>
<td>230</td>
</tr>
<tr>
<td>Profit</td>
<td></td>
</tr>
</tbody>
</table>

Profitability Analysis
By Market segment
(Market oriented)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts</td>
<td>100</td>
</tr>
<tr>
<td>COGS</td>
<td>230</td>
</tr>
<tr>
<td>Contr. Margin</td>
<td>1440</td>
</tr>
<tr>
<td>Advertising</td>
<td>250</td>
</tr>
</tbody>
</table>

Profit Centers

- Ethylene
- Pharma
- Power
- Telecom

Profitability Segments
External Market
## Typical Questions in Profit Center Accounting

<table>
<thead>
<tr>
<th>Contribution of organizational unit</th>
<th>What is the operating profit for a profit center?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital</td>
<td>What asset value is attributed to A profit center?</td>
</tr>
<tr>
<td>Cost management</td>
<td>Which responsibility areas Exceeded their plan for last month?</td>
</tr>
<tr>
<td>Management of internal sales &amp; services</td>
<td>What goods and services are exchanged within The corporation?</td>
</tr>
</tbody>
</table>
Responsibility Accounting

- EC-PCA lets you calculate internal operating results for profit centers. A profit center represents an organizational subunit that operates independently on the market and bears responsibility for its own costs and revenues. You organize your organization into profit centers by assigning the master data of each profit-relevant objects (materials, cost centers, orders, projects, sales orders, assets and cost objects) to a profit center.

- All the business transactions in the R/3 System which are relevant for cost and profits are updated in the profit centers at the same time they are processed in the original module, and organized according to cost and revenue elements. This transforms all the flows of goods and services within the company into exchanges of goods and services between profit centers. This profit center structure applies for both actual postings and profit center plan data.

- It is also possible to treat a profit center as an investment center. In addition to the flows of goods and services, you can transfer selected balance sheet line items (fixed assets, payables and receivables, material stocks, and work in process) to profit centers on a periodic basis. This makes it possible to calculate such key figures as profit on sales, return on investments and cash flow.
You use valuation views to represent different ways of viewing business transactions in a company.

- Legal view (Individual enterprise) – For transactions between company codes.
- Group view – For a consolidated view of the corporation.
- Profit center view – For business transactions between profit centers.
Parallel Currencies in Profit Center Acctn.

Profit Center Accounting

Transaction Currency

Company Code Currency

Special EC PCA Currency
Master Data
Organizational Units & Master Data

Operating Concern

Controlling Area

Profit Centers

Company Codes

Cost Centers

Other Cost Objects

A Ltd
9100
A1 Ltd
9200
HQ
1000

Ethylene
Propylene

Pharma

Polyolefins

Power

Telem
ommunicati
on

Inform
ation techn
ology

Corporate
common

Purchasing
13...
Gen Services
14...
Sales and Marketing
15...
Orders
Cost Objects

R & T
16...
Master Data in Profit Center Accounting

- Profit Centers
- Profit Center Groups
- Accounts P&L, Balance Sheet Items
- Statistical key figures
Organizational unit in Accounting that reflects a management-oriented structure of the organization for the purpose of internal control. Profit Center groups are collections of Profit centers with similar characteristics. In the case of A Grp this structure is by Product Group.
Master Data – Profit Center (2)

- Basic data
- Validity period
- Company Code Assignment
- Address / Communications Data
Master Data – Dummy Profit Center

- Basic data
- Indicators: Dummy Profit center
- Address / Communications Data
Master Data Groups

Profit center
Chemicals

- Ethylene
- Propylene
- Benzene
# Chart of Accounts

## A Grp Chart of Accounts - YCCA

<table>
<thead>
<tr>
<th>Financial Accounting</th>
<th>Controlling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Assets</td>
<td>4 Primary Cost elements</td>
</tr>
<tr>
<td>2  Liabilities</td>
<td>8 Revenue elements</td>
</tr>
<tr>
<td>3  Equity</td>
<td>9 Secondary Cost elements</td>
</tr>
<tr>
<td>4  Expense Accounts</td>
<td></td>
</tr>
<tr>
<td>8  Revenue Accounts</td>
<td></td>
</tr>
</tbody>
</table>
Profit Center Assignments

- Profitability Segment
- Cost center
- Internal order
- Profit Center
- Sales order
- Asset
- Production order
- Material
Monitoring Assignments

Check Assignments for:
- Materials
- Cost Centers
- Orders

Profit Center

- Not assigned
- Objects per profit center
- Profit centers without cost centers
- Material fast assignment
Transfer Price
Definition of a Transfer Price

- A transfer price is a price used to valuate the transfer of goods and services between independent organizational units.
Enterprise Controlling

- Legal View – that of independent legal companies
- Group View – that of the organization as a whole
- Profit center view - that of the decentralized responsibility areas
Transfer Prices in SAP

Controlling area (Corporate Group)

Transfer price from the group viewpoint = group production costs
Transfer price from the profit center viewpoint = management price
Transfer price from the legal viewpoint = sales and purchase price
Transfer Pricing

Assumed Plan = Actual => No Variances

Butene-1

Butene-1

Polyethylene

Polyethylene
Planning
Profit Center Planning Objectives

- Plan Integration
- Planning Methods
- Plan Data Transfer
Plan Integration

**MS Excel**

**Profit Center Plan**

Sales 100,000
Discounts 5,000
Cost of Sales 50,000
Marketing Expenses 10,000
Admin. Expenses 15,000
Number of Sales Orders 1,000

Internal Order
Production Order
Cost Center
Planning methods in PCA

- Plan data transfer
- Excel-Upload
  - Copy existing data
- Manual entry

New Plan

Plan Allocations

Final Plan
Actual Data
Actual Values Overview

- Flow of actual values in Profit Center Accounting
  - Overview
  - Flow from Profit and Loss accounts
    - Flow from materials management
    - Flow from sales and distribution
  - Flow from Balance Sheet items – Period end closing
    - Flow from Asset Management
    - Transfer of Material Stock
    - Transfer of Work In Process
    - Flow from Accounts payable and receivable
  - Flow from controlling – Period end closing
    - Flow from Overhead Cost Management
    - Profit Center Document Entry
    - Assessment & Distribution
Actual Values Overview

- Flow of Actual Values in Profit Center Accounting
  - Overview
Overview of Value Flow in PCA

Profit Center Accounting

Primary Costs

Procurement

Production

Goods Movement

Sales/Billing

MM

PP

MM

SD
Actual Values Overview

- Flow of Actual Values in Profit Center Accounting
  - Flow from Profit and Loss accounts
    - Flow from materials management
    - Flow from sales and distribution
Determination of Profit Centers in P&L

Source Transaction

- Billing Document
- Invoice Receipt
- Goods Movement
- Direct Posting from FI
- Other P&L Accounts

Profit center

- Material/Plant of Sales Order Substitution
- Material/Plant of Purchase Order
- Material/Plant
- Indirect /Manual Assignment
- Customized Automatic Account Assignment
Flow from materials management (1)

Material Expense
400000
500

Material Expense
400000
500

EC-PCA

Raw Materials
119400
500

CO-PC

Material Expense
500

Flow from materials management (2)

Finished Products
119430
450

Production Output
462001
450

M. Expense
500

Production Output
462001

EC-PCA

Production Output
450

CO-PC
Flow from sales and distribution (1)
Flow from sales and distribution (2)

- Sales: 810000
- Receivables: 10,000
- EC-PCA

Diagram showing the flow from FI to receivables with a sales figure of 810000 and 10,000.
Flow of Actual Values in Profit Center Accounting
- Flow from Balance Sheet items – Period end closing
  - Flow from Asset Management
  - Transfer of Material Stock
  - Transfer of Work In Process
  - Flow from Accounts payable and receivable
The system determines the profit center to which balance sheet accounts are assigned as follows:

- **Receivables** are divided according to the corresponding revenue line items and assigned to the profit centers. **Payables** are posted to the profit center of the material ordered for purchases orders to stock, and to that of the account assignment for purchase orders to account assignment objects.

- The assignment of **material stocks** and **assets** is based on the assignment made in the master record of a material.

- Because postings for **down payments** do not reference an invoice, it is not possible to automatically assign the down payment to profit centers. However, you can assign them manually.
Flow from Asset management

- **Online Transfer:** Assets are assigned to profit centers indirectly via their assignment to an internal order or cost center.
Flow of value in AP and AR

Before you can transfer payables and receivables, you first need to calculate the payables and receivables to be split in Financial Accounting. In this step, the payables and receivables are broken down according to profit center based on sales order line item assignments.

Within PCA you can transfer the data to Profit Center Accounting. Select the desired company codes and choose the periods you want to transfer. The payables and receivables are posted to Profit Center Accounting in the reconciliation accounts in the general ledger. No Financial Accounting documents are created in the process.

If you choose line items, the system creates a line item for each customer and vendor in Profit Center Accounting.
Actual Values Overview

Flow of Actual Values in Profit Center Accounting

- Flow from controlling – Period end closing
  - Flow from Overhead Cost Management
  - Profit Center Document Entry
  - Assessment & Distribution
Transfer from Controlling (1)

- All primary postings to account assignment objects in Controlling are posted to profit centers using the same cost element.

- For allocations in cost accounting (distribution, assessment, cost allocation, transfers, order settlement, calculation of overhead), the following records are updated in Profit Center Accounting:
  
  - The profit center of the crediting account assignment object is “credited” using the same cost element, and the profit center of the object to be debited is used as the partner profit center.
  
  - In addition, the profit center of the “receiver” is debited using the same cost element, and the profit center of the sender is used as the partner profit center.
- All the secondary transfers between CO objects are selected and represented in the assigned profit centers.
- You can represent the data in Profit Center Accounting by reflecting the original document directly.
- The exchange of services between profit centers is represented as internal cost allocations in CO. If elimination of internal business volume is active, as in A Group, Profit Center Accounting only reflects those services which are provided by one profit center for another one or between different controlling object type (e.g. cost center and internal order)
Assessment

- In case you cannot assign the final cost centers or materials to one profit center, you can collect the data in an allocation Profit center and then assess it in Profit Center Accounting.

- **We only assess postings to P&L accounts since for allocation of Balance Sheet accounts we use distribution.**

- When you define assessment (XXGA1A - Assess Other PC to Product PCs), you collect all the sender-receiver relationships in segments. You then store these segments in different cycles, which are stored with a time reference.

- Note that for technical reasons, a **cycle is always defined for one company code**. You can create more than one cycle for a company code if allocation or performance aspects make this necessary. The cycles will be processed in sequence.
Information System
Information System Overview

- Profit Center Report
  - Interactive Reporting
  - List-oriented Reports
- Line Item Reports
## Report Output Types

<table>
<thead>
<tr>
<th>Interactive Reporting</th>
<th>List – Oriented Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Variable output areas</td>
<td>✓ Interface Report-to-Report</td>
</tr>
<tr>
<td>✓ Navigation tree / drag &amp; drop</td>
<td>✓ Printing options</td>
</tr>
<tr>
<td>✓ Cumulative display functionality</td>
<td>✓ Integration with MS Office</td>
</tr>
</tbody>
</table>
Thank You