

**Oracle® Fusion Applications Product Management, Cost
Accounting and Receipt Accounting Guide**

11g Release 1 (11.1.3)

Part Number E22705-03

October 2011

Oracle® Fusion Applications Product Management, Cost Accounting and Receipt Accounting Guide

Part Number E22705-03

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Contents

1 Manage Cost Accounting

Manage Cost Accounting: Overview	1-1
Manage Cost Accounting: Manage Period End	1-2
Manage Cost Accounting: Manage Inventory Valuation	1-7
Manage Cost Accounting: Record, Audit, and Review Cost Accounting	1-13
Manage Cost Accounting: Analyze Product Costs	1-21

2 Manage Receipt Accounting

Manage Receipt Accounting: Overview	2-1
Manage Receipt Accounting: Record and Review Receipt Accounting	2-1

Preface

This Preface introduces the guides, online help, and other information sources available to help you more effectively use Oracle Fusion Applications.

Oracle Fusion Applications Help

You can access Oracle Fusion Applications Help for the current page, section, activity, or task by clicking the help icon. The following figure depicts the help icon.



With a local installation of help, you can add custom help files to replace or supplement the provided content. Help content patches are regularly made available to ensure you have access to the latest information. Patching does not affect your custom content.

Oracle Fusion Applications Guides

Oracle Fusion Applications guides are a structured collection of the help topics, examples, and FAQs from the help system packaged for easy download and offline reference, and sequenced to facilitate learning. You can access the guides from the **Guides** menu in the global area at the top of Oracle Fusion Applications Help pages.

Note

The **Guides** menu also provides access to the business process models on which Oracle Fusion Applications is based.

Guides are designed for specific audiences:

- **User Guides** address the tasks in one or more business processes. They are intended for users who perform these tasks, and managers looking for an overview of the business processes. They are organized by the business process activities and tasks.
- **Implementation Guides** address the tasks required to set up an offering, or selected features of an offering. They are intended for implementors. They are organized to follow the task list sequence of the offerings, as displayed within the Setup and Maintenance work area provided by Oracle Fusion Functional Setup Manager.
- **Concept Guides** explain the key concepts and decisions for a specific area of functionality. They are intended for decision makers, such as chief

financial officers, financial analysts, and implementation consultants. They are organized by the logical flow of features and functions.

- **Security Reference Manuals** describe the predefined data that is included in the security reference implementation for one offering. They are intended for implementors, security administrators, and auditors. They are organized by role.

To supplement these guides, which cover specific business processes and offerings, the following guides address common areas:

Guide	Intended Audience	Purpose
Common User Guide	All users	Explains tasks performed by most users.
Common Implementation Guide	Implementors	Explains tasks within the Define Common Applications Configuration task list, which is included in all offerings.
Information Technology Management, Implement Applications Guide	Implementors	Explains how to use Oracle Fusion Functional Setup Manager to plan, manage, and track your implementation projects, migrate setup data, and validate implementations.
Technical Guides	System administrators, application developers, and technical members of implementation teams	Explain how to install, patch, administer, and customize Oracle Fusion Applications.

Other Information Sources

My Oracle Support

Oracle customers have access to electronic support through My Oracle Support. For information, visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=info> or visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=trs> if you are hearing impaired.

Use the My Oracle Support Knowledge Browser to find documents for a product area. You can search for release-specific information, such as patches, alerts, white papers, and troubleshooting tips. Other services include health checks, guided lifecycle advice, and direct contact with industry experts through the My Oracle Support Community.

Oracle Enterprise Repository for Oracle Fusion Applications

Oracle Enterprise Repository for Oracle Fusion Applications provides visibility into service-oriented architecture assets to help you manage the lifecycle of your software from planning through implementation, testing, production,

and changes. In Oracle Fusion Applications, you can use the Oracle Enterprise Repository for Oracle Fusion Applications for:

- Technical information about integrating with other applications, including services, operations, composites, events, and integration tables. The classification scheme shows the scenarios in which you use the assets, and includes diagrams, schematics, and links to other technical documentation.
- Publishing other technical information such as reusable components, policies, architecture diagrams, and topology diagrams.

The Oracle Fusion Applications information is provided as a solution pack that you can upload to your own deployment of Oracle Enterprise Repository for Oracle Fusion Applications. You can document and govern integration interface assets provided by Oracle with other assets in your environment in a common repository.

Documentation Accessibility

For information about Oracle's commitment to accessibility, visit the Oracle Accessibility Program website at <http://www.oracle.com/us/corporate/accessibility/index.html>.

Comments and Suggestions

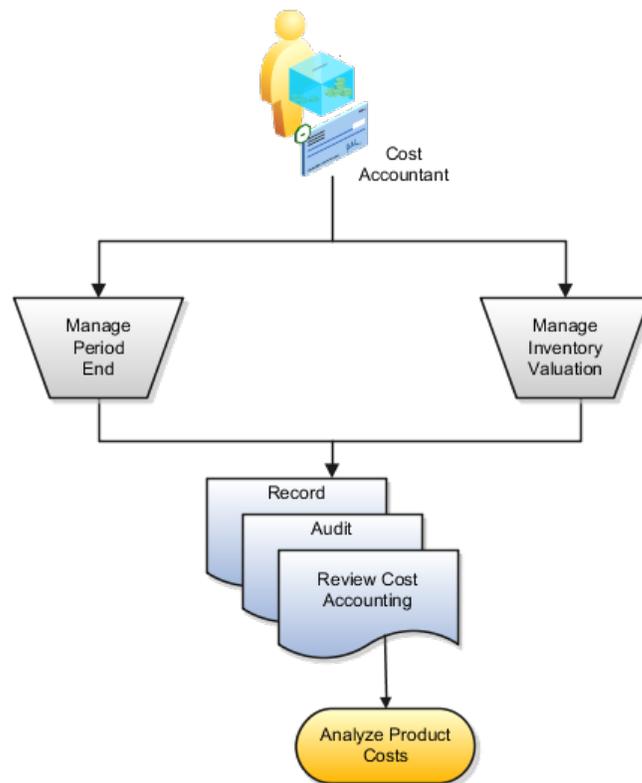
Your comments are important to us. We encourage you to send us feedback about Oracle Fusion Applications Help and guides. Please send your suggestions to oracle_fusion_applications_help_ww@oracle.com. You can use the **Send Feedback to Oracle** link in the footer of Oracle Fusion Applications Help.

Manage Cost Accounting

Manage Cost Accounting: Overview

The Manage Cost Accounting business process is used by cost accountants to calculate inventory transaction costs, maintain inventory valuation, generate accounting distributions for inventory transactions, analyze product costs, analyze usage of working capital for inventory, and analyze gross margins.

The following figure depicts the activities of cost accountants within the Manage Cost Accounting business process.



- Manage Period End. Manage the timing of transaction processing, and perform validations in preparation for accounting period close.
- Manage Inventory Valuation. Adjust the cost of items to address inventory obsolescence, price changes, and other variances.

- Record, Audit, and Review Cost Accounting. Create cost accounting distributions for transaction data that is received from external sources, view and address any processing exceptions, and review results.
- Analyze Product Costs: View the perpetual average cost details of an item, chart its cost trend, compare costs across items, analyze usage of working capital and gross margins.

Manage Cost Accounting: Manage Period End

Cost Accounting Periods: Explained

Cost accounting periods enable you to monitor the timing of transaction processing, and to perform validations in preparation for period close.

Cost periods are associated with combinations of cost organizations and cost books. When you associate a cost organization with a cost book, you also define the cost accounting period calendar and other attributes.

Cost Period Calendar and Attributes

The cost period calendar is based on the ledger that is attached to the cost organization and cost book combination. For ledgerless cost books you can set the calendar and cost periods manually on the Manage Cost Organization Relationships page, Cost Books tab. On this page you also define the following cost period attributes:

- First opened period. Establishes the period when transaction accounting begins. Any transactions that precede the first opened period, are accounted in the first opened period.
- Maximum open periods. Specifies the maximum number of concurrent periods that can be open. The system checks against this threshold before opening a period. If the number of periods is maximized, then no additional period can be opened until one of the open periods changes to Closed, Permanently Closed, or Pending Close status.

Cost Cutoff Dates: Explained

The run control parameters that you define for the cost processors include the cost cutoff date option and the cutoff date for the cost organization books that you are processing. The cost cutoff date sets the last transaction date that will be processed for an accounting period.

The following discusses the cost cutoff date option, backdated transactions, and the costing date of transactions.

Cost Cutoff Date Option

Set the cutoff date option to User-Defined or Auto. The User-Defined option requires you to specify the cutoff date, while the Auto option saves you the effort of redefining the cutoff date which is automatically moved forward by the cost processor.

When you select the Auto option, the cost processor moves the cutoff date forward to the last date of the earliest open cost period, and then it stops until the costing period is closed. After the period is closed, the cost processor advances the cutoff date into the next open period, and so on. However, if a transaction is successfully preprocessed after the cutoff date, then the cutoff date for that cost organization book moves forward to the date of the last successfully preprocessed transaction. This could happen, for example, if you originally set the cutoff date option to User-Defined and subsequently changed it to Auto.

Backdated Transactions

One of the purposes of the cost cutoff date is to allow backdating of transactions in an orderly fashion. For example, if you set the cost cutoff date to October 31, you can still process October transactions that were entered in November but meant for the period ending October 31 by backdating them to October 31 or earlier. However, when the cost cutoff date advances forward to a date past October 31 and other transactions are processed beyond October 31, then the backdated transactions can no longer be processed as October transactions.

If you set a cost cutoff date at October 31, the cost processor will queue up but not process any transactions with a date after October 31. If you subsequently need to backdate transactions to a date before October 31, you can still process those backdated transactions as long as you do not process any transactions beyond October 31. You can also backdate transactions to any date after October 31, with the assurance that these transactions will be processed in the correct order when the cost cutoff date moves forward.

Costing Date of Transactions

The costing date of transactions is normally the same as the transaction date, or the cost adjustment date, except for backdated transactions.

The cost date for backdated transactions inherits the greater of: the backdated transaction date, the date of the last processed transaction, or the first date of the earliest currently open period.

Note

The cost cutoff date affects the costed date of the transaction and the inventory value that is reported as of a given accounting date. It does not affect the inventory transaction date.

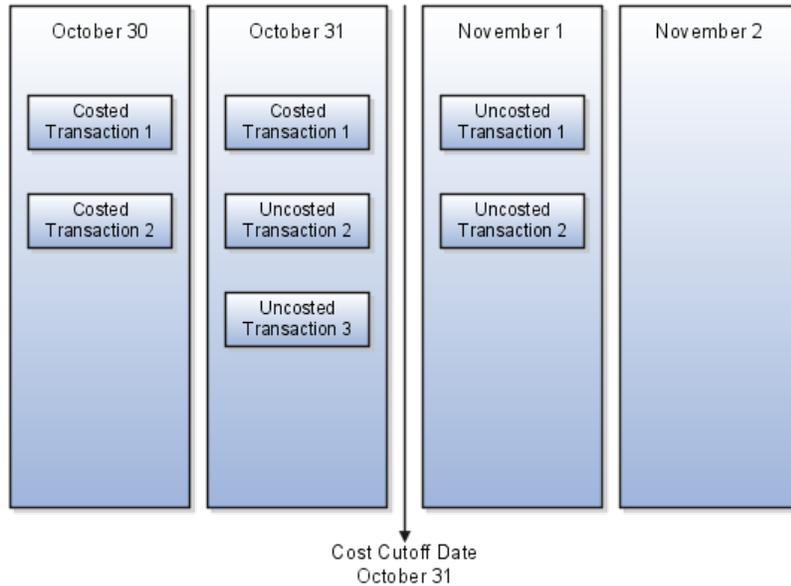
Backdating of Transactions: Examples

By setting the cost cutoff date for a cost accounting period, you can manage which transactions are processed in that period, including backdated transactions. The following examples illustrate how the cost processor sets the accounted date for backdated transactions.

Scenario

Assume that the current date is November 2, and the cost cutoff date is October 31.

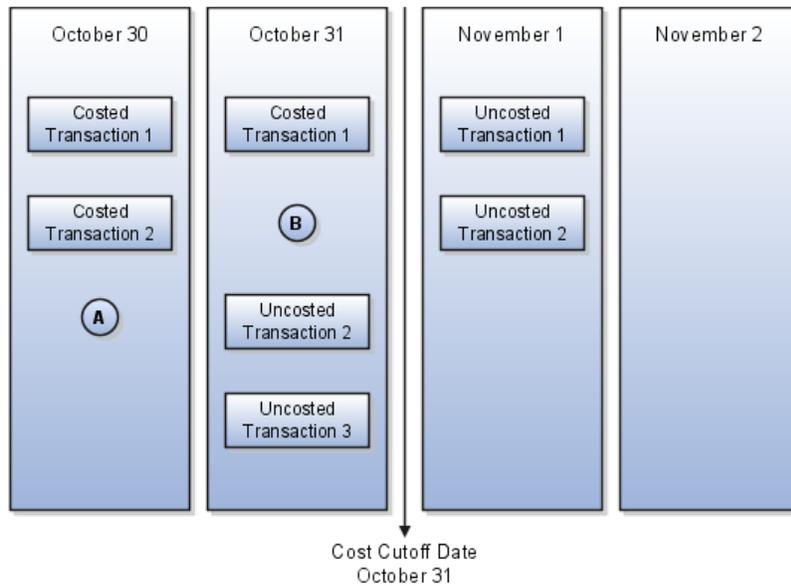
The following costed and uncosted transactions are in process.



Example 1

Transactions are backdated to a point before the latest costed transaction.

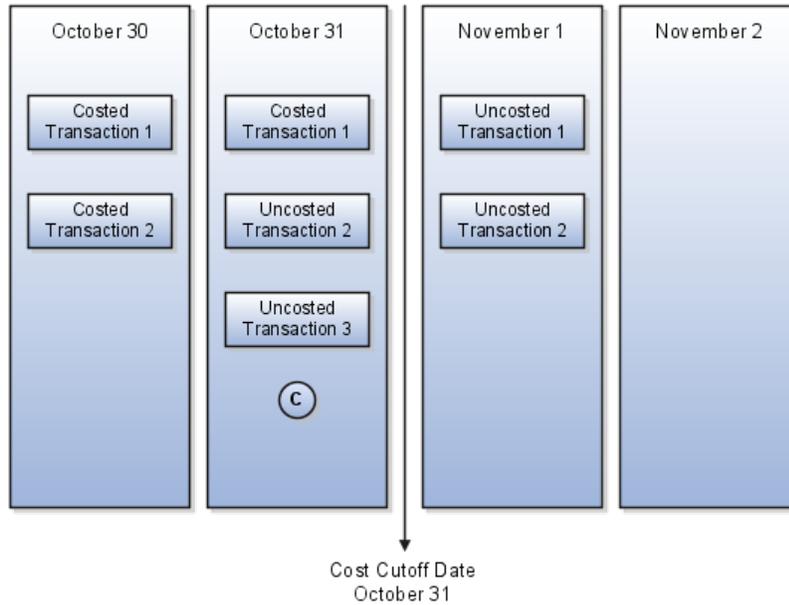
In the following figure, the inventory transaction is backdated to position A. The transaction is costed with accounting date B before transactions 2 and 3 are processed. The transaction created on November 2 and backdated to October 30 is costed with the effective date of October 31.



Example 2

Transactions are backdated to a point between the latest costed transaction and the cost cutoff date.

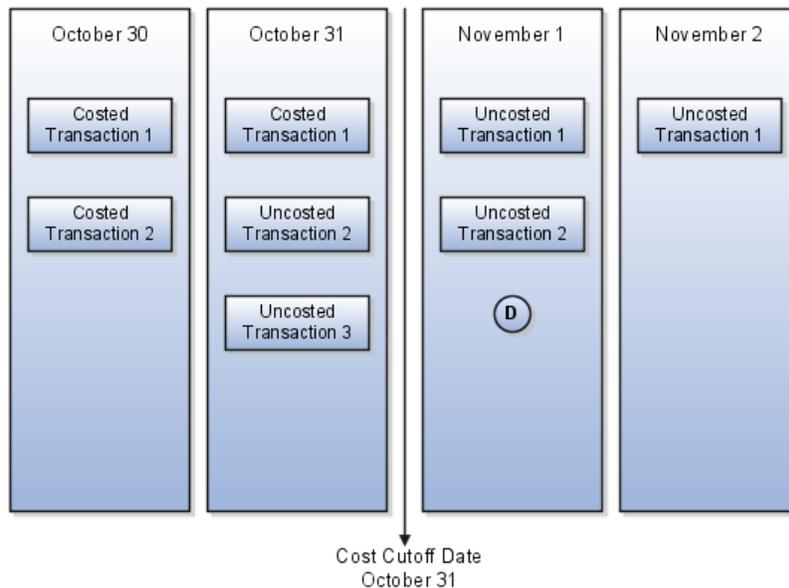
In the following figure, the inventory transaction is backdated to position C. The transaction is costed with accounting date C after transactions 2 and 3 are processed. The transaction created on November 2 and backdated to October 31 is costed with the effective date of October 31.



Example 3

Transactions are backdated to a point after the cost cutoff date.

In the following figure, the inventory transaction is backdated to position D. The transaction is costed with accounting date D after the cost cutoff is moved past October 31. The transaction created on November 2 and backdated to November 1 is costed with the effective date of November 1.



Cost Accounting Period Statuses and Transaction Accounting: Explained

Cost period statuses enable you to manage the timing for processing and accounting of transactions.

The following describes rules that apply under each cost period status, and how transactions are slotted into cost accounting periods.

Cost Accounting Period Statuses

The cost period statuses are as follows:

- **Never Opened.** Default status for new periods assigned to a cost organization and cost book. This status does not allow creation of distributions for transactions. You can change the status to Open, but you cannot change it to Closed, or Permanently Closed.
- **Open.** A period status can be changed to Open only if the corresponding general ledger accounting period is open. You can open several periods at a time, so long as they are contiguous. You cannot change the current period to Open if the prior period status is Never Opened. When a period status is Open, inventory transactions can be accounted in that period; when the period is not open, inventory transactions cannot be accounted in that period, but they will be accounted in the next open period. Both costing and general ledger periods must be open for a transaction to be accounted; if the costing period is open but the corresponding general ledger period is closed, the transaction cannot be accounted and is held pending further user action. You can change an Open period status to Closed or Pending Close.
- **Pending Close.** Use to stop transactions from being accounted in this period. Any new transactions entered with a transaction date that falls in a period that is in Pending Close status will be held pending further user action. You can set the Pending Close status back to Open status and then process the transactions, so that those which fall into the period will be staged for accounting in that period; or you can set the status of the period to Permanently Close and set the next period to Open, in which case the transactions will be accounted in the next open period.
- **Closed.** You can change this status to Permanently Closed or you can revert it to Open. When you set a period status to Closed, you have the option of configuring the processor to allow closing even if all validations do not pass; this enables you to decide when discrepancies are not material enough to delay period close. You can also configure the processor to prevent closing a period until all selected validations pass. You set your preferences for period close validations when you associate cost books with cost organizations, on the Manage Cost Organization Relationships page, Cost Books tab.
- **Permanently Closed.** Closes the period for all types of transactions irreversibly. You cannot change the period status to Permanently Closed without first changing the prior period status to Closed.

Transaction Accounting Dates

The costing application is designed to set the proper accounting date for inventory transactions, even when they are not entered into the application promptly or in the correct order. It does this by enabling backdating of transactions that are entered on a date later than the physical transaction date. For example, suppose the physical transaction date is November 30, and the transaction is entered into the costing application on December 2. In this case,

you can backdate the transaction and, under certain conditions, the application will post that transaction into the prior period.

The application orders your transactions by setting the cost date. To preserve the integrity of previous calculations and to ensure that inventory balances tie with general ledger balances, the cost date cannot be set to a date prior to transactions that are already processed. The cost processor parameters that you define include a cost cutoff date, which lets you control the transactions that you want to process, including backdated transactions. In this example, as long as you have not processed any transactions after November 30, the processor will set the cost date to November 30 for transactions entered after November 30 with a backdated transaction date that is in November.

Once the cost date is established, the processor performs cost accounting calculations for the transaction, creates accounting distributions, and sets the accounting date based on the following logic:

- If the cost date falls in a Never Opened period, the accounting date becomes the same as the cost date when that period status is Open. In the rare case where the transaction date is in a period that precedes the first period used in the application, the accounting date is set to a date in the first subsequent period that is Open.
- If the cost date falls in a Pending Close or Closed period, you are alerted by an error message. You can reopen the period and the processor will attempt to set the accounting date to a date in that period; or you can permanently close the period to let the transaction accounting date move into the next Open period.
- If the cost date falls in a period that is Permanently Closed and the next period is not Open, an error message warns you that the transaction will remain unaccounted until a subsequent period is opened. Once the subsequent period is Open, the accounting date of the transaction will move into that Open period.

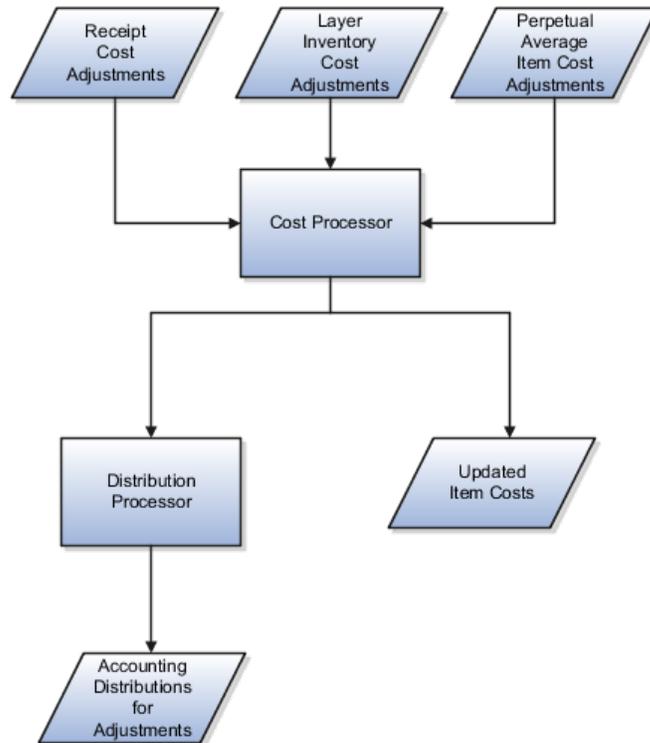
When accounting distributions are staged within the costing subledger, the accounting distribution accounting date in the costing subledger becomes the proposed accounting date for posting into the general ledger through the subledger. If the general ledger application accepts the proposed accounting date, the transaction is posted with that date. If the proposed accounting date is not accepted (for example if the general ledger period has already closed), then the general ledger application returns an error and the cost processor sets the proposed accounting date to a date in the next open general ledger period.

Manage Cost Accounting: Manage Inventory Valuation

Cost Adjustments and Cost Distributions: Explained

Adjust the cost of items to manage obsolescence, or to mark down inventory to address lower-of-cost-or-market requirements, price changes, and variances. You can make adjustments to the perpetual average cost of items, purchase order and miscellaneous receipt costs, and layer inventory cost.

This figure illustrates the process for making cost adjustments, processing them, and viewing results.



The costing application enables you to adjust costs, process them, and create the corresponding cost accounting distributions.

Entering Cost Adjustments

Adjust the cost of items on the Create Cost Adjustments page. You can make three kinds of adjustments for combinations of a cost organization, cost book, valuation unit, and cost element.

If you want to track the adjustment through the supply chain, use a cost element of type **Adjustment**:

- Perpetual average item cost. Enter the new average unit cost. The processor will automatically adjust the overall average cost for the quantity on hand.
- Receipt cost. The receipt cost is adjusted via an update from purchasing or accounts payable, or you can manually enter new receipt costs, PO receipts, interorganization receipts, miscellaneous receipts, or RMA receipts. The processor will automatically adjust the cost of the remaining receipt quantity.
- Layer inventory cost. You can adjust the unit cost of items that use the actual cost method. The processor will automatically adjust the value of the on-hand receipt layer quantity.

You can bundle multiple records, such as multiple receipts or valuation units, into a single adjustment transaction, and when submitted, they are assigned an adjustment number. Optionally, you can also specify a reason code.

Save the adjustment and review the impact to inventory valuations based on the quantity on hand at the time of adjustment. Do this prior to final submission for cost processing, so that you can revise as necessary. After final review and

submission, you can still void the adjustment, provided it is not yet processed by the cost processor. However, the adjustment cannot be reversed once processed. Accordingly, the adjustment status code is automatically set to: **S** for submitted, **C** for voided, or **P** for pending processing.

Processing Adjustments

When you review and submit a cost adjustment, the cost processor creates a new adjustment transaction:

- For a perpetual average item cost adjustment, the processor updates the perpetual average cost of the item in that combination of cost organization, cost book, item, and valuation unit. The processor then applies the perpetual average item cost adjustment against inventory valuation at the rate of quantity on hand times the change in cost.
- For a receipt cost adjustment, the processor updates the receipt cost for the portion of the receipt that is part of the current on-hand balance. The portion of the adjustment attributable to what is no longer part of the on-hand balance will be accounted for with a write off distribution. However, if the cost profile of the item has cost propagation enabled, the processor revalues the issue transactions that were consumed out of the receipt.
- For a layer inventory cost adjustment, the processor updates the unit cost of the item in that combination of cost organization, cost book and valuation unit. The processor then updates inventory valuation at the rate of quantity on hand times the change in cost.

Example 1: Assume a receipt of 8 units, all of which are currently on hand. The valuation unit has a total of 10 units on hand. You adjust the cost of the receipt from \$10 to \$11 per unit. The processor adjusts the average cost by \$0.80 ($8/10 * \1).

Example 2: Assume a receipt of 8 units, of which 6 units are currently on hand, and 2 units have been depleted. The valuation unit has a total of 10 units on hand. You manually adjust the cost of the receipt from \$10 to \$11 per unit. The processor adjusts the receipt cost by \$6 ($6 * \1), and creates a write off accounting distribution of \$2 ($2 * \1).

Example 3: Assume a valuation unit has a total of 7 units on hand, valued at \$10 per unit. You manually adjust the unit cost to \$12 per unit. The processor adjusts inventory value by \$14 ($7 * \2).

Reviewing Cost Adjustment Results

After running the cost processors, check processing results, including warning and error messages, on the Review Cost Accounting Processes page.

Review the accounting entries resulting from the cost adjustments on the Review Cost Distributions page.

Review the updated perpetual average cost or actual cost of items on the Review Item Costs page.

Making Cost Adjustments: Examples

Adjust the cost of an item to reflect fluctuating market costs, or to reflect other changes, such as increased overhead costs.

The following are examples of cost adjustments.

Adjustment at Item Cost Level

Assume the average cost of an item increases from \$5 to \$6, and the quantity on hand is 100 each. The distribution processor creates the following accounting entry to adjust the item cost.

Accounting Line Type	Debit	Credit
Inventory Valuation	\$100	
Cost Adjustment		\$100

Adjustment at Cost Element Level

Assume that an item has the following cost structure.

Cost Element	Amount
Material	\$4.00
Freight	\$1.00
Tax	\$0.50
Utilities	\$0.50

If the quantity on hand is 100 each, and you want to increase utilities cost from \$0.50 to \$1.00, the distribution processor creates the following accounting entry to adjust the item cost.

Accounting Line Type	Debit	Credit
Inventory Valuation - Utilities	\$50	
Cost Adjustment		\$50

Layer Inventory Cost Adjustment

Assume that you adjust the cost of an item from \$9 to \$11, and the remaining receipt layer quantity is 60 units. The distribution processor creates the following accounting entry to update inventory valuation.

Accounting Line Type	Debit	Credit
Inventory Valuation	\$120	
Cost Adjustment		\$120

Receipt Cost Adjustment and Propagation: Explained

You may need to adjust the cost of a processed receipt for reasons such as invoice price variances, retroactive purchase order price changes, or prior adjustments. If you are using the actual cost method for transaction costing, you can propagate such adjustments to downstream inventory consumption transactions; and in the case of an interorganization transfer, you can propagate the receipt cost adjustment to the destination inventory organization.

The following discusses:

- Receipt cost adjustments
- Propagation of receipt cost adjustments

Receipt Cost Adjustments

Enter receipt cost adjustments on the Create Cost Adjustments page. Because these adjustments could distort the view of costs and margins downstream in the supply chain, you have the option of tracking them separately by using cost elements of type **Adjustment**.

If you are not tracking cost adjustments separately, you can use cost elements of type **Material**, **Overhead**, or **Profit in Inventory**.

Propagation of Receipt Cost Adjustments

You can propagate cost adjustments through the supply chain only if you are using the actual cost method for transaction costing. To do this you must enable propagation in the cost profile setup on the Create Cost Profile page.

When propagation is enabled, the cost processor:

- Propagates receipt cost adjustments to downstream transactions by revaluing the transactions to the extent of quantity consumed.
- Revalues any remaining inventory.

For interorganization transfers, the cost processor adjusts receipt costs in the destination organization and all organizations in between, provided that propagation is enabled in all of them. On the other hand, propagation stops if an inventory organization is associated with a cost profile that does not use the actual cost method, or does not have propagation enabled.

The processor always propagates cost adjustments through in-transit inventory organizations, regardless of propagation enablement.

If propagation is not enabled, then the receipt cost adjustment is written off as an expense for all inventory that is consumed.

Receipt Cost Adjustment: Example

This example illustrates the accounting entries resulting from a receipt cost adjustment for an invoice price variance, the revaluation of inventory, and propagation of the cost adjustment to interorganization transfers and sales issues.

Scenario

Organization A has a purchase order receipt, for which it subsequently processes an invoice price variance adjustment. Organization A fills a sales order, and transfers some of its inventory to Organization B, who fills another sales order.

Transaction Details

Organization A has a PO receipt of 100 units at \$100 per unit, of which it sells 30 units, and transfers 20 units to Organization B at a transfer price of \$125. Organization B in turn sells 6 units. The IPV for the initial PO receipt is \$20 per unit.

Analysis

Run the cost processor to cost the initial PO receipt, the interorganization transfer, and the sales issues from Organization A and Organization B. After entering the receipt cost adjustment for the IPV of \$20 per unit, rerun the cost processor to update the value of remaining inventory, and to propagate the IPV adjustment to the interorganization transfer, and the sales issues from Organization A and Organization B.

The cost distribution processor creates the following accounting entries for the PO receipt, interorganization transfer to Organization B, and sales issues from Organization A and Organization B:

Event	Accounting Entries
Organization A PO receipt: 100 units at \$100	Dr Inventory (Material) \$100*100 Cr Receiving Inspection \$100*100
Sales issue from Organization A: 30 units at \$100 per unit	Dr DCOGS \$100*30 Cr Inventory \$100*30
100 percent COGS recognition for sales issue	Dr COGS \$100*30 Cr DCOGS \$100*30
Transfer from Organization A to Organization B: 20 units at \$125 per unit	Dr Interorganization Receivable \$125*20 Cr Inventory (Material) \$100*20 Cr Interorganization (Gain/Loss) \$25*20
Interorganization receipt by Organization B from Organization A: 20 units at \$125	Dr Inventory (Material) \$100*20 Dr Inventory (Profit in Inventory) \$25*20 Cr Interorganization Payable \$125*20
Sales issue from Organization B: 6 units at \$125 per unit	Dr DCOGS (Material) \$100*6 Dr DCOGS (Profit in Inventory) \$25*6 Cr Inventory (Material) \$100*6 Cr Inventory (Profit in Inventory) \$25*6
100 percent COGS recognition for sales issue	Dr COGS (Material) \$100*6 Cr DCOGS (Material) \$100*6 Dr COGS (Profit in Inventory) \$25*6 Cr DCOGS (Profit in Inventory) \$25*6

The cost distribution processor creates the following accounting entries for the IPV adjustment to inventory value, and to propagate the IPV adjustment to the interorganization transfer, and to the sales issues from Organization A and Organization B:

Event	Accounting Entries
Organization A Inventory cost adjustment: 100 at \$20	Dr Inventory (Material) \$20*100 Cr Receiving Inspection \$20*100

Propagate adjustment to interorganization transfer from Organization A to Organization B: 20 units at \$20 Because the transfer price remains the same, we revalue the interorganization gain/loss.	Dr Interorganization Gain/Loss \$20*20 Cr Inventory (Material) \$20*20
Propagate adjustment to interorganization receipt by Organization B from Organization A: 20 units at \$20	Dr Inventory (Material) \$20*20 Cr Offset Account \$20*20 Dr Offset Account \$20*20 Cr Inventory (Profit in Inventory) \$20*20
Propagate adjustment to sales issue from Organization A: 30 units at \$20	Dr COGS \$20*30 Cr Inventory (Material) \$20*30
Propagate adjustment to sales issue from Organization A: 30 units at \$20	Dr DCOGS (Material) \$20*30 Cr Inventory (Material) \$20*30
Propagate adjustment to COGS recognition	Dr COGS (Material) \$20*30 Dr DCOGS (Material) \$20*30
Propagate adjustment to sales issue from Organization B: 6 units at \$20	Dr DCOGS (Material) \$20*6 Cr Inventory (Material) \$20*6 Dr Inventory (Profit in Inventory) \$20*6 Cr DCOGS (Profit in Inventory) \$20*6
Propagate adjustment to COGS recognition	Cr COGS (Profit in Inventory) \$20*6 Dr DCOGS (Profit in Inventory) \$20*6 Dr COGS (Material) \$20*6 Cr DCCOGS (Material) \$20*6

FAQs for Manage Inventory Valuation

What happens if an item in a cost organization book has both a perpetual average item cost adjustment and a receipt cost adjustment pending?

The perpetual average item cost adjustment is always processed after the receipt cost adjustment, regardless of the order in which you create the adjustments.

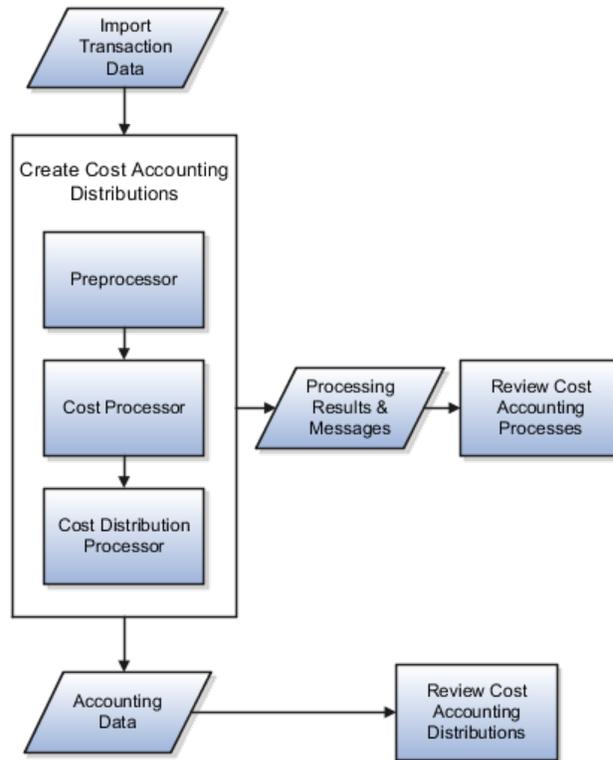
Manage Cost Accounting: Record, Audit, and Review Cost Accounting

Cost Accounting Process Flow: Explained

The cost accounting processors create cost accounting distributions for transaction data that is received from external sources, such as inventory, purchase orders, receivables, and accounts payable.

After preprocessing the transaction data, run it through the cost processors to calculate costs and create accounting distributions.

This figure illustrates how you process transaction data through the cost processors.



Create Cost Accounting Distributions

A run control specifies the set of cost organization books and cost processors that are to be executed. You can define several run controls at a time on the Create Cost Accounting Distributions page.

The main cost processors are:

- **Preprocessor:** All transaction data comes into the cost accounting application from external sources through well-defined interfaces. After the data is interfaced, the preprocessor prepares the data for cost processing by:
 - Checking for invalid or missing data.
 - Propagating the information to cost organization books and deriving their associated units of measure, currencies, valuation units, and cost profiles. Note that the preprocessor runs for all cost books in the cost organization.

- Mapping incoming cost components to cost elements, based on user-defined mappings.
- Cost accounting processor: Calculates costs for preprocessed transactions using the perpetual average cost or the actual cost method. The cost accounting processor also processes user-entered cost adjustments and applies overhead costs based on user-defined overhead rules.
- Cost of goods sold processor: Calculates the cost of goods sold and maintains consistency with the revenue recognized in accounts receivable.
- Cost distribution processor: Uses the cost accounting processor and cost of goods sold processor results to create distributions for transaction costs.

Review Processing Results

After running the cost processors, check processing results, including warning and error messages, on the Review Cost Accounting Processes page.

See additional warning and error messages that are specific to each transaction on the Transaction Errors tab of the Review Cost Accounting Distributions page.

Review Cost Accounting Distributions

A single inventory transaction can generate multiple cost transactions, for which the distribution processor creates accounting distributions. On the Review Cost Accounting Distributions page, you can view the cost information and distributions related to each transaction, as well as the receipt layers for receipt transactions, and depletion layers for issue transactions.

Actual Cost Method: Explained

The actual cost method tracks the cost of each receipt into inventory. When depleting inventory, the processor logically identifies the receipts that are consumed to satisfy the depletion, and assigns the associated receipt costs to the depletion.

The actual cost method uses receipt layers for transaction costing and inventory depletion.

Receipt Layers

A receipt layer is created for each put away or delivery of an item into a cost organization. The item is assigned a cost profile that specifies the valuation structure of the item, and the valuation structure, in turn, specifies the valuation unit of the item. The receipt layer falls within the valuation unit. Under the actual cost method, the cost processor identifies the receipt that is used to satisfy the depletion, and applies the quantity depletion method that is defined in the cost profile; the accounting application currently uses the first in, first out (FIFO) depletion method.

The FIFO accounting method assumes that the goods received first are consumed first. This logic does not require that the inventory be physically moved in FIFO order. In reality, the inventory may be moving out in an unknown or random fashion, especially when the goods are fungible.

The inventory system controls the physical flow of inventory, and the actual cost method can be configured to conform to the level of physical tracking maintained in the inventory system. For example, if the inventory system is tracking inventory at the lot level, the costs can also be tracked at that level. If there is more than one receipt for a given lot, the FIFO accounting method assumes that the receipts in the lot are consumed in FIFO order.

Receipt layers can be identified by combinations of any of the following: cost organization, inventory organization, subinventory, locator, lot, serial and grade.

This table illustrates the process of creating receipt layers for an item within a valuation unit:

Transaction Date	Transaction Type	Quantity	Unit Cost	Receipt Layer Created
01-Jan-2011	PO Receipt	100	\$120	Receipt #1
02-Jan-2011	PO Receipt	80	\$100	Receipt #2
03-Jan-2011	Miscellaneous Receipt	20	\$105	Receipt #3

Inventory Depletion

This table illustrates the process of depleting the item inventory based on the created receipt layers, using FIFO logic:

Transaction Date	Transaction Type	Quantity	Unit Cost	Receipt Layer Created	Receipt Layer Used for Depletion
01-Jan-2011	PO Receipt	100	\$120	Receipt #1	
02-Jan-2011	PO Receipt	80	\$100	Receipt #2	
03-Jan-2011	Miscellaneous Receipt	20	\$105	Receipt #3	
04-Jan-2011	Miscellaneous Issue	-40	\$120		Receipt #1
05-Jan-2011	Miscellaneous Issue	-60	\$120		Receipt #1
06-Jan-2011	Miscellaneous Issue	-15	\$100		Receipt #2

Using the Actual Cost Method: Example

This example illustrates how the cost processor uses the actual cost method to cost: inventory receipts, cost of goods sold, and the value of beginning and ending inventory.

Scenario

A restaurant business receives two shipments of raw material for a total of 25 units, and a sales order of 12 units. The unit is defined as a sandwich, and the raw material is defined as sandwich food ingredients.

Transaction Details

The business needs to calculate:

- Overhead absorption on the two receipts.
- The value of beginning and ending inventory, including raw materials and overhead absorption.
- Cost of good sold.

Analysis

Following are the details for two receipts of raw materials:

Receipt ID	Inventory Value
Receipt #1	10 * \$10 = \$100
Receipt #2	15 * \$12 = \$180

The cost processor calculates overhead absorption for the two receipts as follows:

Receipt ID	Overhead Absorption
Receipt #1	Labor: \$5 Facility: \$3
Receipt #2	Labor: \$8 Facility: \$7

The distribution processor generates the following accounting entries:

Event	Accounting Entry
Receipt #1: 10 units raw material	Dr Inventory-Raw Material \$100 Cr Receiving \$100
Receipt #1: overhead	Dr Inventory-Labor \$5 Dr Inventory-Facility \$3 Cr Overhead Absorption \$8
Receipt #2: 15 units raw material	Dr Inventory-Raw Material \$180 Cr Receiving \$180
Receipt #2: overhead	Dr Inventory-Labor \$8 Dr Inventory-Facility \$7 Dr Overhead Absorption \$15
COGS for 12 units (10 * \$108/10) + (2 * \$195/15)	Dr COGS \$134 Cr Inventory \$134

The beginning inventory is 25 units valued at: $10 * \$10.8 + 15 * \$13 = \$303$.

The ending inventory is 13 units valued at: $13 * \$13 = \169 .

Purchase Order Return and Sales Return Flows: Explained

The cost processor uses FIFO logic to cost purchase order (PO) returns. For sales returns that reference an RMA, the cost processor uses the original sales order cost; for sales returns that do not reference an RMA, it uses either the first or last receipt layer cost.

The following discusses costing details for purchase order returns and sales order returns.

Purchase Order Returns

For PO returns, the cost processor uses the FIFO receipt layer cost to deplete inventory, while it offsets receiving inspection at the acquisition PO price. The difference between the PO price and the FIFO receipt layer cost is booked as cost variance.

This table illustrates several receipts and issues of an item in an inventory organization, followed by a PO return for the same item:

Reference	Transaction Date	Transaction Type	Quantity	Unit Cost	Receipt Layer Reference
Receipt #1	01-Jan-2011	PO Receipt	100	\$120	
Receipt #2	02-Jan-2011	PO Receipt	80	\$100	
Receipt #3	03-Jan-2011	Miscellaneous Receipt	20	\$105	
Issue #1	04-Jan-2011	Miscellaneous Issue	-40	\$120	Receipt #1
Issue #2	05-Jan-2011	Miscellaneous Issue	-60	\$120	Receipt #1
Issue #2	05-Jan-2011	Miscellaneous Issue	-15	\$100	Receipt #2
Receipt #1	06-Jan-2011	PO Return	-10	\$100	Receipt #2

The cost distribution processor creates the following accounting entries for the PO return:

- Dr Receiving Inspection \$100*10 / Cr Inventory \$100*10
- Dr Receiving Inspection \$20*10 / Cr Cost Variance \$20*10

Sales Returns

When you define the cost profile for an item, you can select one of three options for the costing of a sales return:

- Referenced RMA: the cost processor costs the return using the original sales order issue cost.
- Unreferenced RMA: the cost processor costs the return using:

- First available receipt layer; or
- Last available receipt layer.

This table illustrates several receipts and issues of an item in an inventory organization, followed by a referenced RMA sales return, and an unreferenced RMA sales return for the same item:

Reference	Transaction Date	Transaction Type	Quantity	Unit Cost	Receipt Layer Reference
Receipt #1	01-Jan-2011	PO Receipt	100	\$120	
Receipt #2	02-Jan-2011	PO Receipt	80	\$100	
Receipt #3	03-Jan-2011	Miscellaneous Receipt	20	\$105	
Issue #1	04-Jan-2011	Miscellaneous Issue	-40	\$120	Receipt #1
Issue #2	05-Jan-2011	Miscellaneous Issue	-60	\$120	Receipt #1
Issue #2	05-Jan-2011	Miscellaneous Issue	-15	\$100	Receipt #2
Referenced RMA of Issue #1	06-Jan-2011	RMA Receipt	25	\$120	
Unreferenced RMA	07-Jan-2011	RMA Receipt	5	\$100 or \$105	

The processor costs the unreferenced RMA return using:

- \$100 per unit if you specify the first available receipt layer; or
- \$105 per unit if you specify the last available receipt layer.

FAQs for Record, Audit, and Review Cost Accounting

What happens if the cost processors are running transactions for several cost organization books involving interorganization transfers?

The cost processor can run the transactions for several cost organization books concurrently and iteratively, until all dependencies caused by interorganization transfers are resolved.

For example, assume that there is an interorganization transfer from cost organization book B to cost organization book A. The cost processor runs the transactions for cost organization book B first, and cost organization book A second. This process is reiterated until all interorganization transfers are accounted for.

Is the accounting date of a transaction always the same as the costing date?

The accounting date of a transaction is generally the same as the costing date, but there may be exceptions; for example, if the costing period is already closed, then the distribution processor sets the accounting date to the next open period.

The accounting transaction is submitted to the general ledger application through the subledger accounting application. If the general ledger period for the accounting date is closed when the accounting transaction is submitted, then the transaction is rejected and returned with an error. The cost processor then automatically proposes a new accounting date in the next open period, and resubmits the revised accounting transaction to the general ledger through subledger accounting.

How can I post cost distributions and journal entries to the general ledger?

First run the cost distribution processor to generate distributions for inventory transactions on the Create Cost Accounting Distributions page. Then create the related subledger journal entries on the Create Entries for Cost Accounting page.

Execute these processes one at a time, or set them up to execute automatically on a prescheduled basis.

How can I create subledger account rules and subledger journal entry rule sets for cost management?

Create your subledger account rules on the **Manage Account Rules** page. It is recommended that you highlight the account rules predefined by Oracle, copy, and modify them as needed.

Create your subledger journal entry rule sets on the **Manage Subledger Journal Entry Rule Sets** page. It is recommended that you highlight the journal entry rule sets predefined by Oracle, copy, and modify them as needed. For each journal line rule specify the copied account combination rule.

Access both the **Manage Account Rules** page and **Manage Subledger Journal Entry Rule Sets** page from an Oracle Fusion Applications Functional Setup Manager implementation project.

Note

You must customize the predefined account rules and journal entry rule sets before proceeding with the setup of subledger accounting rules for cost management.

What happens during cost processing when an inventory organization is missing setup information?

If the setup information is incomplete for an inventory organization that is directly tied to the cost organization in the process run, the missing information is flagged as an error on the Review Cost Accounting Processes page, and the process fails.

If the setup information is incomplete for an inventory organization that is not directly tied to the cost organization in the process run, the missing information is flagged as a warning, but the process is completed.

Examples of setup information that may be missing are the association of the inventory organization with a cost organization, the assignment of a cost book to the cost organization, the assignment of a cost profile to the item, or the assignment of a valuation unit to the cost organization.

How can I diagnose problems with item cost data that is missing or incorrect?

After interfacing the inventory transaction data, you can run the Item Cost Data Collection Test from the **Help - Supportability** menu.

Manage Cost Accounting: Analyze Product Costs

Reviewing Item Costs: Explained

On the Review Item Costs page you can view the perpetual average cost and actual cost details of items, chart cost trends, and compare cost records.

The options available for analyzing item costs are:

- Cost details
- Transaction costs
- Cost comparisons

Cost Details

You can view the perpetual average cost or the actual cost of an item for combinations of a cost organization, cost book, and valuation unit; and you can view these costs for a current date or any date in the past.

Transaction Costs

Select a time frame to view the perpetual average cost history or the actual cost history of an item, or specify the number of days for the moving average cost calculation.

The following transaction cost details are also available:

- Cost breakdown: the item cost details for a receipt record. The breakdown is available by cost element, cost element type, and analysis group.
- Cost history: the cost trend of an item over a period of time.
- Depletions: the layer consumption for issues out of a receipt record.
- Cost source: the source of an item for a receipt transaction.

Cost Comparisons

You can compare the cost details for up to six records of:

- Several items
- One item across several cost organizations or cost books
- One item over a period of time

Manage Receipt Accounting

Manage Receipt Accounting: Overview

The Manage Receipt Accounting business process is used by cost accountants to create accruals for purchase order receipts that are expensed or destined for inventory, reconcile the accrual balances against invoices from accounts payable, clear the accruals, and generate accounting distributions for accruals. This business process encompasses the Record Receipt Accounting and Review Receipt Accounting activities.

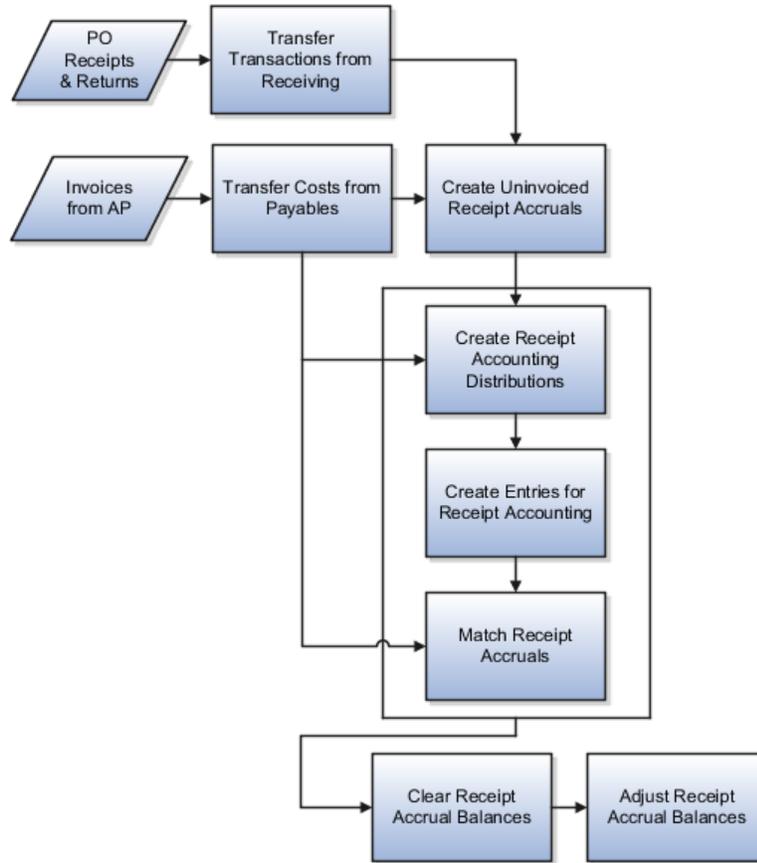
Manage Receipt Accounting: Record and Review Receipt Accounting

Receipt Accounting Tasks and Accounting Events: Explained

Use the receipt accounting application to create accruals for purchase order receipts that are expensed or destined for inventory. The application also has tools to help you reconcile the accrual clearing accounts as the accruals are offset by the accounts payable accounting when vendor invoices are processed.

The following discusses how to use the receipt accounting application.

This figure illustrates receipt accounting tasks and accounting events.



Receipt Accounting Tasks and Accounting Events

The typical steps for managing purchase order receipts and accruals are as follows.

Task	Navigation	Resulting Events
Interface receipt transactions to the receipt accounting application.	Cost Management - Create Cost Accounting Distributions - Manage Scheduled Processes (ESS) Select the Accrue Cost Job process.	
Interface accounts payable transactions to the receipt accounting application.	Create Cost Accounting Distributions Manage Scheduled Processes (ESS) Select the Transfer Costs from Payables to Cost Management job.	
Create period end accruals for uninvoiced purchase order receipts that are expensed.	Cost Management - Create Uninvoiced Receipt Accruals	<ul style="list-style-type: none"> Provisional expense accruals for purchases not marked for accrual at receipt

Create accounting distributions for receipt accruals.	Cost Management - Create Receipt Accounting Distributions	<ul style="list-style-type: none"> • Accruals for all types of purchases • Accrual accounting distributions at the time of receipt or return of goods and services • Logical accrual accounting distributions for global procurement purchases • Accounting distributions for expense destination deliveries of purchases marked for accrual at receipt. These purchases are typically for services procurement, one-time item purchases, and expense usage purchases. • Capture of variances such as IPV, ERV, TRV, TERV, and TIPV from accounted invoice distributions • Accounting distributions for invoice variances • Staging of variances into receiving inspection for subsequent wash by the inventory and expense revaluation processes • Accounting distributions for inventory and expense revaluations
Create subledger accounting.	Receipt Accounting Work Area - Create Entries for Receipt Accounting	<ul style="list-style-type: none"> • Journal entries for receipt accounting distributions
Review accounting distributions.	Cost Management - Review Receipt Accounting Distributions	
Match purchase order receipt accruals with invoices from payables.	Cost Management - Match Receipt Accruals	<ul style="list-style-type: none"> • Manual reconciliation of accrual balances
Clear receipt accruals.	Receipt Accounting Work Area - Clear Receipt Accrual Balances	<ul style="list-style-type: none"> • Automatic clearing of accrual balances based on predefined rules • Staging of information for revaluation of inventory and expenses by cost accounting and receipt accounting processes, respectively

Generate and view reconciliation reports.	<p>Create Cost Accounting Distributions - Manage Scheduled Processes (ESS) - Accrual Reconciliation report</p> <p>Create Cost Accounting Distributions - Manage Scheduled Processes (ESS) - Accrual Clearing report</p>	<ul style="list-style-type: none"> • Accrual Reconciliation report • Accrual Clearing report
Create accounting distributions.	Cost Management - Create Receipt Accounting Distributions	<ul style="list-style-type: none"> • Accounting distributions for cleared accrual balances • Revaluation and expense adjustment entries for invoice variances or accrual clearing events that modify acquisition costs for purchases
Review uncleared accrual balances and perform adjustments.	Cost Management - Adjust Receipt Accrual Balances	<ul style="list-style-type: none"> • Staging for manual intervention for exceptions of high material value • Manual accrual clearing • Manual adjustments and reversals of prior accrual clearing adjustments • Automatic creation of accounting distributions for these adjustments

Receipt Accrual, Reconciliation, and Clearing: Explained

When goods are received in the receiving application and subsequently interfaced to the receipt accounting application, receipt accounting recognizes the liability to the vendor, and creates accruals for receipts destined for inventory or expense. The receipt accounting application then reconciles these accrual balances against the corresponding invoices from accounts payable and clears them to inventory valuation.

The following discusses receipt accruals, their reconciliation, and clearing.

Receipt Accrual Creation

When goods are received and delivered to inventory or expense destinations, the receipt accounting application creates accrued liability balances for the estimated cost of purchase order receipts. The application creates accruals for:

- Inventory destination receipts, which are always accrued on receipt
- Expense destination receipts, which are accrued on receipt, or at period end if the vendor invoice has not yet been processed

When the vendor invoice is processed through accounts payable, the accounts payable application creates the actual vendor liability and offsets the accrual

balances. The accrued liability account typically has high volumes of entries going through it, and may have remaining balances that must be justified if the account payable invoice has not yet been processed; or if the account payable invoice has been processed, any remaining balance must be resolved and cleared. The receipt accounting application provides tools to help with this reconciliation.

Receipt Accrual Reconciliation and Clearing

Some of the remaining balance in the accrued liability account can be automatically cleared by the receipt accounting and cost accounting applications to the appropriate purchase expense or asset account, based on your predefined clearing rules. However, some of this balance will represent uninvoiced quantities, or other discrepancies which you will need to resolve and clear manually.

Example 1: Assume that the purchase order receipt is for 100 units at \$5 each; the application creates a credit to the accrued liability account in the amount of \$500. When the corresponding invoice arrives from the vendor, it reflects 100 units at \$6 each; the application debits the accrued liability account in the amount of \$600. The difference of \$100 automatically clears and flows to inventory valuation.

Example 2: Assume that the quantity received is 99.4, and the quantity on the vendor invoice is 100. The processor does not always know if that is the final invoice or if more invoices are pending for the uninvoiced quantity. If small variations are normal, you can set up rules to automatically clear small variations, while large variations are verified manually. If there is a predefined rule for the treatment of such a discrepancy, the application automatically clears the difference to inventory valuation. However, if no such rule exists, then you must clear it manually.

FAQs for Record and Review Receipt Accounting

What is the recommended sequence for scheduling of receipt accounting processes?

The recommended sequence for scheduling the receipt accounting processes is:

1. Incoming transactions:
 - Accrue Cost Job process. Interfaces receipt transactions
 - Transfer Costs from Payables to Cost Management process. Interfaces accounts payable transactions
2. Receipt accounting:
 - Receipt Accounting Distribution process
 - Accrual Clear Rules Job Def process. Executes only if you have predefined accrual clearing rules. Marks purchase orders for automatic clearing
 - Receipt Accounting Distribution process. Creates distributions for cleared accrual balances

3. Subledger accounting:
 - Create Accounting process
4. Reconciliation and reporting:
 - Match Receipt Accruals process. Matches purchase order receipt accruals with invoices from the payables application. Perform at period close or as needed for internal reporting and reconciliation.

How can I create subledger account rules and subledger journal entry rule sets for receipt accounting?

Create your subledger account rules on the **Manage Account Rules** page. It is recommended that you highlight the account rules predefined by Oracle, copy, and modify them as needed.

Create your subledger journal entry rule sets on the **Manage Subledger Journal Entry Rule Sets** page. It is recommended that you highlight the journal entry rule sets predefined by Oracle, copy, and modify them as needed. For each journal line rule specify the copied account combination rule.

Access both the **Manage Account Rules** page and **Manage Subledger Journal Entry Rule Sets** page from an Oracle Fusion Applications Functional Setup Manager implementation project.

Note

You must customize the predefined account rules and journal entry rule sets before proceeding with the setup of subledger accounting rules for receipt accounting.

Glossary

actual cost

A cost method that tracks the actual cost of each receipt into inventory. When depleting inventory, the processor logically identifies the receipts that are consumed to satisfy the depletion, and assigns the associated receipt costs to the depletion.

analysis group

Contains analysis code classifications for particular reporting purposes, for example fixed and variable costs analysis group.

cost book

A view or method of cost accounting for inventory transactions. You can create multiple cost books and assign them to a cost organization for different financial and management reporting purposes.

cost element

The user-defined level where costs of an item are tracked through the inventory accounting life cycle; for example, the material, overhead, and tax costs of an item can be tracked as separate cost elements.

cost organization

A grouping of inventory organizations that indicates legal and financial ownership of inventory, and which establishes common costing and accounting policies.

cost organization book

Designates which cost book a cost organization uses for different costing and reporting purposes. For example, the Canada cost organization may use a perpetual average cost book and a primary cost book. In this case, there are two cost organization books: Canada-Perpetual Average, and Canada-Primary.

cost profile

Defines the cost accounting policies for items, such as the cost method and valuation structure.

ERV

Abbreviation for exchange rate variance. Difference between the exchange rate used for receipt accrual and exchange rate used for reversing the accrual.

FIFO

Abbreviation for first in, first out. A material control technique of rotating inventory stock so that the earliest inventory units received or produced are the

first units used or shipped. The ending inventory therefore consists of the most recently acquired goods.

inventory organization

A logical or physical entity in the enterprise that is used to store definitions of items or store and transact items.

IPV

Abbreviation for invoice price variance. Difference between invoice price and purchase order price.

layer inventory cost

Inventory valuation that is based on the receipt layer cost, including overhead absorption and cost adjustments.

perpetual average cost

The average cost of an item, derived by continually averaging its valuation after each incoming transaction. The following equation always holds for each item:
average cost of item = sum of debits and credits in inventory general ledger balance / on-hand quantity.

PO

Abbreviation for purchase order.

receipt cost

The transaction cost of a purchase order receipt or a miscellaneous receipt, including additional acquisition cost or other cost adjustment.

receipt layer

Unique identification of delivery or put away of an item into inventory.

RMA

Abbreviation for return material authorization.

TERV

Abbreviation for tax exchange rate variance. Tax component of exchange rate variance (ERV).

TIPV

Abbreviation for tax invoice price variance. Tax component of invoice price variance (IPV).

TRV

Abbreviation for tax rate variance. Difference between tax rates in purchase order document and invoice document.

valuation structure

Defines inventory control attributes that are used to calculate the cost of an item. For example, the valuation structure of an item can be inventory organization and subinventory, or lot, or grade.

valuation unit

Defines the set of values for the control attributes that are used to calculate the cost of an item. For example, valuation unit V1 is defined by cost organization A, item I1, and lot L1.