

PF2 Low volume adjustments & shutdown

Tasks to be completed when documenting an operation (from creation to publication)

1. Enter the **Title of the operation / page**

2. Add the following Labels:

- Scope of applicability: ww, country_accounting
- Country or group of countries (if applicable): belux, china, france, italy, lam, nam,uk_ie, bulgaria, dach, netherlands, iberia, poland, latvia, australia, india, japan, south_korea, thailand, singapore, new_zealand, emea_transversal, apac_transversal
- Unit and Domain according to the [List of labels to be used in the Finance Service Line space](#)
 - E.g. 1: WW Operation in Financial Accounting under domain "Central Finance Processes & Compliance":
 - Labels to be used: **ww, financial_accounting, central_fin_proc_compliance**
 - E.g. 2: France Operation in Financial Accounting:
 - Labels to be used: **country_accounting, france, financial_accounting**
(for country operations, the Domain is always country_accounting)

3. Fill in all fields as described above

4. Name the title of each section using OPD methodology naming convention - **Infinitive verb without the "to", mainly action verb...something) -" I do something..."**

5. Once the description of the operation is completed, ensure it is approved and published by launching the [SBS-Finance approval workflow](#)

Domain: Costing

Responsibility area: Supervise product Costing

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Scope



WW

ERP

PF2

Frequency

on demand

References

Forms

Attachments

on demand Form to request CO manual allocation: [Request for manual KB15N low production](#)

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1. Objective and Scope

1.1. Objective of this Operation

The purpose of this document is to explain how to generate the proposition and how to account in ERP the PF2 Low volume adjustments & shutdown.

1.2. Scope

This procedure is applied to all companies WW.

2. Definitions

See [Finance Glossary](#):

- PF2

3. Tasks description

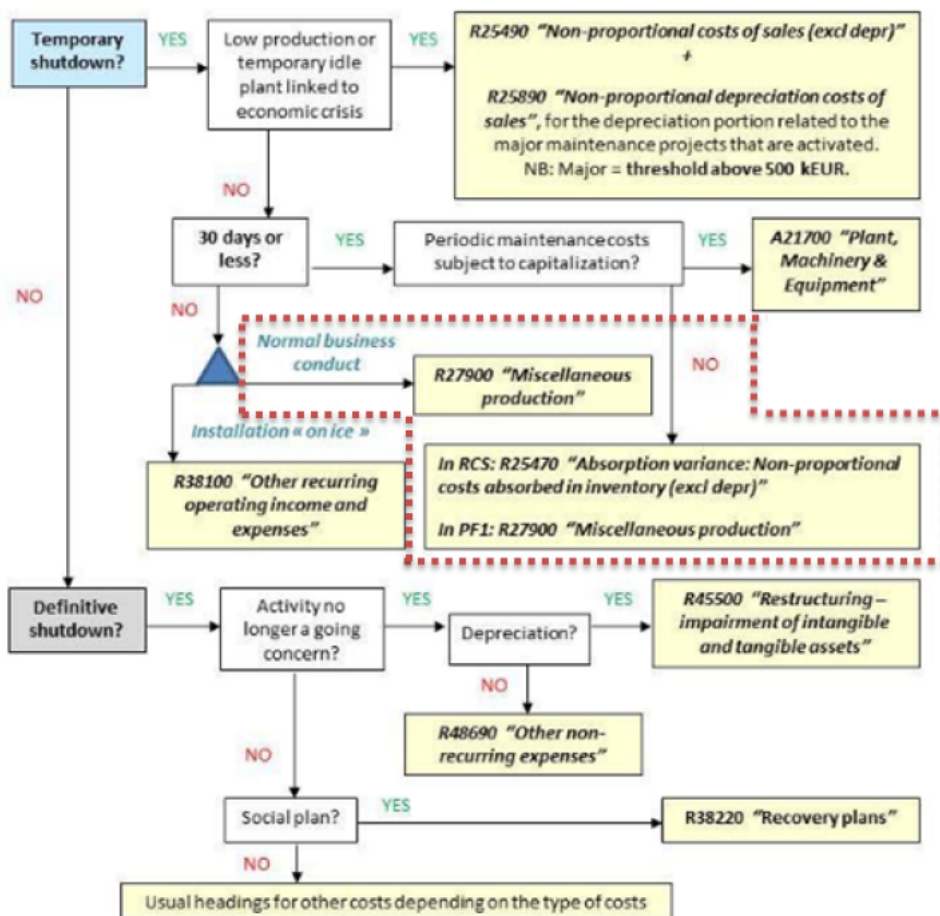
3.1. Background and Principles

3.1.1. Principle

In case of Low volume production or shutdown we avoid distortion of unit inventory by booking fixed costs and Depreciation in the P&L (Misc Production R27900- Misc Depreciation R27200) instead of in product costing.

3.1.2. Rule

Do not include figures in fixed costs of production of the period when the production is less than 90% of normal capacity. Or there is a temporary Shutdown. Highlight also correctly the depreciation in P&L.



3.1.3. How to calculate the value to adjust in case of low volume

A definition of what the group consider as "Normal Capacity" can be found here. For the purpose of this rule we consider is good enough any of these approximation:

NORMAL CAPACITY(Measured in Tons, Kpounds or Hours):

1: Normal capacity = Budget Capacity(Kpounds or Tons planned) of that given Production Line (Direct Production Cost Center)

Or

When the budget was built in a very challenging or theoretical scenario:

2: Normal capacity= Average of production(Kpounds or Tons or Hours) of previous year in that production Line excluding the shutdown periods

To calculate the amount of reference FC we use the Cost Element group XCS-FCAL

To calculate the amount of reference DEP we use the Cost Element group: XCS-DEPAL

To calculate the amount of reference VAR we use the Cost Element group: XCS-VCAL

Info

Controller could identify questionable items for which the adjustment should not be done or only applied partially. (Some example but not only: In some rare maintenance shutdown cases, where the production is lower but the costs also, leading to a fairly stable unit fixed costs in inventory)

In any case we need to respect the "principles"/spirit mentioned above.

3.1.4. Exception to the threshold %

Since 2019 the threshold for all production cost centers is in the range of 90%.(no exceptions).

In those cases some checks are made by the controllers to assess the variation of unit fixed costs in inventory. If this variation is important(measured in term of impact valuation in Inventory), after validation from plant manager, part of the cost is reclassified to to Misc. Prod(R27900) and Misc Depreciation R27200) following the same methodology, in order to maintain unit fixed costs fairly stable, according to our principles.

3.1.5. Posting Scheme and Codification

The amount calculated for low volume adjustment is sent from Production Cost Center to Low Volume (or Shutdown) Cos Center using some specific Cost Elements. To do this transfer will be used the transaction KB15N.

The **Cost Element** used for the transfers:

- Cost element 9320100001 for the Fixed Cost
- Cost element 9630100001 for Depreciation
- Cost element 9320100021 for Variable Cost(Not used in generic cases;

3.1.6. Timing

The transfer from Production Cost Center to Low Volume Adjustment Cost Center(or Shutdown CC) is to be done after cycle where Indirect Cost Center is allocated in **Production Cost Center(CCCCID) and Before Product Costing** is executed(where activity type price are calculated)

The cycle where we post this concept to **PL is the CCCCL or CCCST**. Which is executed after the Product Costing Process.

We can have variable costs that can be allocated to D45.

Info

At this stage the codification of Cost Center for Low Volume Adjustment is not mandatory. Specially if they were already set up in the past.

What is really relevant is that they are receiving the cost in the given Cost Element we have mentioned. And that they are set up in the cycle in the way we have detailed (Cycle CCCCL or CCCST using S5 Allocation structure and hierarchy EMISC6X).

For new Cost Centers, please apply these rules of codification EE-32-XXXX99.

End of document.