Americas' SAP Users' Group

Abbott Material ledger implementation – to meet complex accounting requirement

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Abbott

Life-Changing Healthcare Technology

07/May/2019

IMPROVING HEALTH AROUND THE WORLD THROUGH LIFE-CHANGING TECHNOLOGY

103K EMPLOYEES

160+ COUNTRIES

2018 SALES

$30.6 B

65% OF SALES OUTSIDE THE U.S.

59% OF SALES IN DEVELOPED MARKETS

41% OF SALES IN EMERGING MARKETS

Proprietary and confidential — do not distribute

DIVERSE BUSINESSES

Nutrition

Nourishing bodies at every stage of life

Medical Devices

Life-changing technologies in cardiovascular, diabetes and neuromodulation care

Established Pharmaceuticals

Delivering high-quality, trusted medicines to help people get and stay healthy

Diagnostics

Providing accurate, timely information to better manage health

life. to the fullest.

Session Abstract

- By partnering with SAP to implement material ledger functionality, Abbott was able to manage business complexity and support continuity.
- Use of parallel valuations by material enables efficiency, consistency, enhanced control procedures and analytical capabilities in Russia implementation.

Key Outcomes and Objectives

1. Utilize parallel valuation and material ledger to meet local legal requirements and Abbott Performance requirements
2. Evaluate the influence of Legacy processes on SAP enterprise design
3. Optimize reporting/reconciliation through use of SAP Material Ledger BOBJ reports

What is Material Ledger?

Material Ledger Definition:

- Submodule of Controlling
- Subsidiary ledger for materials
- Two Key Functions:
  - Multiple Valuation:
    - Enable material movement valuation in three currencies
    - Standard price in three currencies
  - Actual Costing:
    - Cost absorption at the individual material level
    - Variances to standard are allocated to cost of product (amortization) or inventory (deferral)

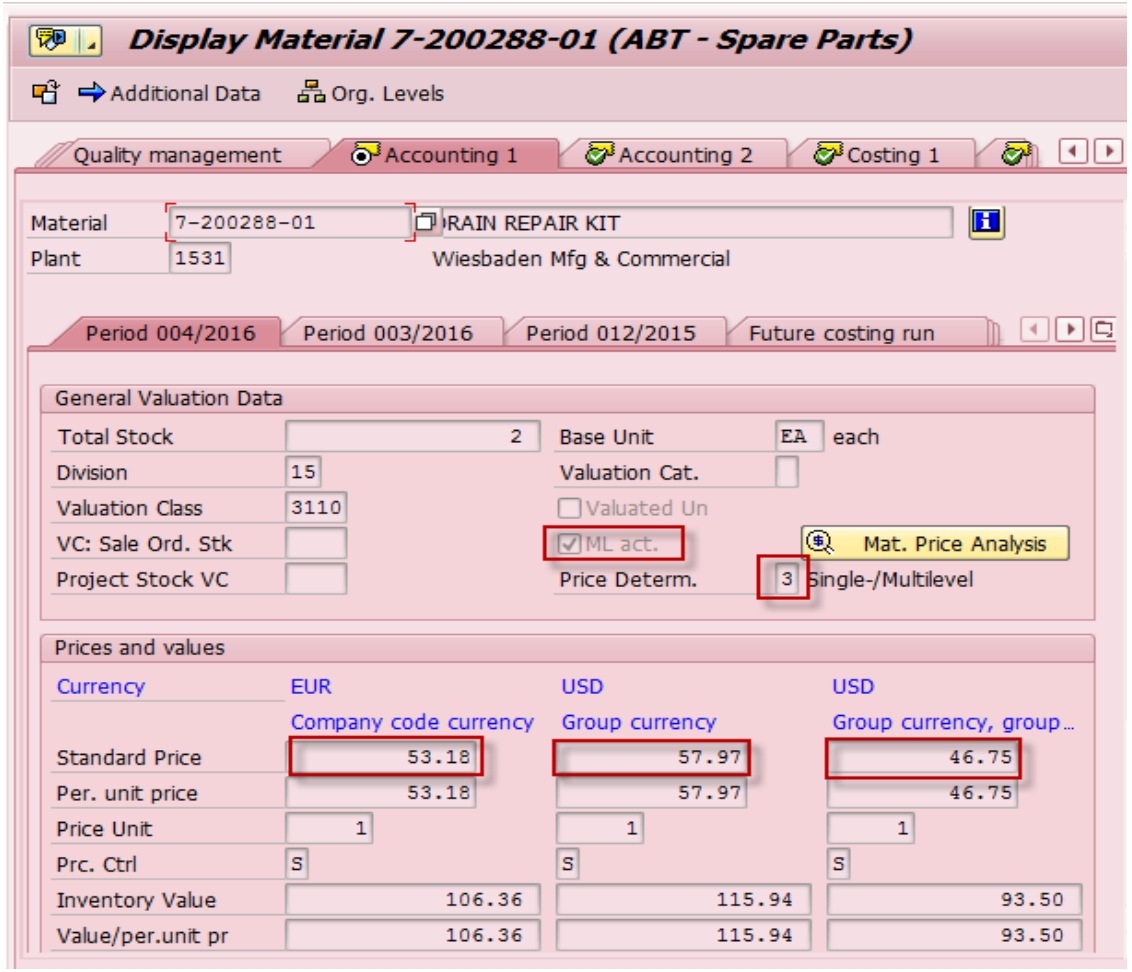
Inventory Valuation

Materials

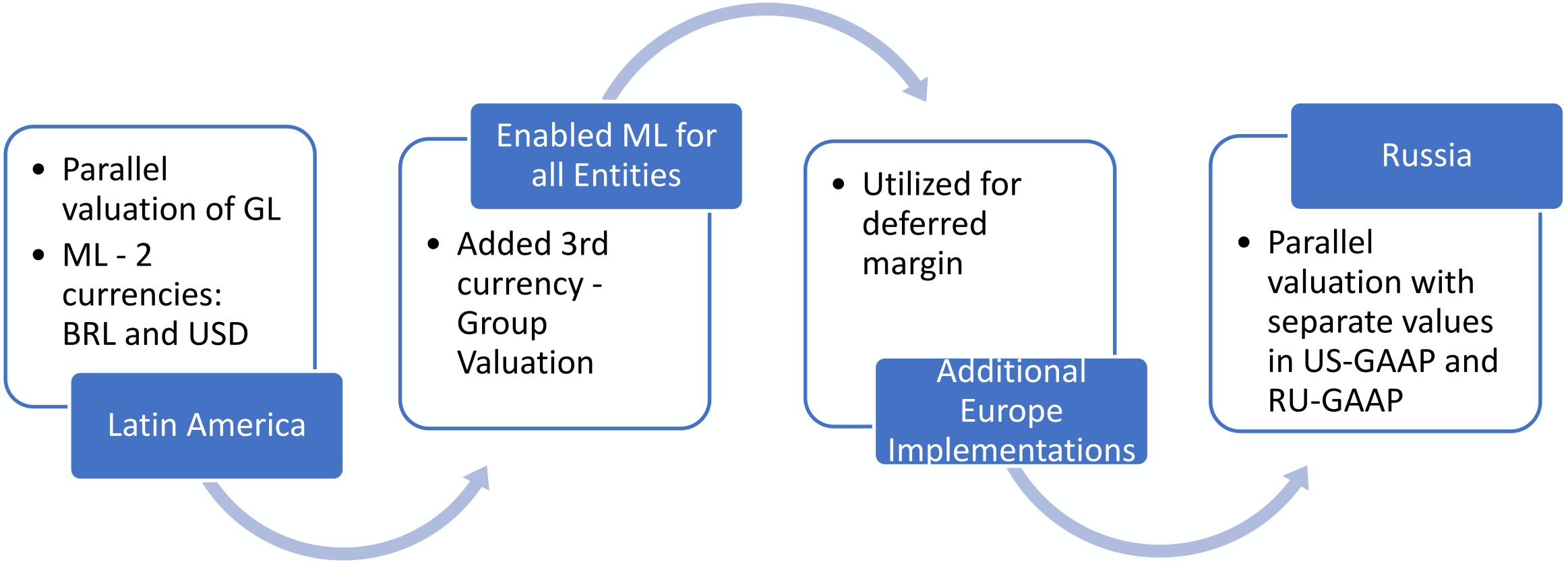
- Valuated annually
- Standard price

Currency Types (Valuations)

- Legal cost @ local currency
- Legal cost @ USD (Plan rate)
- Group cost @ USD
  (Net consolidated cost)

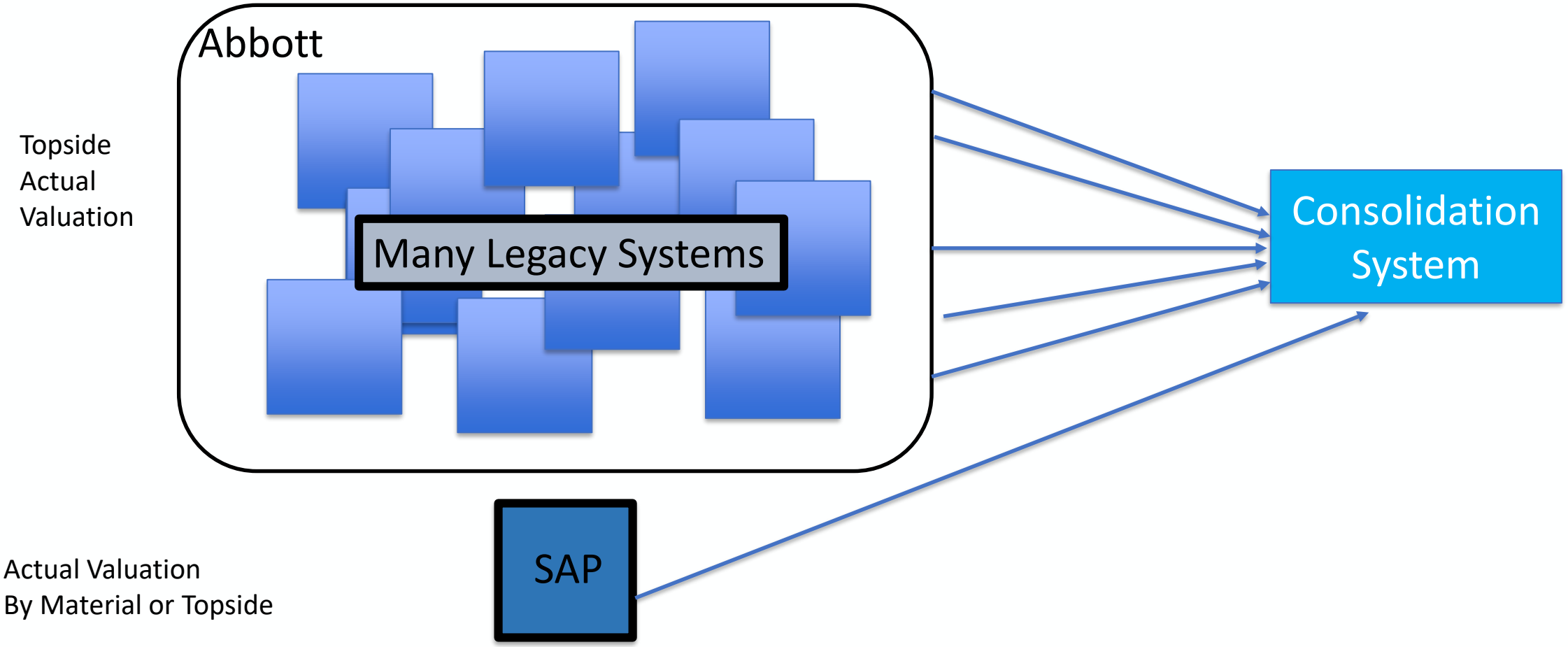


Abbott ML Evolution & Approach:



Abbott Legacy System and Process Landscape:

Division Requirement: Consistent methodology of consolidation for performance reporting/US GAAP



Legacy Process Landscape - Russia

Legacy process through large acquisition:

- Multiple systems
- Multiple entities
- Manual interventions
- Multiple spreadsheets
- Month-End Close
  - 8 days for submission
  - Up to 30 days for reconciliation

Actual Costing Requirements

Russia Local Legal Requirement:

- Actual cost **by material**
- Depreciation value for Local Russia GAAP
- Standard cost plus amortization/deferral of variances **by material**
- Material movements automatically create financial transactions

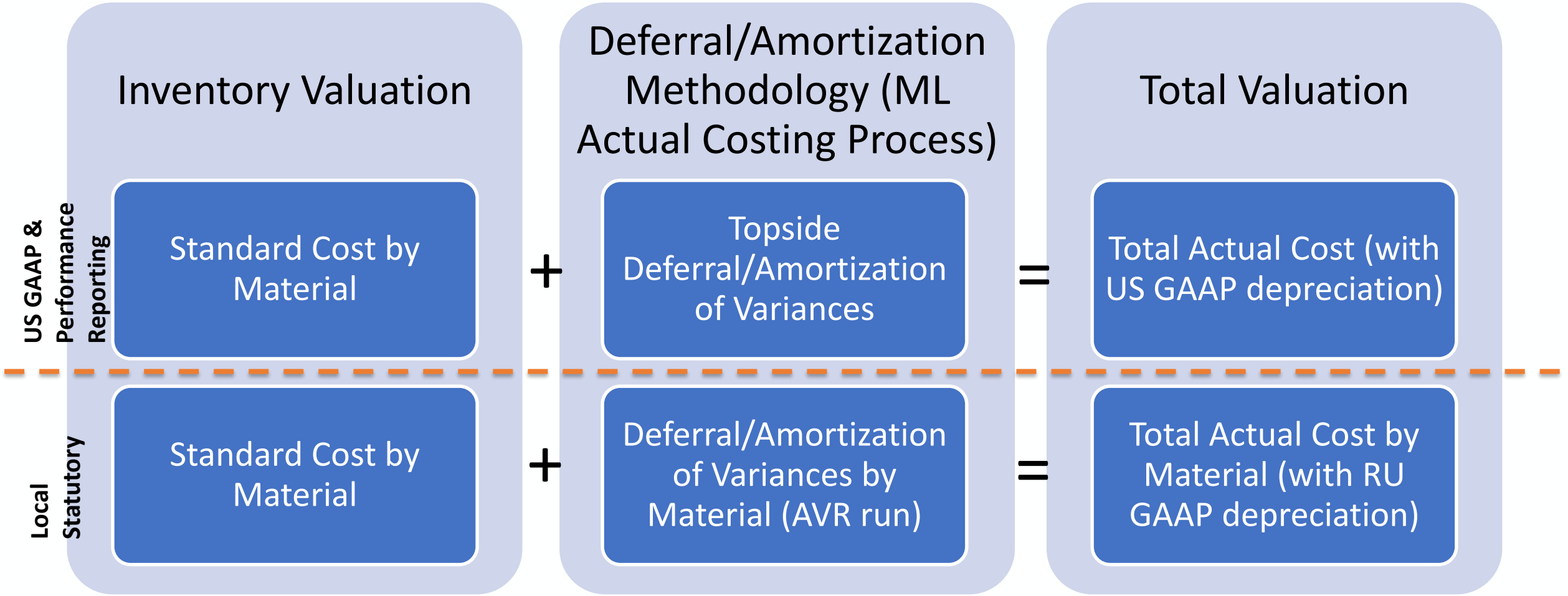
US GAAP / Performance Requirements:

- Actual cost
- Depreciation value for US GAAP
- Standard cost plus amortization/deferral of variances topside
- Material movements automatically create financial transactions

Russia Business Requirement

Require both:

Summary of Russia Business Requirements



Abbott & SAP solution

Standard SAP:

- Source transactions book same valuation in both ledgers
- Standard ML (CKMLCP) posts same actual values by material in both ledgers (US GAAP / RU GAAP)
- Manual journal entries to book separate valuation
- Not meeting business requirement because Russia unable to submit month end close on time

Detailed Abbott Requirement

Monthly actual costing runs generate different values in material ledger, by material:

- Parallel valuation – separate ledgers
- Separate valuation
  - Different depreciation values
  - Variance cost absorption by material
- Different GL Accounts utilized for each ledger

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How we met both requirements with Parallel Ledger

Leading Ledger

ML Periodic Costing Run:

CKMLCP – posts closing in currency type 10

- Posts GAAP standard value by material
- Post variance by material
- *Automated Job - Manual Reversal of Variance by Material*
- *Manual Deferral/Amortization of Variance*

Local Statutory Ledger

ML Alternative Valuation Run:

CKMLCP AVR - Activate ML periodic costing run (full posting)

COGM Service Pack – creates 2nd valuation

- Posts Local standard value by material
- Post variance by material

Actual Costing - Parallel Valuation

Depreciation Postings :

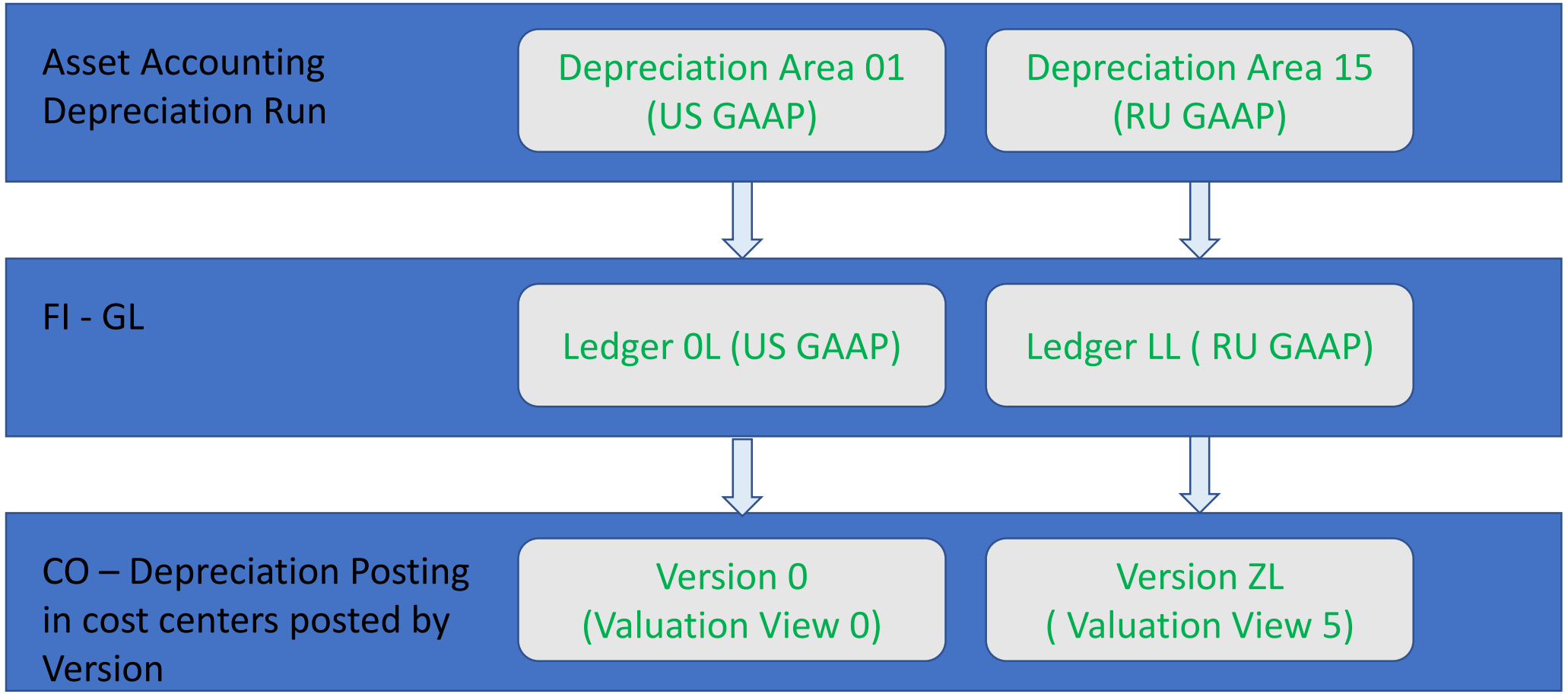
- Depreciation Amounts in Depreciation Area 01 (Book 01) are calculated per US GAAP. Depreciation Area 15 calculates per local RU GAAP
- Book 01 Depreciation is transferred to CO into the leading version “0” (Valuation view 0) from AA
- Book 15 Depreciation is transferred to CO into the COGM Version (Valuation view 5) from AA

Actual Activity Prices :

- Depreciation Expenses are calculated differently for the US GAAP and RU GAAP
- Same Production Cost Centers have different amounts for depreciation based on US GAAP and RU GAAP
- The different amounts in cost centers are stored using different versions (version 0 for US GAAP and custom Version ZL for RU GAAP)
- As the cost center expenses are different for US GAAP and RU GAAP, Actual Activity Prices have to be calculated differently

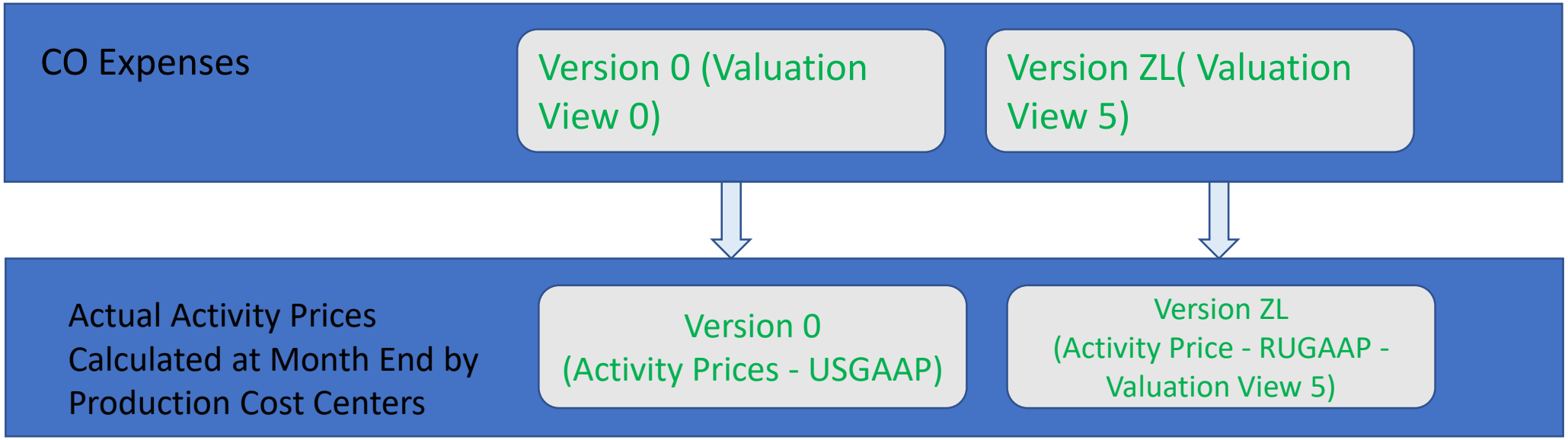
Actual Costing - Parallel Valuation

Flow of Depreciation Values

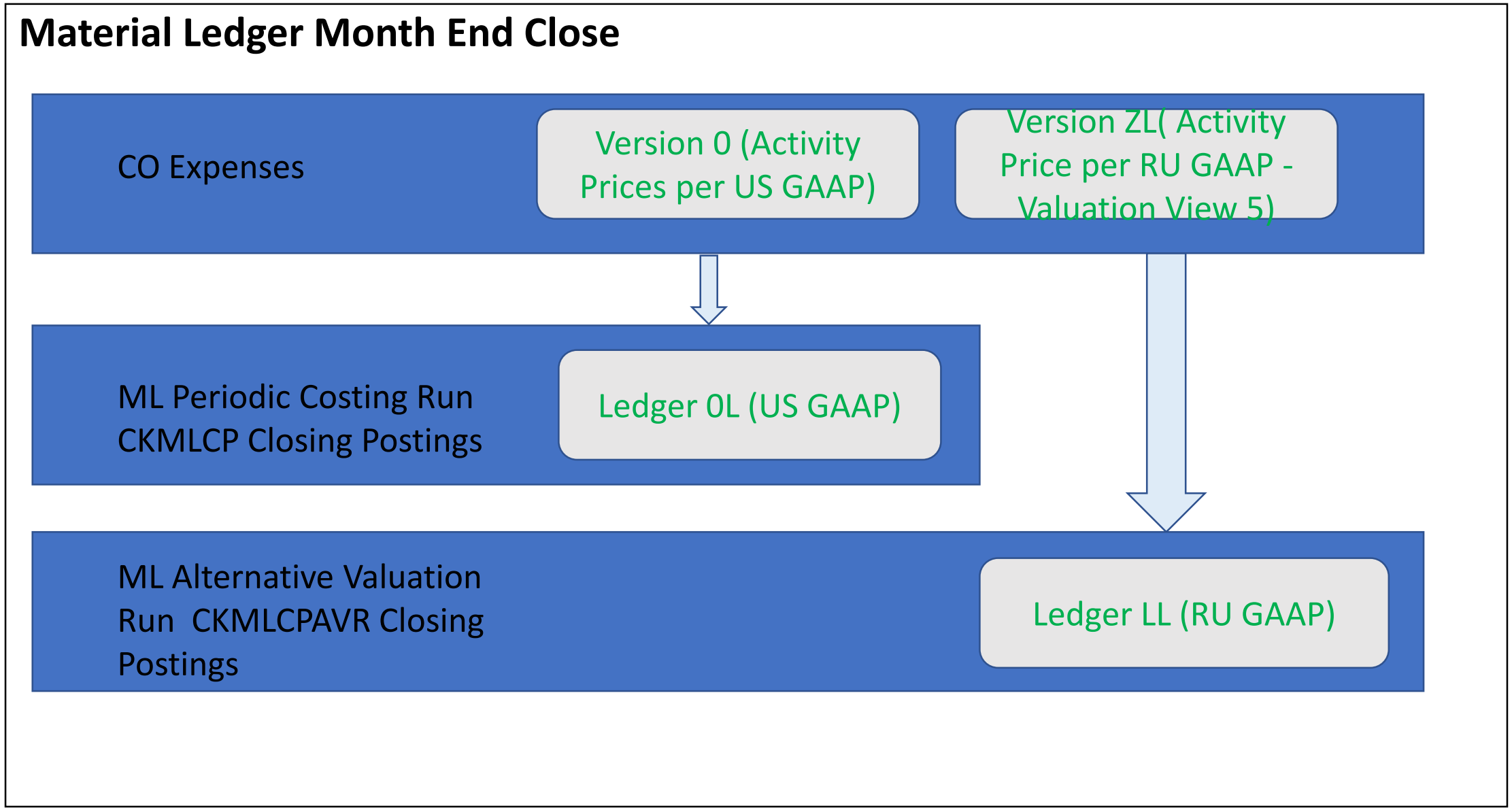


Actual Costing - Parallel Valuation

Activity Price Calculation

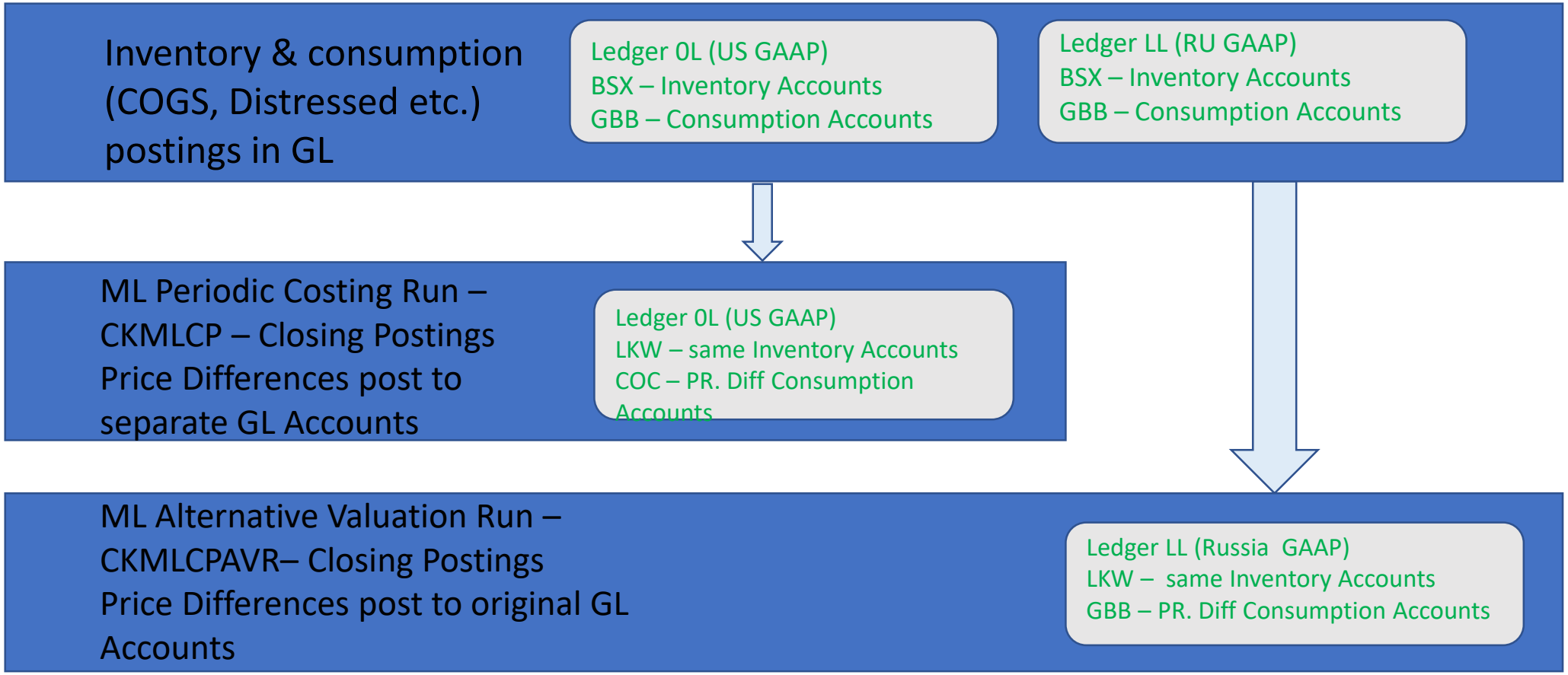


Actual Costing - Parallel Valuation



Actual Costing - Parallel Valuation

Account Determination



Abbott Reporting Requirement

Example of Custom BOBJ Material Ledger Report

		Cost Componer	Key Figures								
		Depreciation					Direct Labor	Direct Labor	Direct Labor	Direct Labor	Direct Labor
Material	**Category**	Quantity	Standard Valu	Differences (other)	Differences (exchange)	Total	Quantity	Standard Value	Differences (other)	Differences (exch	Total
ABC	Beginning Inventory	59,053.000 EA	232,905.03 RUB	17,264.78 RUB	0.00 RUB	250,169.81 RUB	59,053.000 EA	229,392.56 RUB	77,703.29 RUB	0.00 RUB	307,095.85 RUB
	Consumption	4,516.000 EA	17,811.10 RUB	1,320.30 RUB	0.00 RUB	19,131.40 RUB	4,516.000 EA	17,542.49 RUB	5,942.26 RUB	0.00 RUB	23,484.75 RUB
	Ending Inventory	54,537.000 EA	215,093.93 RUB	15,944.48 RUB	0.00 RUB	231,038.41 RUB	54,537.000 EA	211,850.07 RUB	71,761.03 RUB	0.00 RUB	283,611.10 RUB
	Result	39,368.667 EA	465,810.06 RUB	34,529.56 RUB	0.00 RUB	500,339.62 RUB	39,368.667 EA	458,785.12 RUB	155,406.58 RUB	0.00 RUB	614,191.70 RUB
ABCD	Beginning Inventory	8,371.000 EA	46,645.14 RUB	-18,083.84 RUB	0.00 RUB	28,561.30 RUB	8,371.000 EA	39,435.03 RUB	-3,614.51 RUB	0.00 RUB	35,820.52 RUB
	Consumption	8,340.000 EA	46,472.40 RUB	-18,016.87 RUB	0.00 RUB	28,455.53 RUB	8,340.000 EA	39,288.99 RUB	-3,601.12 RUB	0.00 RUB	35,687.87 RUB
	Ending Inventory	31.000 EA	172.74 RUB	-66.97 RUB	0.00 RUB	105.77 RUB	31.000 EA	146.04 RUB	-13.39 RUB	0.00 RUB	132.65 RUB
	Result	5,580.667 EA	93,290.28 RUB	-36,167.68 RUB	0.00 RUB	57,122.60 RUB	5,580.667 EA	78,870.06 RUB	-7,229.02 RUB	0.00 RUB	71,641.04 RUB

		Overall Result				
Material	**Category**	Quantity	Standard Value	Differences (other)	Differences (exchange)	Total
ABC	Beginning Inventory	59,053.000 EA	3,481,764.88 RUB	449,059.26 RUB	100,500.89 RUB	4,031,325.03 RUB
	Consumption	4,516.000 EA	266,263.36 RUB	34,341.21 RUB	7,685.67 RUB	308,290.24 RUB
	Ending Inventory	54,537.000 EA	3,215,501.52 RUB	414,718.05 RUB	92,815.22 RUB	3,723,034.79 RUB
	Result	39,368.667 EA	6,963,529.76 RUB	898,118.52 RUB	201,001.78 RUB	8,062,650.06 RUB
ABCD	Beginning Inventory	8,371.000 EA	866,649.63 RUB	41,188.18 RUB	-42,081.79 RUB	865,756.02 RUB
	Consumption	8,340.000 EA	863,440.20 RUB	41,035.65 RUB	-41,925.95 RUB	862,549.90 RUB
	Ending Inventory	31.000 EA	3,209.43 RUB	152.53 RUB	-155.84 RUB	3,206.12 RUB
	Result	5,580.667 EA	1,733,299.26 RUB	82,376.36 RUB	-84,163.58 RUB	1,731,512.04 RUB

Session Recap - Business Benefits

- Automated standardized model from error prone legacy process
- Speed of financial closure
- Speed of financial reconciliation between local and US GAAP
- Efficient, precise reporting of financials
- Accurate manufacturing cost and margin calculation by material
- Statutory reporting of actual cost by material

Session Recap - Business Result

- In Russia implementation - use of parallel valuations by material enabled
  - Efficiency
  - Consistency
  - Enhanced control procedures
  - Analytical capabilities

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Presentation Materials

Access the slides from 2019 ASUG Annual Conference here:

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Q&A

For questions after this session, contact us at beth-ann.chudy@abbott.com and sai.nalagandla@abbott.com.

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