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

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EBS Answers
Virtual Conference

Webinar Mechanics

- Submit text questions in the chat log.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.
- A recording of today's event will be available for 90 days for conference registrants.

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Learning Objectives

Objective 1: Learn how you can change your Discrete Costing Method without re-implementing your inventory organizations.

Objective 2: Find out about approaches you can use which minimize involvement from your technical IT team (uses less SQL then you expect!).

Objective 3: Gain an understanding for how Oracle® Cost Management stores and uses cost information.

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eprentise®: Transformation Software for E-Business Suite

Company Overview: Incorporated 2007, Helene Abrams, CEO

eprentise Can…

- Consolidate Multiple EBS Instances
- Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Merge or Split Ledgers or Sets of Books, Operating Units, Legal Entities, Inventory Organizations
  - Calendars, Currency, Costing Methods
  - Asset Revaluation, Inventory Valuation
- Separate Data

…So Our Customers Can:

- Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
- Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
- Avoid a Reimplementation
- Reduce Complexity and Control Risk
- Improve Business Continuity, Service Quality and Compliance
- Streamline Operations with Visibility to All Parts of the Business
- Establish Data Quality Standards and a Single Source of Truth

Finished But Not Done®

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Learning Points

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Agenda

- Why change costing methods?
- Costing methods overview
- Three approaches
- The devil is in the details (Step by step guidance)
- Appendix
  - Which costing method to use?
  - Sharing costs across organizations
  - Item cost controls
  - How Oracle stores cost information
  - Use of default cost accounts
  - Standard vs. Average cost updates

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Doug Volz

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- **Professional Summary**
  - 35+ years industry, design and consulting and firefighting experience
  - Specializing in Cost Management business solutions
  - Awarded 2014 OAUG Member of the Year
  - Co-designed Oracle Cost Management at Oracle
  - Implementations with international consulting firms, in twelve countries
  - Led the Oracle Applications User Group for Cost Management since 2007
  - Presenter at Collaborate (OAUG) and UKOUG since 1996
  - Prior industry positions for General and Cost Accounting management

- **Business Solutions**

- Change cost methods
- Inventory reconciliation
- Profit in inventory
- Intercompany
- A/P accruals
- Fix system account setups
- Multi-org cost accounting reports
- Product Line & Margin analysis
- Cost Rollup and Update
- Cost accounting training

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Over 30 Solutions You Can Use

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

A/P Accruals: OAUG/Collaborate & UKOUG

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

Cost Management & SLA: OAUG/Collaborate & UKOUG

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

Discrete & Process Cost Accounting Integration: OAUG/Collaborate

2015: We Can Create Combined Oracle Cost Accounting Reports for Both Discrete and Process MFG!

Inventory Reconciliation: OAUG/Collaborate & UKOUG

2010: Can We Actually Reconcile Project MFG to Inventory, WIP, Projects & G/L? What Was I Thinking?
2011: 60 Inventory Orgs? 6 Ledgers? No Worries, Reconcile Your Inventory With Ease!
2014: Reconcile Your Inventory to G/L Balances With Ease, From 1 to 1,000 Inventory Organizations!

Profit in Inventory Solutions: OAUG/Collaborate

2010: Does Rel. 12 Solve Global Inter-Company Issues for Multiple Ledgers, Profit in Inventory and COGS?

Transaction Interfaces for Period Close: OAUG/Collaborate

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

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

Why Change Costing Methods

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Why Change Costing Methods?

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

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

Costing Methods Overview

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Cost Transactions Overview

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Discrete Organizational Costing

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

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Define Your Costing Method

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

Organization Parameters (M1)

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

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

Valuation Accounts

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

Used by Avg, FIFO, LIFO Costing

Set when org is defined

Costing Methods:
Average
Standard
LIFO
FIFO
Periodic

The Appendix Section has a discussion for deciding which Costing Method is best for your situation and how to set up costing attributes

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

Three Approaches

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Approach One – New Inventory Org

- Oracle Support recommends setting up a new inventory org
- Changing Organization Costing Methods (Doc ID 550640.1)
  - "It is not possible to just change the costing method. This is because the item cost records created by the system and used for the costing process are AVERAGE. These records are created when a costed asset item is assigned to the inventory organization."
  - "Standard advice is to create a new inventory organization, assign all the asset items to the new organization and be quite time-consuming."
  - "You cannot change the costing method of an existing inventory organization once transactions have taken place. To change the costing method, the starting basis for the current average cost in the new organization."

It is not possible to just change the costing method

Standard advice is to create a new Inventory organization

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

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High-Level Setups for New Org

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But What Else Can You Do?

Approach Two:

Use eprentise and their rules-based engine to change your Costing Method

Approach Three:

Use the same inventory transfer method as mentioned by Oracle Support, but, using highly skilled resources and guidance, do it in the existing inventory organizations

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Approach Two:

Change In-Place Transformation with eprentise

- ✗ No transactions
- ✗ No changes to POs & SOs
- ✗ No impact to onhand Qtys or values

Compared to High Level Setups for New Org:

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

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Approach Two:
Change In-Place Transformation with eprentise

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Approach Three: Cost Migration Approach

Deep Know-How

Set up initial item costs.

Use SQL to flip the Costing Method.

Safe

- POs & SOs
- WIP Values
- Work Orders
- Quantities & Values

Compared to High Level Setups for New Org:

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

Compared to Change In-Place Transformation with eprentise:

⇧ **Time** ⇧ **Technical Knowledge**

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Approach Three: Cost Migration Approach

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Approach Comparisons (red is bad, green is good)

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

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Overall Recommendations

- If have the technical expertise, few inventory orgs and few items in stock — use approach three — Cost Migration
- If missing technical expertise or converting many inventory organizations or have lots of onhand inventory — approach two — Cost Transformation — is safer with less disruption
- If changing to Average Costing with resource, OSP or overhead — approach two — Cost Transformation is easier
- Don't recommend approach one — setting up a new org — unless you have no sales orders, purchase orders, items, BOMs, Routings, WIP or onhand quantities in the existing org
- More4Apps is quite useful with Cost Migrations
  - Use the Material Transaction Wizard to move quantities in and out
  - Use Material Transaction Wizard to process Average Cost Updates
  - Use the Item Cost Wizard to help set up your Standard Costs

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Overall Recommendations (cont'd)

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

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Poll Question

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The Devil is in the Details

Step by Step Guidance for Approach Two
– Cost Transformation (Change in Place) Approach

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Approach Two:
Change In-Place Transformation with eprentise

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Cost Transformation – Step 1

Menu path: Cost Management – SLA => Setup => Account Assignments => Organization Parameters

- **Set Cost Cut-Off Date**
  - Stops the Inventory and Resource Cost Processors from creating cost accounting entries as of the Cost Migration date

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Cost Transformation – Step 2

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

- **Clear Transaction Interfaces**
  - Process all "in-flight" transactions

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Cost Transformation – Step 3

Menu path: Cost Management – SLA => Report => Value => All Inventories Value Report

- **Record Initial Onhand Quantities and Values**
  - Run your standard or custom receiving, inventory, intransit and WIP value reports before the Cost Migration

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Cost Transformation – Step 4

- **Change In-Place Cost Transformation:**
  - Correct item attribute control levels or values:
    - As needed, reset control levels and values for:
      - Inventory asset flags
      - Costing enabled flags
    - Can repair more attributes as mutually agreed
  - Make required changes to inventory system accounts
  - Change your Costing Method
  - Transform your Average/FIFO/LIFO into Standard or Standard into Average/FIFO/LIFO item costs
  - When changing to Standard, create standard cost history
  - When changing to Average, provide sample SQL for history

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Cost Transformation – Step 5

- Check that Inventory has Same On-hand
- After changing your Cost Method, your Before and After inventory quantities and values must be the same
- Re-run the inventory value reports from step 3 and compare

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Cost Transformation – Step 6

- Additional Cost Changes for Standard Costing
- Need to re-roll your BOMs and Routing and re-freeze your standards, to avoid erroneous WIP job variances
- The More4Apps Item Cost Wizard can help set your buy costs, based on last A/P invoice cost or your last PO receipt cost

- Additional Cost Changes for Average Costing
- Use the More4Apps Material Transaction Wizard to make any necessary Average Cost Updates
- Especially for Buy Item Costs, when the old standards are bad
- Use the standard Oracle Cost Mass Edits to calculate average A/P invoice costs or average PO receipt costs
- Or use the More4Apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost into Excel and transfer to the More4Apps Material Transaction Wizard to run Average Cost Updates

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Cost Transformation – Step 7

- Get Management Approval
- As most folks like their jobs …
- Get sign-off from your Supply Chain representatives
- Get sign-off from your Finance representatives

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Cost Transformation – Step 8

- Release Cost Cut-Off Date
- Remove the Cost Cut-Off Date
- Allows the Cost Manager / Inventory and Resource Processors to cost transactions using the new item costs

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

The Devil is in the Details

Step by Step Guidance for Approach Three
– Cost Migration Approach

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Approach Three:
Cost Migration Approach Using More4Apps

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Cost Migration – Step 1

Menu path: Cost Management – SLA => Setup => Account Assignments => Organization Parameters

- Set Cost Cut-Off Date
  - Stops the Inventory and Resource Cost Processors from creating cost accounting entries as of the Cost Migration date

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Cost Migration – Step 2

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

- Clear Transaction Interfaces
  - Process all "in-flight" transactions

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Cost Migration – Step 3

Menu path: Cost Management – SLA => Report => Value => All Inventories Value Report

- Record Initial Onhand Quantities and Values
  - Run your standard or custom receiving, inventory, intransit and WIP value reports before the Cost Migration

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Cost Migration – Step 4

- Enter Miscellaneous or Account Alias Issue Transactions
  - Zero out your on-hand inventory
  - You can use an IT approach, write an insert script and run transactions through your Open Transaction Interface
  - But the More4Apps Material Transaction Wizard lets your Inventory staff perform the transactions and frees up IT – no SQL needed!
- Enables and encourages your Inventory staff to deal with ignored or hard-to-find transaction issues:
  - Negative on-hand quantities
  - Corrupt or missing locator information
  - Transaction errors such as existing move-order allocations, WIP reservations and other gotchas which don't show up on the Inventory Close / Pending Transaction summary forms or reports.

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Cost Migration – Step 5 (Continued)

- Process Transactions with More4Apps
  - More4Apps Transaction Wizard shows you any errors right in the Excel worksheet
  - Very easy to use with minimal IT server setup
  - With no programming, download your onhand quantities right into the worksheet, indicate the correct transaction type and transaction date and let it rip!
    - Positive inventory quantities uses Miscellaneous Issues
    - Negative inventory quantities uses Miscellaneous Receipts
- And for Step 10 you merely reverse the transaction type and reprocess the very same rows (after changing the Cost Method and related information)

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Cost Migration – Step 5 (Continued)

- Download on-hand quantities – no SQL!

Organization
Subinventory
Locator

Positive onhand

Negative onhand

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Cost Migration – Step 5 (Continued)

- Process Transactions with More4Apps

More4Apps
Material Transaction Wizard

UPLOAD RESULTS			Transaction Header												
Upload Result	Line Message	Line Transaction ID	Inventory Org Code	Transaction Date	Transaction Type	Transaction Source	Default Or Adjustment Account	Item	Item Description	Subinventory	Locator	Quantity	UOM	Unit Cost	Reference
Accepted	Transaction Completed	285646478	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS10000	405 Digital Camera	FGI		31	Ea		Zero-out qtys
Accepted	Transaction Completed	285646480	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16104	Epic Disaster GAMEBX	FGI		7	Ea		Zero-out qtys
Accepted	Transaction Completed	285646482	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16105	Cosmic Hero II GAMEB	FGI		37	Ea		Zero-out qtys
Accepted	Transaction Completed	285646484	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS16107	Cosmic Hero IV GAMEI	FGI		10	Ea		Zero-out qtys
Accepted	Transaction Completed	285646486	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS18947	Sentinel Deluxe Desktop	FGI		10	Ea		Zero-out qtys
Accepted	Transaction Completed	285646488	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS30000	305 Digital Camera	FGI		12	Ea		Zero-out qtys
Accepted	Transaction Completed	285646490	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS34300	HP ProLiant DL740 - X	FGI		4	Ea		Zero-out qtys
Accepted	Transaction Completed	285646586	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS44400	President Model Deskto	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646632	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS54888	Sentinel Standard Desk	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646634	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS55888	Sentinel Standard Desk	FGI		9	Ea		Zero-out qtys
Accepted	Transaction Completed	285646636	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66311	Vision Pad DX - Mobile	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646638	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66312	Vision Pad SX - Mobile	FGI		20	Ea		Zero-out qtys
Accepted	Transaction Completed	285646640	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66313	Vision Pad ZX - Mobile	FGI		23	Ea		Zero-out qtys
Accepted	Transaction Completed	285646642	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS66629	Envoy Ruggedized Lapt	FGI		1	Ea		Zero-out qtys
Accepted	Transaction Completed	285646644	M1	10/14/2015 2:19:5	Miscellaneous issue		01-535-7530-0000-000	AS72111	Envoy Deluxe Laptop	FGI		3	Ea		Zero-out qtys

Quick transaction feedback, no going back and forth into Oracle

Put comments against your transactions

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Cost Migration – Step 6

- Verify Zero On-hand Inventory
  - Rerun the inventory value reports from step 3
  - Should have no on-hand quantities

```
Seattle Manufacturing                                                                                Report Date:  09-NOV-2015 20:34
Sort by Item                                          Inventory Value Report                          As of Date:  09-NOV-2015 20:34:35
         Cost Type:  Frozen                           After Zeroing Out Qtys                                Page:  1
      Category Set:  Inventory                        Summary        ( USD)



                                                 Planning MRP        Item
Item            Description     Category         Method   M/B  Asset Status     UOM        Quantity      Unit Cost   Extended Value
--------------- --------------- --------------- -------- ---- ----- ---------- ---    ------------ -------------- ----------------

                                                                                                                     ----------------
                                                                                          Report Total:                        0.00
                                                                                                                     ================

                                                      ***** End of Report *****
```

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Cost Migration – Step 7

- Change Costing Method

Have to know what you are doing!

```
-- Example
-- Set the Costing Method from Standard to Average Costing

UPDATE  inv.mtl_parameters mp
SET     mp.primary_cost_method  = 2  -- Average costing
WHERE   mp.primary_cost_method  = 1  -- Standard costing
AND     mp.organization_code    = '&Org_Code'
AND     mp.organization_id      = &Org_Id;
```

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Cost Migration – Step 8

- Set Up Initial Item Costs
  - When you define or assign an item a database trigger automatically creates a zero cost row in that organization for your Costing Method Cost Type
  - Without these rows the Inventory and Resource Cost Processors will fail
  - Need to do this using SQL
  - TIP: Look at the Item Master database trigger: MTL_SYSTEM_ITEMS_T1

Do not use SQL to copy your existing Costing Method Cost Type into your new Costing Method Cost Type
(i.e. copying Frozen to Average or Average to Frozen)

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Cost Migration – Step 8 (Continued)

- Set Up Initial Item Costs
  - If moving to Average, FIFO, LIFO Costing, your Miscellaneous Receipt transaction creates your initial item costs
  - If moving to Standard Costing, in addition to initializing zero cost rows for your Frozen Cost Type you need to set up your Frozen costs BEFORE receiving back your onhand quantities
    - Use standard Oracle Item Cost Copy program to copy your Average/FIFO/LIFO costs into your Pending Cost Type
    - Review it using the Cost Type Comparison Report, by Level; Average and Pending must have the same costs by Level
    - Run the Standard Cost Update, updating Pending to Frozen BEFORE you receive back your onhand quantities
    - Again, use the Cost Type Comparison Report to compare Average and Frozen costs by Level

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Cost Migration – Step 9

- Step 9: Complete Other Cost Changes
  - At this stage of the Cost Migration also consider:
    - Fixing any default inventory organization accounts
    - Some may be fixed manually, some require SQL
  - Correcting item attribute control levels or values:
    - Reset control levels as needed, Master vs. Org
    - Inventory asset flags
    - Costing enabled flags
    - Item types
    - Stockable
    - Transactable
    - And many, many more

More4Apps Item Wizard can help with item attribute values

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Cost Migration – Steps 10 & 11

- Enter & Process Inventory Receipt Transactions
  - Using More4Apps Transaction Wizard, merely reverse the initial transaction types, change the reference information and reprocess the very same rows (after changing the Cost Method and related information)
  - If more than 5,000 to 10,000 on-hand rows to process consider using an IT approach, write an insert statement into the Open Transaction Interface (MTL_TRANSACTIONS_INTERFACE)
  - Processing times with More4Apps Material Transaction Wizard varies with the available system memory (SGA); client experience ranges from 30 to 60 transactions per minute.

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Cost Migration – Steps 10 & 11

- Average Costing Inventory Receipt Transactions
  - Whether using the More4Apps Transaction Wizard or writing a SQL script to insert into the Open Transactions Interface, your receipt transactions need an average material cost
  - Use the More4Apps Item Cost Wizard to download your existing standard Costs … and using a VLOOKUP function update the Item Cost column for the M4Apps Material Transaction Wizard
  - Or run the Oracle Item Cost Summary Report (or a similar SQL report) to get your existing Standard Costs, and again, use a VLOOKUP function to update the item cost column

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Cost Migration – Steps 10 & 11

- Standard Costing Inventory Receipt Transactions
  - If moving to Standard Costing don't specify an item cost on your receipt transactions
  - In Step 8 you created your new standards in advance and the Miscellaneous or Account Alias Receipt Transaction will use these standard costs

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Cost Migration – Step 12

- Check that Inventory has Same On-hand
  - Even after changing your Cost Method, your Before and After inventory quantities and values must be the same
  - Re-run the inventory value reports from step 3 and compare
  - You can also use SQL to net the initial transactions from steps 4/5 against the transactions from steps 10/11 to see that they all net to zero, by item, subinventory and locator
  - And as always, your transaction interfaces should be clear with no struck transactions
  - Any differences must be researched and corrected

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Cost Migration – Step 13

- Additional Cost Changes for Standard Costing
  - Need to re-roll your BOMs and Routing and re-freeze your standards, to avoid erroneous WIP job variances
  - The More4Apps Item Cost Wizard can help set your buy costs, based on your last A/P invoice or last PO receipt cost
- Additional Cost Changes for Average Costing
  - Use the More4Apps Material Transaction Wizard to make any necessary Average Cost Updates, including re-assigning resource, OSP, overhead costs by cost element
  - May need to fix Average material costs for buy items
  - Use the standard Oracle Cost Mass Edits to calculate average A/P invoice costs or average PO receipt costs
  - Or use the More4Apps Item Cost Wizard to download your last A/P invoice cost or your last PO receipt cost
  - Clients have also downloaded item master list prices as a source of new buy costs

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Cost Migration – Step 14

- Get Management Approval
  - As most folks like their jobs …
    - Get sign-off from your Supply Chain representatives
    - Get sign-off from your Finance representatives

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Cost Migration – Step 15

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

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

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Overall Recommendations

- If have the technical expertise, few inventory orgs and few items in stock — use approach three — Cost Migration
- If missing technical expertise or converting many inventory organizations or have lots of onhand inventory — approach two — Cost Transformation — is safer with less disruption
- If changing to Average Costing with resource, OSP or overhead — approach two — Cost Transformation is easier
- Don't recommend approach one — setting up a new org — unless you have no sales orders, purchase orders, items, BOMs, Routings, WIP or onhand quantities in the existing org
- More4Apps is quite useful with Cost Migrations
  - Use the Material Transaction Wizard to move quantities in and out
  - Use Material Transaction Wizard to process Average Cost Updates
  - Use the Item Cost Wizard to help set up your Standard Costs

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Overall Recommendations (cont'd)

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

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Summary

- Three approaches for changing your Cost Method
- Determine which approach is best for you
- Questions, yes please contact Doug Volz @ doug@volzconsulting.com
- Or More4Apps at David.Wright@more4apps.com
- Or for eprentise, Ingrid Houghton at ihoughton@eprentise.com

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Poll Question

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

Appendix

- Which costing method to use?
- Sharing costs across organizations
- Item cost controls
- How Oracle stores cost information
- Default cost accounts
- Standard vs. Average Cost Updates

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

Appendix

- Which costing method to use?

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Average Costing

- Oracle supports a moving or weighted average cost
  - The unit cost changes with each receipt transaction
- Unit costs reflect the average of the incoming receipts from
  - purchase order receipts,
  - purchase order returns
  - inter-organization receipts
  - and for manufacturing, for WIP assembly completions
  - miscellaneous issues may or may not affect the unit cost
- All issues occur at the existing average costs
- Assembly costs come from the cost of your assemblies
- You may have indirect costs (material overheads, etc.) as well

Caution: must have accurate PO costs for Average Costing

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Standard Costing

- The primary objective of standard costing is to provide a performance measurement system
  - Unit costs are set up in advance as an *expected* cost
  - Component costs (material costs) are defined using the projected average acquisition costs, plus any indirect costs
  - Assembly costs are rolled up
  - Standards are reset periodically, depending on how quickly your costs change

- All manufacturing and distribution activities are measured against the expected costs
  - Typical variances include:
    - Purchase Price Variance
    - Invoice Price Variance
    - Manufacturing Variances (material usage, resource efficiency, etc.)

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Other Costing Methods

- **FIFO Costing**
  - FIFO costing values inventory by assuming that the oldest inventory (first in) is the first to be used or sold (first out), but there is no necessary relationship to the physical movement of specific items
  - FIFO costing supports WIP costing
- **LIFO Costing**
  - LIFO costing values inventory by assuming that the most recently received item (last in) is the first to be used or sold (first out), but there is no necessary relationship to the physical movement of specific items
  - LIFO costing supports WIP costing
  - IFRS does not allow LIFO costing
- **Periodic Costing**
  - Periodic has dual costing capabilities, using Periodic Costing while using transaction-based "real-time" costing
  - Periodic supports WIP costing
  - Mostly used where legally required

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Average Costing Pros

- Unit costs automatically reflect the average of the incoming receipts
- There is limited exposure to LCM adjustments (lower of cost or market) as the average cost is constantly being "re-averaged"
- Average costing is preferred when you have little or no control over your component costs, as common for many electronic component or distribution companies

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Average Costing Cons

- Average costing is useless if your purchase order prices are inaccurate
- Average costing may be time-consuming to maintain
  - The multi-layer maintenance for average costing can be very time-consuming, for when the purchase order (or WIP completion costs) are incorrect
  - Especially for FIFO or LIFO costing, you correct the average costs by adjusting the individual receipt/WIP completion cost layer
- You only have one valuation account for each inventory organization (unless using PJM or WMS)
- The average unit costs are kept at the organization level, you cannot have separate valuation accounts by subinventory

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Average Costing Cons

- No built-in expected vs. average cost analysis tools
- Custom reporting is required to compare your average costs results against expected target results
  - You can only compare any two sets of unit costs (like average vs. a set of budgeted unit costs), but you cannot compare your transactional results without significant manual effort
- If you change your average unit costs, average costing does not revalue WIP, only your stores/onhand/intransit quantities
- Much harder to track profit in inventory, as your profit in inventory fluctuates with the average cost changes

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Standard Costing Pros

- You can easily see your performance against plan
  - As the transactions happen the variances are recorded
  - As a result, standard costing may offer better cost controls than average costing
- Standard costing may be preferred when you have some control over your component or raw material costs, as common for many manufacturing companies
  - Gives your non-cost accounting departments a consistent unit cost for pricing comparison purposes; it may be easier to understand than a constantly moving average
  - If your purchase order prices or WIP costs are inaccurate, your inventory balances still reflect your standard costs (and you see the problems immediately as variances)
  - You can use separate accounts by subinventory
- With constant values much easier to track profit in inventory

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Standard Costing Cons

- Standard costing may not work when you cannot control your costs or do not have any influence over your suppliers, leading to large cost fluctuations for most items
- Standard costing doesn't work well if your costs are constantly changing with large fluctuations
- Standard costing will not be an effective measurement system if your line managers do not believe that the expected, predefined costs are attainable
- Even with standard costing, you need to have a way to track your running actual/average costs
- Standard absorption costing can lead Operations to incur positive manufacturing variances at the expense of inventory levels and cash flow

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

Appendix

- Sharing costs across organizations

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Sharing Costs Across Organizations

- Under certain conditions, you can share standard costs across organizations
  - For example, you could designate one of the distribution inventory organizations as the "Cost Master" organization for the other distribution organizations
  - This feature reduces your standard cost maintenance, the costs are stored in one organization instead of multiple
  - Unfortunately, you cannot share costs with Average, LIFO or FIFO costing, or for manufacturing sites or even when you use bills of material without WIP

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Cost Control Levels and Sharing Costs

- **Item Attributes**
  - Over 150 item attributes, grouped into categories such as:

    Asset Management, Bills of Material, Costing, General Planning, Inventory, Lead Times, MPS/MRP Planning, Main, Order Management, Physical Attributes, Process Manufacturing, Purchasing, Receiving, Service, Web Option, and Work in Process
  - They can be the same across multiple inventory orgs (Master Level) or different by inventory organization (Org Level)
  - For example, the item attribute **Item Status** is usually set by organization

- **Costing Enabled and Inventory Asset Item Attributes**
  - Controls how costs are maintained for all your inventory orgs
  - Set control level to **Master** if you want to share standard costs
  - Set control level to **Org** to maintain costs in each organization

Warning: for these two Costing Attributes use **Org level** control settings, only set to Master if sharing costs. Inventory valuation reports look at the Master Org controls if set to **Master**.

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Cost Control Levels

Menu path: Inventory => Setup => Items => Attribute Controls

Item Attribute Controls

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

Status Attributes

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

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Appendix

- Item cost controls

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Item Cost Controls by Cost Type

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

Item Costs Details (M1)

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

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

Cost Information

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

Views | Costs

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Item Cost Controls – By Cost Type

- Costing Enabled
  - Checked (yes) means the item is available for item costing
  - Unchecked (no) means the item may not hold a cost at all
- Inventory Asset
  - Checked (yes) means the item is costed
  - Unchecked (no) means the item does not hold costs (but you can change this via the Cost Update)
- Based on Rollup
  - Determines if the cost comes from the cost rollup
  - Used for items sourced from another org or
  - Used for items whose costs come from a bill or routing

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Item Cost Controls – By Cost Type

- Use Default Cost Controls
  - Determines if cost controls are defaulted for rolled up items
    - When set to Yes, the Cost Rollup replaces any previously rolled up costs and uses information from the default cost type
    - When set to No, the Cost Rollup still replaces any previously rolled up costs, but it only uses information from the rolled up cost type
  - If Use Rollup Defaults is Yes the form also prevents you from changing your item controls or costs (because it is defaulted)

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Item Cost Controls

- Use Default Cost Controls to:
  - Avoid rolling up obsolete or inactive items
    - Set the Use Rollup Defaults to No and change the Based on Rollup flag to No (so the Cost Rollup then ignores the item)
  - Manually enter assembly costs
    - Change the Use Rollup Defaults to No to be able to manually enter item costs for your rolled up items

- Lot Size Controls
  - Costing has a lot size separate from planning
  - Used to calculate item costs with a basis type of lot (amount / lot size)
  - With Standard Costing you change the Frozen lot size by using the Standard Cost Update

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MFG Shrinkage Rate

- Used for Assembly Cost Rollups
  - Used to indicate the overall shrinkage or loss for the assembly
  - Not used on buy items
  - If you have no shrinkage the value is 0 (zero)
  - The shrink factor is a derived number, representing the effect the MFG shrinkage rate has on the cost of the item. The formula is:

    1/(1-MFG shrinkage rate)

  - Shrinkage factors affect and change all of the component costs from the assembly to the bottom of the bill of material

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

Appendix

- How Oracle Stores Cost Information

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Cost Type Definition – Std Cost Example

Menu path: Cost Management - SLA => Setup => Cost Types

Cost Types (M1)

Cost Type: Pending
Description: Pending Standard Cost Type
Default Cost Type: Frozen
Inactive On: [ ]

- [x] Multi-Org
- [x] Allow Updates
- [x] Available To Engineering

Rollup Options
- [x] Component Yield
- [ ] Snapshot Bills

Alternate:

Previous Level Rollup Options
- [x] Element
- [x] Sub-Element
- [ ] Activity
- [x] Operation

- Multi-Org so all inventory organizations can share the name
- Rollup Options and Previous Level Rollup Options used by Std Costing
- "Inactive On" controls date availability various forms and lookups

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Item Costing Setup

- Seeded Cost Types (from CST_COST_TYPES)

COST TYPE	COSTING METHOD	Cost Type Id	Cost Method Id
FROZEN (Standard)	Standard	1	1
AVERAGE	Average	2	2
PENDING	Any	3	N/A
FIFO	FIFO	5	5
LIFO	LIFO	6	6
CTO (Configure to Order)	Any	7	N/A
DPP (Price Protection)	DPP	8	N/A

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Cost Elements

- Five, count'em five …
  - Material
  - Material Overhead
  - Resources
  - Outside Processing
  - Overheads (Production Overheads)
- Account by cost element
  (R12 distributions always by cost element …)
- Valuation accounts by cost element
- Valuation reporting by cost element

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Cost Sub-Elements

- For Standard Costing, unlimited sub-elements
  - Material (metal, plastic, etc.)
  - Material overhead (in-bound freight, etc.)
  - Resources (labor, machine groups, etc.)
  - Outside Processing (subcontract vendor, service1, service2, etc.)
  - Production Overheads (Factory Burdens, etc.)

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Sub-Elements for Standard Costing

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

- Standard costing holds costs by element and sub-element

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Cost Sub-Elements (continued)

- For Average Costing, different use of sub-elements
  - Material – material sub-elements are not used, not included in the item cost details
  - Material overhead - details only in the AvgRates cost type
  - Resources, Outside Processing, Production Overheads defined by sub-element but not included in the item cost details

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Sub-Element Differences for Average Costing

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

- Average costing only holds costs by cost element

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Poll Question

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

Appendix

- Default Cost Accounts

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Default Cost Accounts

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

Organization Parameters (M1)

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

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

Valuation Accounts

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

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

Otherwise with Standard Costing only used as Subinventory definition defaults

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Default Cost Accounts

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

Organization Parameters (M1)

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

Receiving Accounts

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

Profit and Loss Accounts

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

Other Accounts

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

Only used by Standard Costing

Only used by Average Costing

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Use of Default Cost Accounts

- Standard and Average both use:
  - Expense and Inventory Accrual Accounts
  - Receiving Valuation Accounts
  - Invoice Price Variance, Inventory A/P Accrual Accounts
  - Sales and Cost of Sales Accounts
  - WIP Accounting Classes
  - Inventory Account Aliases

- Standard Costing uses:
  - Purchase Price Variance
  - Inter-org Purchase Price Variance Accounts
  - Subinventory valuation and expense accounts

- Average Costing uses:
  - Cost Variance
  - Organization level valuation accounts
    (defaulted from the Cost Group Assignment & Accounts)

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

Appendix

- Standard vs. Average Cost Updates

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Updating Standard Costs

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

- The Standard Cost Update program creates material transactions which are picked up by the Inv. Cost Processor

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Updating Average (FIFO/LIFO) Costs

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

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

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