Outline of Lower cost processing

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1. Outline of Lower cost method

- **Accounting Standards Board issued "Accounting rule about valuation of inventory".**
- **There have been changes made in the accounting system and Lower cost method is applied on a mandatory basis to valuate inventory assets from March 2009.**
- **Lower cost method is the appraisal standard which compares acquisition cost of the asset with its current value and adopts the lower price as its appraisal value.**
- **It is also called Lower Cost Basis.**

- **Significantly, there are 1) Allowance method and 2) Direct reduction method in Lower cost method processing.**

1) Allowance method: Method which brings back the lowered value in following period.

2) Direct reduction method: Method which adopts lowered value in this period as its appraisal value for the following period.

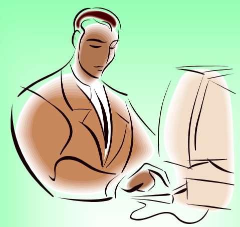
2. Outline of its process

Standard price revision process
- Division plan (Cost by activity)
- Planned price calculation
- Standard price establishment

Monthly process
- Division actual (FI document)
- Subsequent allocation
- Order settlement
- Actual costing
  (Material ledger settlement)

Determine the price by comparing monthly cost with the price based on adjudication.

Devaluation price adjudication process



Reference information for adjudication
[SAP]
- End of period value amount list
- Actual purchase order list
- Billing information, etc

[Non SAP]
- Market price, etc

Create the price which decided by devaluation process.

Change Material master (MM02)

Standard cost comparison-free value (MRN3)

Update to "valuation alternative"

Inventory Write-Down Journal Entry (YRCO0046)

Current period
FI doc.
Cost / Inventory account

Next Period
FI doc. (Reverse)
Inventory account / Cost

MM document
Cost / Inventory account

FI: common in allowance & direct reduction method.
MM: only when direct reduction method.

3. Journal entry to be made

Journal entry for allowance & direct reduction method in common (FI doc.)		
Current period		
Cost of sales of products	/	**Finished product-other**
Cost of sales of products	/	**Semi-finished product-other**
Cost of sales of raw material	/	**Raw material - other**
Next period		
Finished product-other	/	**Cost of sales of products**
Semi-finished product-other	/	**Cost of sales of products**
Raw material - other	/	**Cost of sales of raw material**

Journal entry for direct reduction method & balance transfer (MM doc.)		
Next period		
Cost of sales of products	/	**Finished Product**
Cost of sales of products	/	**Semi-finished product**
Cost of sales of raw material	/	**Raw material**

FI document is made since MM document is made to decrease inventory valuation price. Inventory account is posted temporarily to Cost difference account, however it is transferred to Inventory account by monthly process.

*** "-other" account is used because there is restriction in posting inventory account with FI document.**

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