**FOC orders for promotions, Email conversations with Chris and Jingsha from 03-30-2015 to 03-31-2015.**

**Chris**

I’ve had a few conversations with Dan and Jing on this topic, but don’t seem to be winding up where Jack would like us.  Basically, we are revisiting how we should be handling promotional give away of product (gifts, charity etc).  Currently they are two options being deployed.  They use free of charge orders, but this has an issue because we still need to calculate royalties on the product.  The US team uses cost based sales orders, but this hits COGS at PGI and then requires financial postings to reverse out of COGS and adjust to hit an expense account for charity etc.

Can you tell me who I should work with to understand SAP standard functionality on managing this without the manual adjustments after invoice?

**Surya**

I learnt from Dan reg: a requirement for sales promotions. While we continue checking on the current process/set up, please assign a ReCAP to Raghav to continue researching.

Could you please clarify the below –

1. Would we continue using standalone ZFD orders which are ZERO value Invoice documents or would it be a combination of paid and free items?
2. ZROY is not used in all pricing procedures e.g. ZNECGR. Do we propose to include ZROY condition in this to post to accounting?
3. Would we continue using both valuated (stock) and non valuated (MTO) items? Currently, the issue appears to be with valuated items as non valuated items don’t hit COGS?

**Chris**

Let me clarify what we are looking for.  I am not going to say what will be used in the final solution, because that is the recommendation I’m hoping to get from you.  Basically how do other companies manage this and what is SAP best practice.  Jack mentioned what we are doing does not align with basic accounting, so I think we came up with a solution and tried to make it work/fit.

We currently give products away for a promotion.  It may be for a famous person, a charity or a number of other reasons.  This is being managed today using both FOC orders and cost-based orders.  Neither of these is optimal – FOC has an impact as royalties are not calculated properly today.  Both options hit COGS at PGI and need to be reversed.  I think we can safely say this is for valuated items that hit COGS being our main issue (for point 3 below).

In simplest terms, when the product is given away, they want inventory reduced and the value to hit a promotion expense account.

|  |  |  |  |
| --- | --- | --- | --- |
| Description | Debit | Credit | Note |
| Promotion Expense | xxx |   | (Direct post to Promotion vs. inventory) |
| Inventory |   | xxx |

**Surya**

As for the standard process...we're in line following the standard accounting practice/process for valuated items in sales promotions.

Standard process for valuated/stock items hits COGS and accounting documents are posted with revenue and discounts to assigned GL with profit center and the same hits COPA.

In our case we are having three types of requirements KSV-KE-ZKE being used in FOC; KSV-ZKE is configured to be valuated and KE non-valuated. So while KSV-ZKE is hitting COGS and thereby accounting KE doesn't. KSV is stock item and KE-ZKE are MTO items.

There's an option where we could configure a new movement type for FOC orders that will hit inventory and not COGS and therefore not requiring adjusting accounting.

We'd need to do some testing to check the impact.

**Chris**

I'm confused by your response. This is not specific to MTO products. We have basic standard headwear like a NYY 5950 that we want to give away.

The issue we are trying to solve is how at the time of PGI (non-MTO) and at settlement (MTO) instead of debiting COGS, we want to credit inventory and debit a promotion G/L.

We cannot do this by using a different valuation class on the material master, because this same product will be sold to customers as well.

**Jingsha**

In the meeting you had mentioned that the GL account determination during PGI (or during settlement for non-valuated MTO orders) can be driven by movement types and valuation class from material master data. And you have proposed to use a different movement type based on sales order type, in order to control the GL account determination.

Could you please provide us the list of factors that can be used to control the GL account determination during PGI (or settlement for MTO)? You had mentioned Sales Order type, item categories, etc. Please provide us this information before you leave for the day tomorrow.

**Raghav**

The major factors to hit the GL account determination at PGI are Movement type valuation class Account modifier Order type Item Category and Schedule line category.

As per our requirement to hit the Promotional Expense at PGI, we have to create a new movement type to assign schedule lines specific to ZFD orders with related SD settings and also we require a new account modifier with related assignments as per movement type.

So with all above changes we can assign the required GL account to hit at PGI. This Accounting entry will post to all FOC orders where ever the FI entry is applicable at PGI.

Can you please provide us few FOC Sales order examples with all possible business scenarios for reference.