Harmonizing Profitability Analysis Models in SAP S/4HANA

PRESENTED BY:

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Introduction

- Anand Seetharaju is a certified SAP S/4HANA financial and management accounting consultant holds active CPA and CMA licenses.

- Author of SAP press books, including:
    - General Ledger Accounting with SAP S/4HANA
    - Implementing Central Finance with SAP S/4HANA
    - SAP Fiori Apps for SAP S/4HANA
    - Document Splitting with SAP S/4HANA
    - Profit Center Accounting with SAP S/4HANA

- Presenter: Several finance topics at SAP conferences.

- Hobbies: Outdoor adventure – Hiking / Trail running

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Topics:

1. Profitability Analysis Overview
2. Profit Center Accounting vs. Margin Analysis
3. Costing-based vs. Margin Analysis
4. Migration Considerations
5. COPA Extensibility challenges
6. Key Takeaways
7. References
8. Questions and Answers

Topic #1 Profitablity Analysis overview

Introduction and overview of SAP S/4HANA Margin Analysis

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Profitability Analysis overview

Methods of profitability statements

Cost-of-Sales / Functional-area approach

- Aligns expenses with earned revenues in real time. Classifies operational costs by business function (e.g., Sales, R&D, Administration) rather than expense type.
- Provides immediate granular profitability down to specific market segments, products, or customer groups.
- Automated Derivation: Functional Areas are automatically derived from master data (Cost Center, Material, WBS)

Period accounting / period-end allocations Approch

- Measures total operational activity by matching all revenues earned in a period against all expenses incurred during that same period, adjusted for stock changes.
- Captures non-transactional operational expenses (idle capacity, corporate overhead, fixed admin) that cannot be assigned to individual sales.
- Reconciles standard costs against actual production costs at period-end, settling variances (price, quantity) to Margin Analysis.
- Fulfills local GAAP requirements in regions where Period Accounting is legally mandated for corporate financial reporting.

Best-practice design leverages Cost-of-Sales for daily operational margin decisions and Period Accounting for final monthly P&L close

Topic #2 Profit Center Accounting vs. Margin Analysis

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Profit Center Accounting vs. Margin Analysis

Both Profit Center Accounting and Margin Analysis are views of the Universal Journal (ACDOCA), but their design intent differs—organizational vs. market-segment profitability.

Profit Center Accounting (*who is accountable*?)

- Controlling – responsibility areas
- Tied to master data assignment (material, cost center, order, WBS, etc.)
- Derivation is static and object-driven.
- Profit center operates independently in the market and is responsible for its own cost and revenues
- To meet legal segment accounting and Internal requirements (e.g. ROA)
- Cost relevant/profit relevant business trans. updated in the hierarchy structure of the company
- Reporting by single dimension
- Cost of capital, return of investment, profit/sales ration, and economic profit

Margin Analysis (*where profitability arises*?)

- Tied to characteristics derived at posting time.
- Derivation is rule-based, transaction driven (dynamic) - based on the business transaction (SD, MM, PP, FI)
- Analyze profitability of market segment/Contribution margin by characteristics such as product customer etc.,
- The results of COPA can be analyzed with a multi-dimensional reporting tool
- Dynamic sorting and rearranging of data to provide multiple perspectives with a single report
- Margin analysis master data/account assignment
  - Profitability Segments
  - Characteristics
  - Characteristics values
  - Accounts

Design considerations – Profit Center Accounting/Margin Analysis

Design Attribute	Profit Center Accounting	Margin Analysis
Intent	Who is accountable (organization View); Responsibility P&L	Where profit arises (Market View); Full contribution margin P&L
Data Model	Single dimension	Multidimensional characteristics (PA Segment)
Flexibility	Low	High
Derivation	Master-data / object driven	Rule-based, transaction driven
Reporting	PCA is reconciled but does not support contribution margin logic.	Margin Analysis is always reconciled with FI because it uses G/L accounts. | Fiori apps/CDS views for custom reports.
Best use	Organizational P&L, legal segmenting; PCA tracks primary responsibility costs	Market segmentation, product/customer profitability; COGS splits, event-based variances, and market-level contribution margins

Attributed Profitability Segment for Margin Analysis, which automatically derives market characteristics even on balance sheet or overhead postings without waiting for settlement

Topic #3 Costing based COPA vs Margin Analysis

Profitability Analysis options

Solution	SAP ERP	SAP S/4HANA onPrem	SAP S/4HANA Private Cloud	SAP S/4HANA Cloud
Margin Analysis	🔴	🟢 ★	🟢 ★	🟢 Mandatory
Costing-Based COPA	🟢	🟡	🟡	🔴
Account-based CO-PA	🟢	🔴	🔴	🔴
Combined CO-PA	🟢	🟡	🟡	🔴

🔴 Not available 🟢 Available 🟡 Available

★ SAP Note: 2609491 - Profitability analysis in S/4HANA

Costing Based COPA vs. Margin Analysis

Costing-based COPA

- Groups costs and revenue by value fields
- Stores data on its own tables CE*
- Derivation often happens via CO-PA transfer rules and costing logic (PA transfer structures and SD/MM integration)
- Reconciliation to FI can be complex and often requires reconciliation reports and periodic checks.
- Excels at contribution margin reporting and detailed cost allocations; often used with classic CO-PA reporting tools.
- Stores in operating concern currency and option to store company code currency

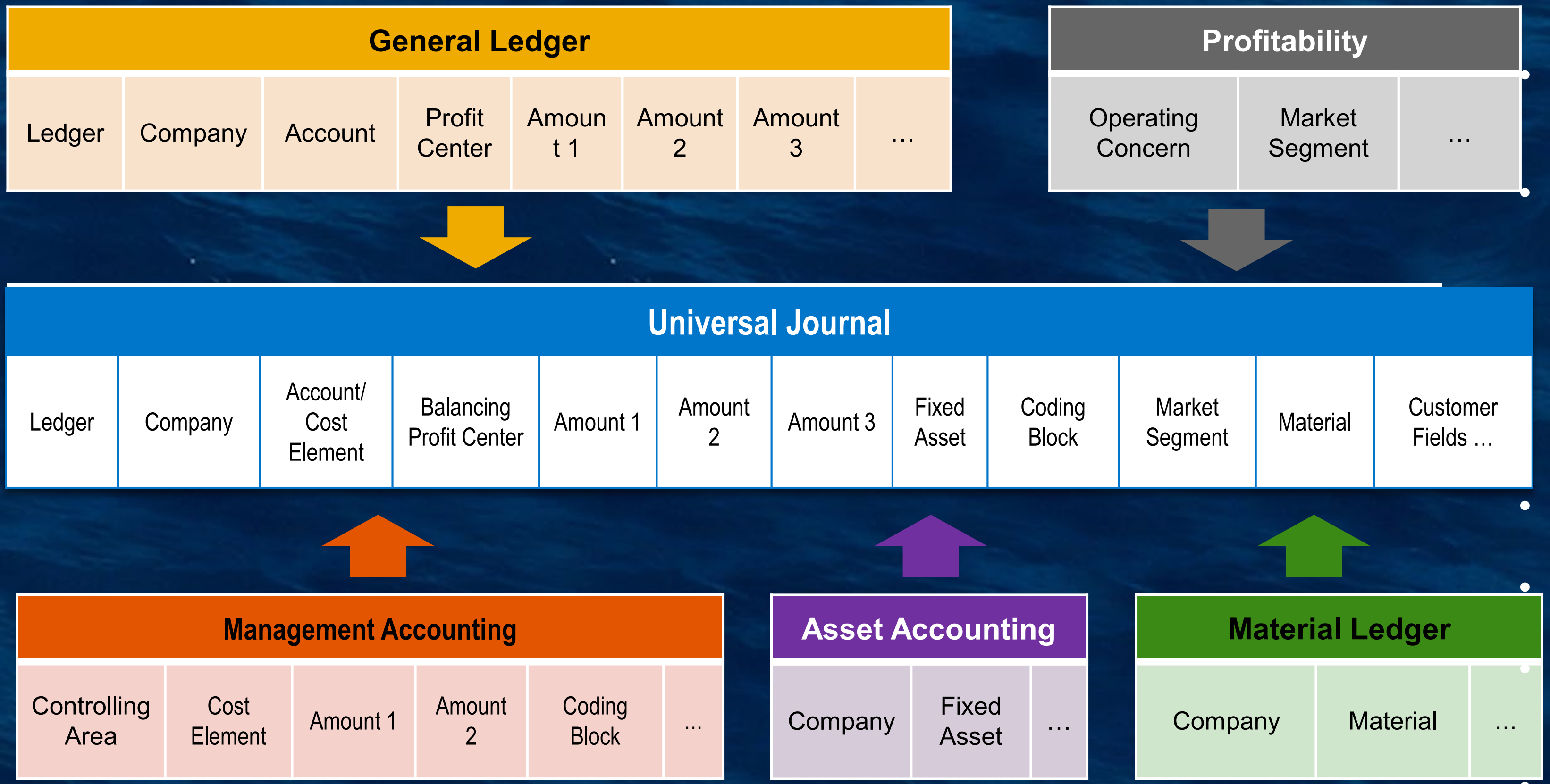
Margin Analysis

- Groups costs and revenue by G/L account
- Stores data in universal journal
- Native reconciliation (same ACDOCA record) — high auditability/simplifies audit trails.
- Analyze profitability of market segment/Contribution margin by characteristics such as product customer etc.
- Excels at multidimensional market analysis (customer, product, channel) and integrates well with SAC and embedded analytics.
- Stored in transaction currency, local currency and controlling are currency
- Reporting based on Fiori apps based on CDS views

Profitability analysis (COPA) Value Field (COPA Cost.-Based) Cost Element (Margin Analysis)	
Revenue	1,000,000
Sales deductions	100,000
Net revenues	**900,000**
Var. material costs	400,000
Var. production costs	190,000
Quantity variances	3,000
Price variances	7,000
Contribution margin 1	**300,000**
Material overhead costs	50,000
Total production overheads	50,000
Contribution margin 2	**200,000**
Research & develop.	10,000
Marketing	50,000
Sales and administration	40,000
Contribution margin 3	**100,000**

SAP recommends Margin Analysis for new S/4 implementations; migration planning required.

Margin Analysis in Universal Journal (ACDOCA)



- ACDOCA field catalog
- Parallel currencies and valuation areas from financial accounting
- Account-Based CO-PA lays the foundation (unlimited G/Ls vs. Max. 200 value fields)
- Re-usage of well-proven functionalities from both CO-PA approaches
  - Operating concern
  - Definition of characteristics
  - posting logic on the profitability segment
  - powerful derivation tool
- Margin analysis without operating concern (attribution)
- Manual posting to PA (using prediction ledger)
- Profitability Characteristics on certain B/S items (Attributed /Event based revenue)
- Fiori apps/CDS views and other modern tools

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Topic #4 Migration considerations

Migration & coexistence considerations

★ S/4HANA allows coexistence during transition, but careful evaluation is required for readiness

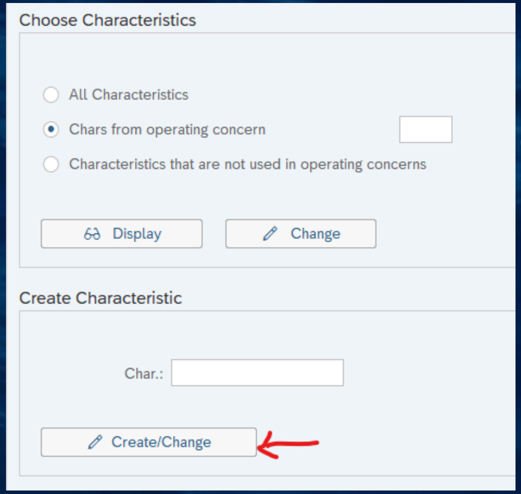
Attribute	Migration consideration	Recommendation
Characteristics	Inventory existing costing-based value fields and allocations.	Define characteristics by business decisions; catalog and assign owners.
Value Fields	Map value fields to G/L accounts and identify required characteristics.	Derive characteristics in real time for Margin Analysis; document rules and fallbacks.
Derivation	Design PA transfer structures and derivation rules.	Map legacy value fields to G/L + characteristics; pilot and validate.
Extensibility	Use transaction KEA5 or the Custom Fields (CFD) Fiori app / SCFD_EUI	Use Custom Fields (CFD) + SCFD_EUI for new characteristics; avoid migrating KEA5 characteristics into CFD
Specific functionality/Features	COGS details, Variance, Statistical conditions, allocations, natively integrated	New functionality offered; COGS split, variance split, attributed profitability analysis, universal allocations
Reporting	Reconciling important reports	Consider standard Fiori apps/CDS views SAC reports

Topic #5 COPA Extensibility

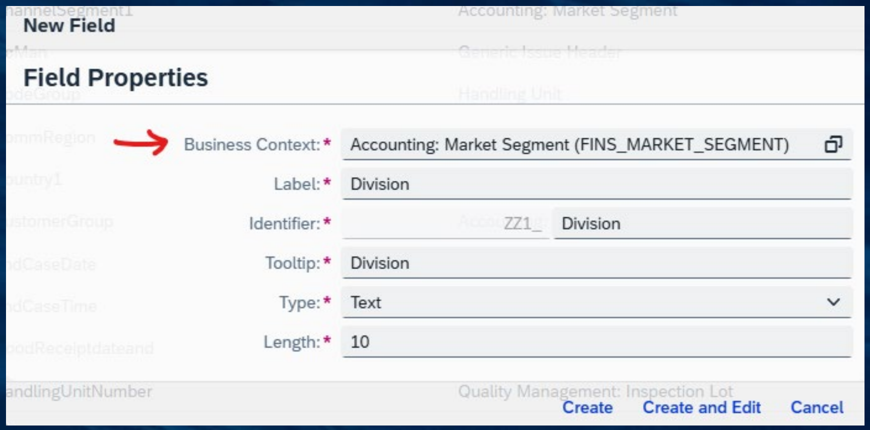
Extensibility – user defined COPA characteristics

Approaches in SAP S/4HANA

Option 1: Classic CO-PA custom Characteristics (Transaction KEA5); Run report FCO_ADD_COPA_FIELD_TO_ACDOCA in the background, then reactivate and regenerate in KEA0



Option 2: Extensibility options via FI-GL via Classic coding block transaction OXK3 transaction and CI_COBL structure and Custom Fields Fiori app (using the business contexts: Accounting: coding block (FINS_CODING_BLOCK), Accounting: Journal Entry Item (FINS_JOURNAL_ENTRY_ITEM), and Accounting: Market Segment (FINS_MARKET_SEGMENT)).



Use **Custom Fields (CFD)** + **SCFD_EUI** for **new characteristics**; avoid migrating KEA5 characteristics into CFD

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Extensibility – user defined COPA characteristics continued..

Dimension	KEA5 – Classic CO-PA Characteristics	Custom Fields App – "Market Segment" Context
Availability	• On-Premise and Private Cloud in SAP S/4HANA only • NOT in Cloud Public Edition	• On-Premise and Private Cloud (2020+ onwards); • Cloud Public Edition (from launch)
Field limit	60 custom fields per operating concern	• 60 in On-Premise/Private Cloud • 200 (Cloud Public Edition)
Data types	CHAR / NUMC only; 18 chars max (40 for MATNR-based, Note 3365605)	• Code List/Text/Numerical Text • Same 18-char limit
Transaction/Fiori app	Transaction KEA5 (Maintain Characteristics)	Custom Fields app (app IDF1481); or append to INCL_EEW_MARKET_SEGMENT_PS + SCFD_EUI for standard-table fields (old way)
Derivation	KEDR derivation tool	KEDR (On-Premise/Private Cloud) / Manage Substitution & Validation Rules app (Cloud)
CDS analytics / Fiori	• NOT automatic — requires manual ABAP CDS view extension (EXTEND VIEW in Eclipse) • Refer to SAP 3005736	Automatic — available in all relevant CDS-based cubes, queries and Fiori apps
Best suited for	Compounded characteristics (e.g. region), product hierarchy PAPH[x] fields, predefined partner roles, conversion-exit-based fields especially they were created prior to S4 migration	Everything else — the default, SAP-recommended choice for extensibility in SAP S/4HANA

Five Takeaways

1. • Maintain legacy costing-based CO-PA and new Margin Analysis in parallel during transition; define clear cutover criteria and phased scope (e.g., top customers/products first).
2. • Create a detailed mapping matrix (legacy value field → target G/L → PA characteristic → derivation rule) and validate with sample transactions (e.g Revenue, discounts, freight)
3. • Build a PA characteristic catalog, owners, and change control before migration; enforce controlled value lists to avoid cardinality explosion.
4. • Automate end-to-end tests: source document → ACDOCA → CO-PA segment (run reconciliation reports)
5. • Extensibility considerations (CDS development/Fiori app functionality)/Create CDS views for custom reports.

Resources

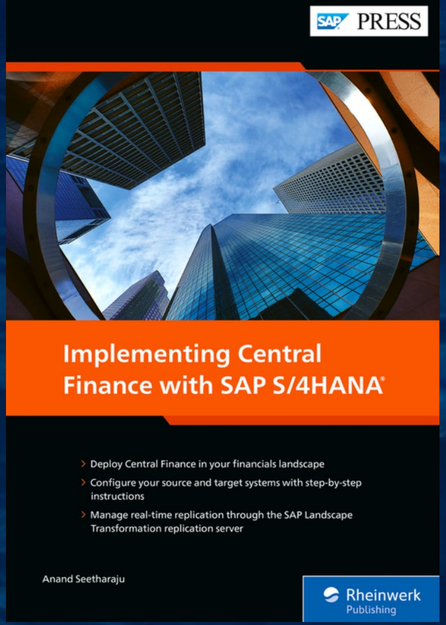
Blog:
https://erpcorp.com/sap-controlling-blog/extensibility-options-in-sap-margin-analysis

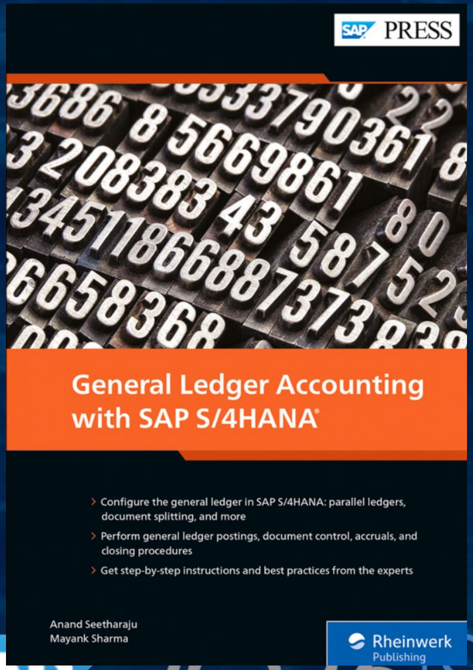
Books

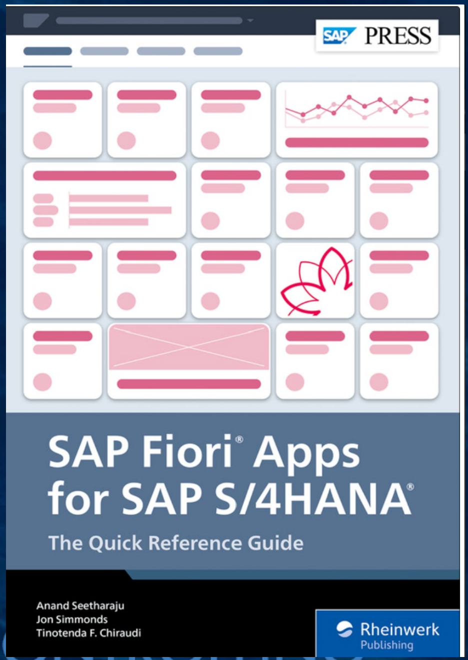
- *Migrating from Costing-Based to Account-Based COPA in SAP S/4HANA*
  Isbn: 978-1-4932-1949-0
- *Implementing Central Finance with SAP S/4HANA*
  ISBN 978-1-4932-2608-5
- *General Ledger Accounting with SAP S/4HANA*
  ISBN 978-1-4932-2365-7
- *SAP Fiori Apps for SAP S/4HANA (Available for pre-order)*
  ISBN 978-1-4932-2724-2

Important OSS Notes:

- 3095004 : How to add user-defined characteristics in Margin Analysis Fiori Apps
- 3005736 - User-defined fields/characteristics in business context "Accounting: Market Segment" in SAP S/4HANA
- 2453614 - FAQ Universal Journal Extensibility







Questions & Answers

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