Cost Center Accounting

The Cost Center Accounting (CO-OM-CCA) component determines where costs appear in the organization. You thereby assign costs to their organizational subareas. By recording and allocating costs, you not only make cost controlling possible, you also lay important groundwork for other Controlling components, such as Cost Object Controlling (CO-PC-OBJ).

Cost Centers

Cost centers are organizational subareas that you can treat as independent account assignment objects in cost accounting. You should structure cost centers so that they represent areas of responsibility, meaning that a given person manages the costs arising within that subarea.

In the R/3 System, cost accounting takes place within a defined controlling area. You must assign each cost center to a single controlling area. In addition, in order to reconcile external and internal accounting, you must assign each cost center to a company code. For later analysis, you can also assign the cost centers to a business area and a profit center.

In addition, you store important control data for planned calculations, actual calculations, and the Information System in the cost center. The R/3 System uses this information to control planning and posting on cost centers, for example, or whether the cost center allows commitments and posting of statistical revenues.

You can define time-based dependencies for cost centers. For example, you can allow a cost center to change company codes from one fiscal year to the next. The R/3 System logs all changes to master data.

The R/3 System supports the implementation of the Cost Center Accounting component in stages. You can make rough entries of cost centers, storing their basic attributes before activating the Cost Center Accounting component. If the Financial Accounting component is already active, you can make auxiliary account assignments to cost centers and the R/3 System simply checks whether the cost centers exist as rough entries. Later, when you activate the Cost Center Accounting component, you can transfer earlier postings to the cost centers.

You can combine cost centers in cost center groups, which you can then combine into cost center hierarchies that reflect the decision-making, responsibility, and control areas in the organization. Individual cost centers are at the lowest level of the hierarchy. The R/3 System requires at least one cost center hierarchy holding all cost centers in the organization; the standard hierarchy.

In addition, you can define as many alternative cost center groups as required, based on any necessary functional or organizational requirements. Cost center groups ease evaluations based on given responsibility areas in addition to transactions in planning and internal cost allocation.
Figure 5-1 shows a section of a cost center hierarchy organized by responsibility area. The standard hierarchy is Group S0100, Acme Inc.

**Statistical Key Figures**

You can plan and post statistical key figures to cost centers to serve as the basis for internal cost allocation and key figure analysis.

Just as you can define cost element and cost center groups, you can define statistical key figure groups.

Also, you can transfer statistical key figures from the Logistics Information System (LIS) to the Cost Center Accounting component.

**Entering and Allocating Actual Costs**

Real-time processing in the R/3 System allows you to verify costs incurred in cost centers during the ongoing business period (usually monthly) and provides the necessary data at any time to other R/3 System components (such as Product Cost Controlling and Profitability Analysis).
Actual Data from Other R/3 Components

As described in Chapter 4, *Cost and Revenue Element Accounting*, you enter an additional account assignment for primary cost elements. To some extent, you can define automatic account assignments. For example, if you assign a fixed asset to a cost center, the R/3 System creates an automatic account assignment to the cost center for the relevant postings in the Asset Accounting component. This minimizes data entry effort.

All important transactions in the Controlling component appear in separate Controlling documents (or CO documents). You can access the original document (for example, one from Financial Accounting) if a causal relationship exists between the documents.

In the integrated R/3 System, you can transfer data to Cost Center Accounting from the following application components (see also Figure 5-2):

- **Financial Accounting (FI)**
  Costs from external invoices and general ledger account postings (such as a recurring posting as part of accrual in FI)

- **Asset Accounting (FI-AA)**
  Costing-based depreciation and interest based on book value, replacement cost, and other features of the fixed assets of individual cost centers

- **Materials Management (MM)**
  Material consumption

- **Production Planning (PP)**
  Confirmations of production orders (see Chapter 6, *Internal Activity Accounting*)

- **Personnel Administration and Payroll (PA)**
  Wage, salary, and employee benefit costs

![Fig. 5-2: Integrated Transaction Data](image-url)
Actual Data from External Systems

If, when you implement the Cost Center Accounting, only a limited number of other R/3 System components are active, you can arrange to transfer data from external systems via standard interfaces. The R/3 System also supports manual posting with a wide range of default settings and copying functions.

In each case, the R/3 System creates a CO document to which you can add source information in the form of external system document numbers and explanatory texts. You can then allocate actual costs based on their sources, divided into allocations taking place within a period and allocations taking place at the end of a period.

Allocations Within the Ongoing Period

Direct internal activity allocation based on transactions takes place during the ongoing period; for more information, see Chapter 6, Internal Activity Accounting. Repostings from one account assignment object to another (such as cost centers or orders) can also take place within a period, but these actions are not allocations as such. Rather, they act as corrective measures for errors arising during the additional account assignment postings from external accounting.

Period-Based Allocations

At the end of a given period, when costing is completed, you can use a variety of cost allocation methods for closing the period. This chapter describes periodic reposting, distribution, and assessment; for a description of indirect activity allocation, see Chapter 6.

Periodic Reposting

You use periodic reposting as a posting aid to minimize the effort required in the Financial Accounting component during document entry. The initial posting assigns the total amount to an allocation cost center. Cost assignments to cost centers based on cost origins then take place in Controlling. For example, telephone expenses posted in Financial Accounting are then allocated to the responsible cost centers during reposting. Information as to which cost center is the sender is not of particular importance in this case. Therefore, the R/3 System stores minimal data records resulting from periodic reposting. You can analyze sender information only via the individual line items.

Distribution

Distribution, in contrast, is a true cost allocation method; the R/3 System stores the data resulting from distribution in order to allow quick, simple access to data sources via the information system.

In periodic reposting and distribution, costs move from cost center to cost center using the original cost element definition.

Assessment

However, you can define cost allocation by assessment if the composition of costs is not important for the receiver – for example, receiver cost centers rarely require detailed breakdowns of cafeteria costs.

Assessment is most useful in allowing you to completely balance a given group of cost elements in a cost center, but balancing is not required by the R/3 System.
From a technical standpoint, assessment works on nearly the same principles as distribution\(^1\). The critical difference is that the R/3 System uses a specially defined assessment cost element to credit the “sender” cost center and debit the receiver. You can also use the assessment cost element in the information system to analyze the assessment results based on sender and receiver relationships.

All cost allocation methods have the following similarities:

- Each method uses a differentiated system of cost allocation rules based on fixed or variable keys for values or quantities.
- You can repeat cost allocation as many times as required.
- You can make test runs.
- You receive a processing log with all relevant cost allocation data.
- You can display the results in cost center or cost element reports using the line item report.

You use freely defined cost allocation rules to assign each cost element of a sender cost center to a corresponding receiver cost center. These can be:

- Fixed values (percentages, ratios, or amounts from transaction data)
- Interactive tracing factors (such as cost elements or cost element groups, activity types or activity type groups, statistical key figures or statistical key figure groups, and quantities consumed)
- Planned or actual data

Figure 5-3 shows allocation of rental and telephone costs with possible allocation rules.

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\(^1\) Since assessment is most often used for completely crediting a cost center, you can plan activity-dependent costs in planned assessment, in contrast to planned distribution.
Iterative Allocation Techniques

The iterative nature of the R/3 System allows for interactive dependencies between cost senders and receivers.

Overhead Rates

You also have the option of calculating rates for applying overhead in Controlling. Individual business transactions relevant to cost accounting, such as the withdrawal of given materials for a production order, require that the overhead be divided among the withdrawing order and the inventory cost center. You can use Controlling to calculate overhead based on one or more cost elements or the material quantities withdrawn by defining an overhead percentage. To credit the cost center involved, you then use an overhead cost element.

You can use the information system to display the debited orders and the credited cost centers on the basis of the corresponding overhead cost elements.

R/3 Controlling uses allocation methods to assign the costs of organizational subareas to the true sources of those costs.