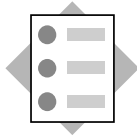


- This diagram illustrates the basic architecture of CO. The various components of CO are shown, with several black arrows indicating typical flows of costs and activity type quantities (such as hours of labor) between these components. For example, the black arrow pointing from CO-OM to CO-PC shows that costs can flow from Overhead Cost Controlling to Product Cost Controlling. As we will explore in more detail later in this course, these costs could be in the form of overhead allocations to a production order. They could also be in the form of hours of direct labor charged to that same production order, with the labor cost calculated by multiplying the number of hours by a standard hourly rate.
- Similarly, costs can flow from Overhead Cost Controlling (OM) and Product Cost Controlling (PC) to Profitability Analysis (PA), where they can be used together with revenue data to calculate operating results, and determine how well various segments of the business are performing.
- As we will also see later in more detail, other R/3 components can initiate cost or re

venue postings to CO. The blue arrows illustrate interactions between Financial Accounting (FI) and CO. For example, FI expense postings would create cost postings in the OM component of CO. Or FI could make a direct revenue posting to the PA component. Cost flows also take place between FI and the PC component, in the form of raw material costs consumed in the production process. And then there is a return flow to FI, when production costs are capitalized as finished goods or WIP (work in process).

- Other R/3 components, such as Human Resources (HR) and Logistics (Materials Management, Sales & Distribution and Production Planning) also integrate with CO, as indicated by the Logistics process flow (procurement, production, stock movements, selling and billing) at the bottom of the diagram.



**At the conclusion of this TOPIC,
you will be able to:**

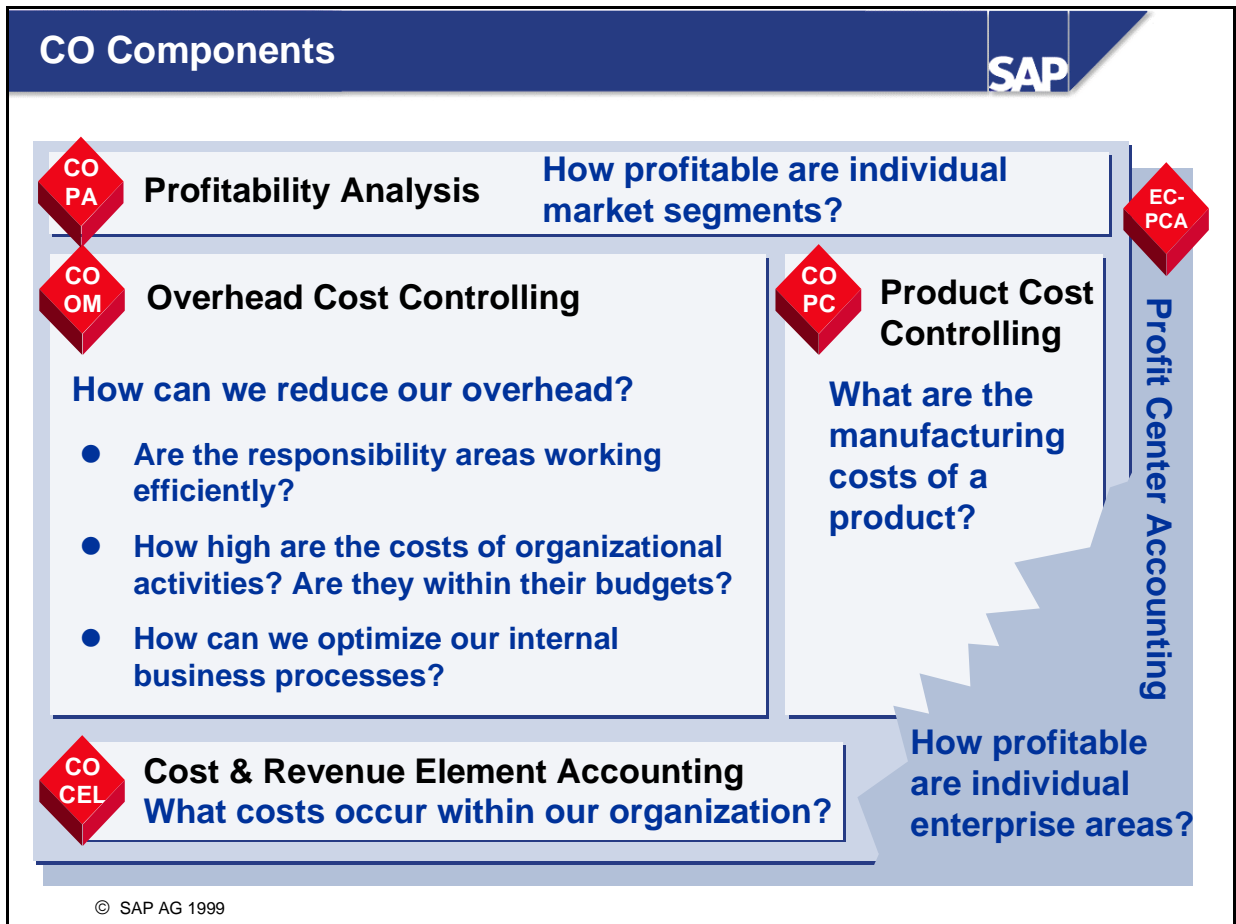
- **List the components of CO.**
- **Explain the basic purpose of each of these components.**



- **Cost and Revenue Element Accounting**
- **Overhead Cost Controlling:**
 - Cost Center Accounting
 - Internal Orders
 - Activity-Based Costing
- **Product Cost Controlling:**
 - Product Cost Planning
 - Cost Object Controlling
 - Actual Costing/ Material Ledger
- **Profitability Management**
 - Profitability Analysis
 - Profit Center Accounting

- The various CO components can be classified into different groups. The classification indicates the general purpose of a given component.
- Management of an enterprise requires the use of different tools for different situations.

If you want to analyze profit, for example, then you need a tool appropriate to the view you wish to take (e.g.: by product or by responsibility center). The Profitability Management component group has two tools (components) that are available for addressing this business need (Profitability Analysis and Profit Center Accounting).
- Similarly, the Overhead Cost Controlling and Product Cost Controlling component groups offer tools appropriate to other types of business requirements.



- **How do we reduce our overhead costs?** Overhead Cost Controlling (CO-OM) is the CO component that provides tools to help answer that question. In many organizations, overhead costs have taken a huge upward jump, including costs which the organization cannot assign directly to either products or services. While production areas often display great progress in controlling costs and optimizing processes, overhead continues to display little cost transparency, so it is difficult to get a clear picture of why these costs are incurred.
- **What costs occur within our organization?** Cost Element Accounting (CO-OM-CEL) classifies the costs and revenues that are posted to CO, and provides the capability for reconciliation of costs in CO with the Financial Accounting (FI) module.
- **What are the manufacturing costs of a product?** Product Cost Controlling (CO-PC) has two major areas of focus. It is used to develop estimates of what it will cost to produce a product (or even a service). It also has capabilities to track the actual costs of production, and provides extensive tools for cost analysis.

- **How profitable are individual market segments?** Profitability Analysis (CO-PA) provides a focus on the results of a company's doing business with the external market place. It provides the ability to define which aspects or segments of that market are relevant for analyzing operating results, such as profit by customer, product, geographic area, sales organization, etc. And it offers multi-dimensional drill-down reporting, to provide extremely flexible views of operating results.
- **How profitable are individual enterprise areas?** Profit Center Accounting (EC-PCA) provides a focus on internal areas of a company that have responsibility for achieving certain profit or productivity goals.