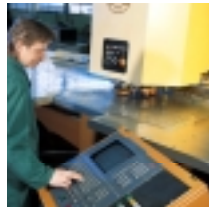


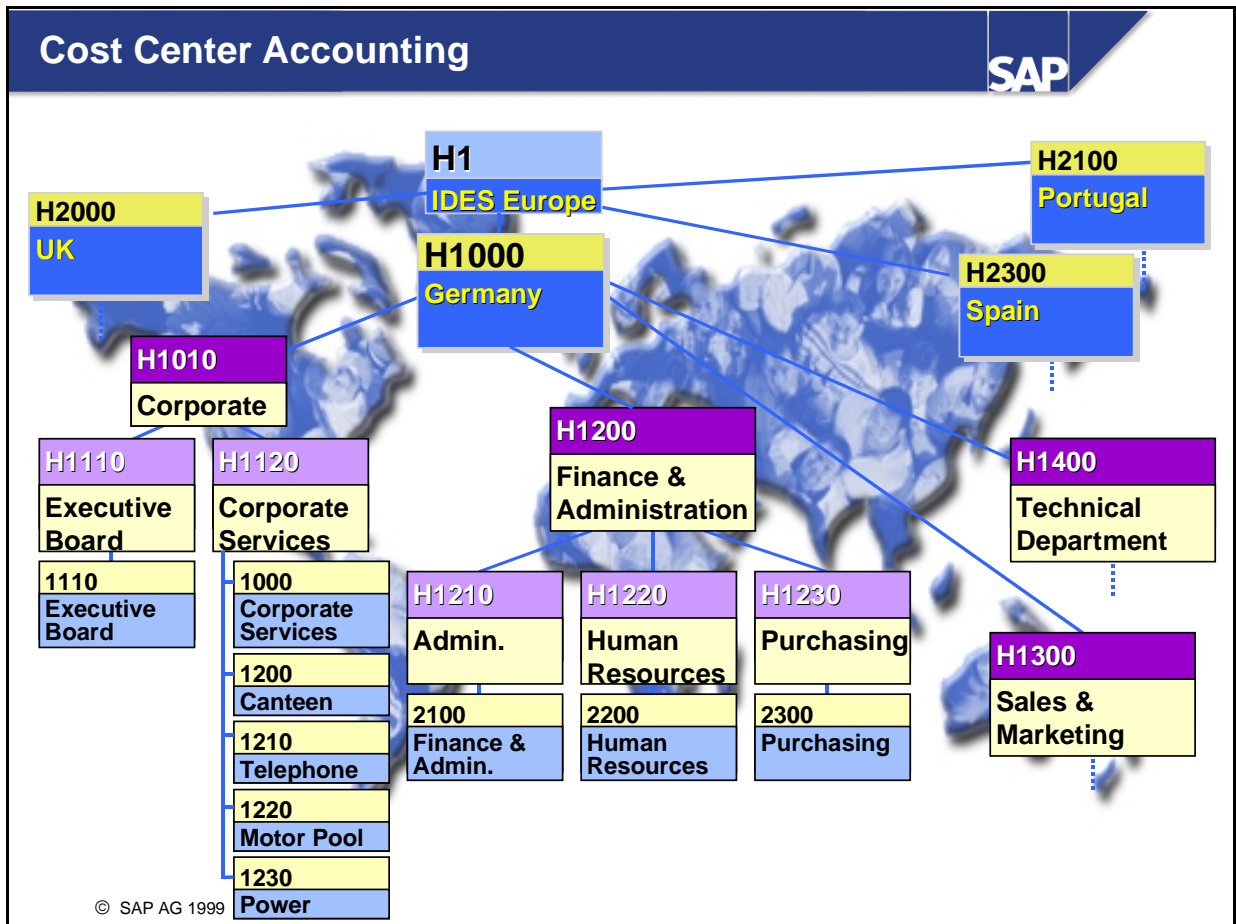
- Cost and Revenue Element Accounting (CO-OM-CEL) is part of the Overhead Cost Controlling component group. It provides the structure for assignment of CO data through the classification of transaction line items according to the nature of the cost or revenue being posted to a given controlling object (e.g. cost center, internal order, etc.).
- The cost flows in CO can lead to the need for reconciliation between internal and external accounting in certain cases. Cost and Revenue Element Accounting is the CO component providing functionality that supports this possible requirement. The Reconciliation Ledger provides reporting capabilities for identifying the differences in costs between FI and CO, as well as a tool for creating reconciliation postings to FI, if desired.



- **Overhead Cost Controlling:**

- **Cost Center Accounting**
- **Internal Orders**
- **Activity-Based Costing**

- Overhead Cost Controlling has three components. Each addresses certain aspects of analyzing and controlling overhead costs. Overhead costs are defined as costs that can not be assigned directly to cost objects (e.g. production orders, etc.).
- The percentage of overhead in total costs has risen sharply in recent years. The number of workers employed in overhead areas grew from 25-30% in the 1950's to more than 50% today. Overhead has grown in both manufacturing and service organizations. Research in the United States revealed that overhead makes up approximately 80% of the costs in the machine and electronics manufacturing industries. As overhead grows, the proportion of directly assignable production costs shrink. Consequently, it is becoming increasingly important to analyze and control overhead costs. Similarly, increasingly sophisticated tools are needed to facilitate the application of overhead to production orders and other cost objects.



- The Cost Center Accounting component (CO-OM-CCA) tracks where costs occur in your organization. The cost center is an organizational unit in a controlling area. Cost centers can be defined according to several different design approaches. A typical approach could be for an enterprise to define a cost center for each low-level organizational unit that has responsibility for managing costs. As costs are incurred, they are assigned or posted to the appropriate cost center. These costs could include payroll costs, rent and utility costs, or any other costs assignable to a given cost center.
- Each cost center is assigned to a category, e.g. Administration cost center, production cost center, etc. Each cost center master record has a field for the name of the person responsible for the cost center.
- The posting and assignment of costs to cost centers not only makes managerial accounting possible; but is a vital step for utilizing the other Controlling components. As noted above, cost centers can be set up according to different design approaches, including functional requirements, allocation criteria, activities or services provided, geogra

phic location and/or area of responsibility. But whichever approach is selected, it should be consistent throughout the enterprise.

- Cost centers can be grouped together to provide summary cost information. In fact, a fundamental requirement for implementing Cost Center Accounting is the creation of a standard hierarchy for a controlling area. The standard hierarchy includes all cost centers in that controlling area, and provides the ability to analyze summary costs at each node of the structure. This will be described in greater detail in the next Unit.

