

## COST CENTRES - Explanation, configuration and implementation

For many types of businesses, over & above the net profit for a year, it is necessary to know the profit of each and every activity it is involved in. If we try to achieve this kind of information by defining a chart of accounts for this purpose, the chart of accounts would become very complex and lengthy. Also such kind of information may be confidential and we may not want to divulge such information to the tax authorities.

To achieve both, we can use the concept of cost centers.

To activate the cost center for a company, select Masters → Companies and double click on the required company. Click on “Other options” tab and check “Maintain Cost Centers “

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The maintenance of the cost center data is in parallel to your accounts data and for every entry that you add in your accounting system if that entry affects any income and expenditure account, you will have to apportion such entries to different cost center you have defined.

After enabling the cost center option you need to define the cost center groups and different cost centers within such groups.

Just like in the Accounts and Items Master you have hierarchical system whereby you can define multiple cost center groups and within each of these groups, multiple cost centers.

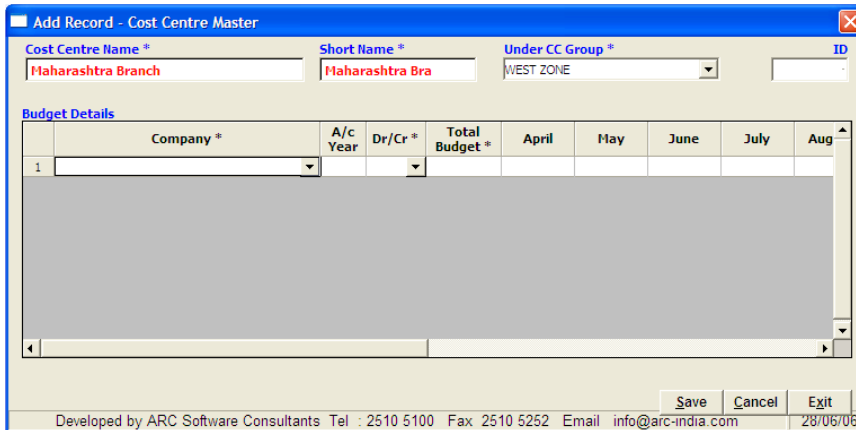
To explain the concept of cost centers we take an analogy of firm which has branches in all the states of the country and this firm would like to know branch wise profitability. In addition to this, these branches are divided into different regions.

Considering the above we will define the regions as cost center groups and the branches as cost centers.

To add a cost center group select Master → Cost Center and click “Add Cost Center Group” icon.

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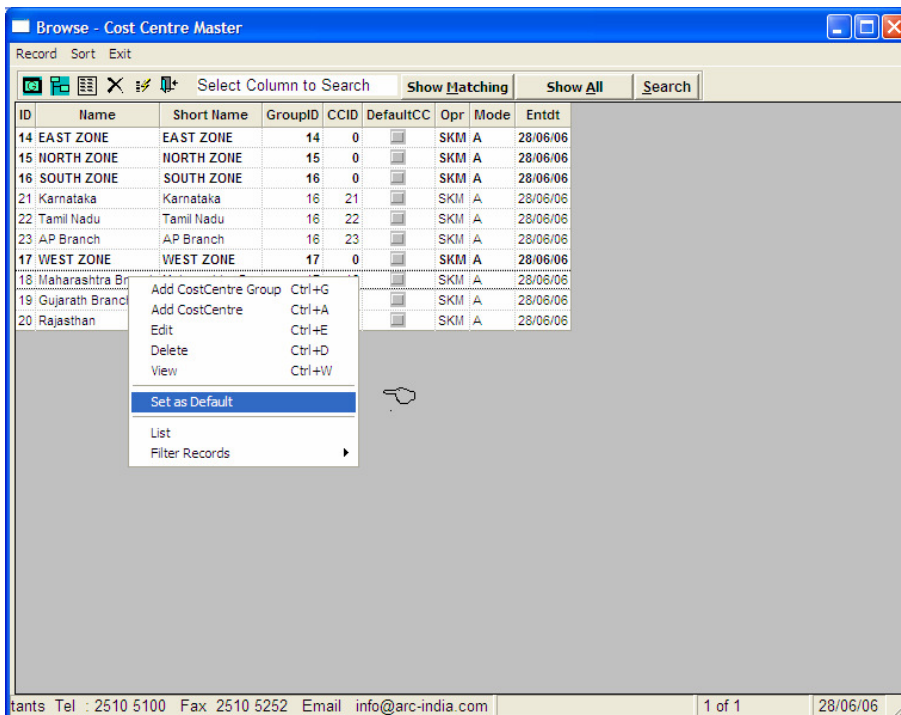
Now under each of the zones, considering that there is one branch in each state, we will define each state as Cost Center. To achieve this click on “Add Cost Center” Icon.



This way you can define different states under each of the Zones that we have added earlier.

Once this is done you can define one of the Cost Centers as default so that this Cost Center will be automatically selected while adding transactions.

To do this, right click on the Cost Center and select “Set as default”



Now you are ready to enter the transactions along with Cost Center details. There is no change in the way you enter normal transaction. Only on saving any transaction an additional window will pop up where in you will have to allocate all the amounts used for expenditure or income in that entry to one or more Cost Centers and then save the entry.

This is true for all the transactions except Stock Adjustment where in no accounts are effected.

Please Note:

1. If an entry you are making does not affect Income or Expenditure accounts then the Cost Center window will not open at all.
2. If the entry you are making effects multiple accounts, and if any of these accounts pertain to income or expenditure group then the Cost Center window will pop up and you will have to apportion such expenses to one or more Cost Centers
3. The amount that you debit or credit to income or expenditure account in the main entry has to tally with the amount you apportion to different Cost Center in the Cost Center window.

4. It is always advisable to enable the Cost Center system for a company before you start adding transaction to ensure consistency of data between your accounting system and Cost Center system..
5. If for any reason you enable the Cost Center Option after having entered transactions, be sure that you modify all your earlier entries and allocate the income or expenditure to the proper Cost Centers.

Below we show an entry through bank where in two accounts are debited. First one is the professional charges account and the second one is an advance account.

**Add Record - Bank / Petty Cash / Bash Book Transactions - AST (0607)**

Register \* 318,419.61 Dr. ID

UTI Bank

Receipt  Payment Date \* 28/06/06 Voucher No. Last Voucher No

	Account Name *	R/P *	Amount	Ref. No	Ref. Yr.	Narration
1	Professional Charges	P	25,000.00			
2	Jivan Makwana - Advance	P	2,500.00			

0.00 Net Amount -27,500.00

No. 146124 Date 28/06/06

Drawn On UTI BANK

Branch Slip No 0

Cleared On Bounce

Document Narration

Account Narration

Save Cancel Exit

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On saving the above entry, the cost centre window will open for you to allocate the professional charges amount of Rs 25,000/- to one or more cost centers as shown below.

**Cost Centre Details**

	Account	D/C	Amount	Cost Centre	Narration
1	Professional Charges	D	15,000.00	Maharashtra Branch	pd for June
2	Professional Charges	D	10,000.00	Gujarath Branch	pd for June
3					

Press Ctrl + Shift + Digit Key according to the number of rows you want to insert.  
For eg. to insert 2 rows press Ctrl + Shift + 2

Save Exit

The advance account does not appear in the above window since it is not part of income or expenditure account. You can apportion the amount on one or more than one cost centers. To insert blank rows for apportioning the amount to more than one cost center, you can press Ctrl+Shift+Number , where the number is the number of rows you require to insert.

A similar window will open up while saving Purchase, Sales and Journal Entries.

To generate Cost centre report, click on Reports -> Other Reports -> Cost Centre report.