

Cost Centres

A cost centre is any unit of an organisation to which transactions (generally, revenue) can be allocated. When only costs or expenses are allocated to these units, they are referred to as Cost Centres. When profits are also allocated to these units, they become Profit Centres. You can now obtain a Profit and Loss account of each such Profit Centre.

Transactions are allocated to cost centres. This enables accounting all transactions for that particular cost centre. You can view the cost centre break up of each transaction as well as the details of transactions for each Cost Centre.

Some examples of Cost Centres are:

- Departments of an organisation - Finance, Manufacturing, Marketing, and so on.
- Products of a company.
- Individuals such as Salesman A, Salesman B.

You can classify cost centres, just as you classify Group/Ledger accounts. You can have Primary Cost Centres and several levels of Cost Centres under each Primary Cost Centre.

Consider the following example.

Primary Cost Centres - Finance, Manufacturing, Marketing.

Under Marketing, classify the company's sales executives as Cost Centres. This will help you track a sales executive's performance, in terms of cost and revenue generated.

You will then have the following Cost Centre structure

Primary Cost Centre - Marketing

Under Marketing:

- Salesman A
- Salesman B
- Salesman C

Allocate expenditure incurred on sales by the salesmen, as well as the sales generated by them, directly to their Cost Centres. The allocation is done at the time of voucher entry. This prevents allocation errors at the end of the period.

By allocating expenses and sales transactions to the salesmen, you are setting up a valuable information system that tracks the performance of your salesmen.

See also

- [Enabling Cost Centres](#)
- [Creating a Cost Centre](#)
- [Altering a Cost Centre](#)