COST CENTRE VS PROFIT CENTRE NOTIONS

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It is possible to identify departments, in all companies, that are basically income generators; the professional services and manufacturing departments are good examples. Conversely, other departments, services, or projects seem to take advantage of cost centres, at first; we can think of the accounting or warranty service departments, for example. **Maestro*** makes it possible to follow up on all expenses made inside the same administrative cost centre. However, it also makes it possible to make the latter into a profit centre, in which various costs/expenses are rebilled to other departments, services, or projects, based on a calculation method defined by the company. This allows for the company to get a more realistic profitability for said profit centre.

SOMMAIRE

WHAT IS MEANT BY COST CENTRE AND PROJECT CENTRE

Firstly, it's important to understand the cost centre and profit centre notions.

Cost Centre

A cost centre can be defined as a responsibility centre, with no objective of making a profit. It is a grouping of charges and/or expenses established in function of a particular criteria, such as a period, a product, an order, a project, a work site, etc. Though they are essential to the business' operations and to generate income, cost centres are often considered as entities which generate financial loss for companies.

Profit Centre

A profit centre, on the other hand, is defined as an autonomous unit in a company; it has its own products/income, as well as its own charges/expenses, and makes its own profits or losses. It is a responsibility centre for which a profit or profit margin objective has been set.

COST CENTRE AND PROFIT CENTRE IN MAESTRO*

In **maestro***, the cost centre and profit centre accounting notions can be applied, among others, to projects. It does not take effect through specific configurations or an indicator, but through the possibility given to users to charge a project's expenses to another project, to make a null cost centre out of it, or to rebill the use of targeted project elements at a selling rate. In short, we isolate certain general expense costs or administrative expenses, to then redistribute them to projects, based on the proportion of use or in exchange of the corresponding income, in return of its use.

Example Applied to Small Tools

Many companies who use **maestro*** decide to create a project that groups the whole of their small and medium tools. At first glance, we could think that this small tool project is a cost centre. New tool expenses are attributed to it, as well as maintenance and repair fees, the purchase of replacement parts, etc. However, it's possible to make this small tools project a profit centre. How? By applying, for example, user fees on small tools (at a determined selling rate) for concerned projects every week, based on the number of hours worked. The small tools project will now have an income, making it possible to cover expenses incurred and making the project a profit centre.

More concretely, a company that works in landscaping, will be able to, for example, bill $2/hour fees to all of its excavation projects for the use of small tools. Indeed, it would be much too complex to bill the use of every single tool, given the large amount to use. Therefore, on the one hand, all purchase and small tool maintenance costs will be charged to the small tools project. On the other hand, all income generated by the weekly or monthly use of those tools in landscaping projects will be paid to the small tools project, making it a profit centre. A landscaping project with 30 hours of excavation work would find itself charged $60 for the use of small tools, generating an income equal to the charge sum for the small tools project.

In short, the objective of transforming a cost centre into a profit centre is to simplify follow-ups, and the profitability of general administrative expenses and expenses which may be considered extras. Furthermore, it is also possible to transfer internal income to the latter, so as to charge projects for the use of these types of services or materials.

Other Applications in maestro*

Many projects that are first cost centres, can thus become profit centres for which the profitability can be followed. That is the case, for example, of equipment, vehicles, but also of certain employees. Whereas in most construction companies, employee and schedule costs are divided over various projects to which they are assigned, in other companies, professional employees are assigned to projects in the form of an internal service agreement. In this last case, it is possible to enter billable hour transactions for projects on which they were working, and charge the salaries to their departments. On this subject, **maestro*** allows the entrance of distinct hours for billable hours. The project is charged a schedule expense, configurable in the given project, and the employee's department is credited an equivalent income. Subsequently, the employee's whole salary is counted in their home department.

To know how equipment and vehicles can be managed as profit centres, please read the documentation concerning Equipment Management.

Here are some project examples that could become profit centres, and that can be added to the small tools example:

- Company equipment
- Heavy equipment
- Internal professional services, such as engineering
- Estimation department
- Etc.

In **maestro***, the **Transfer of Funds** option allows an automatic cost charge, based on a percentage and from an activity code, or any other source (gross salary, gross salary and marginal benefits, hours, total real amount). On the one hand, **maestro*** generates an additional expense that can be charged to projects having contributed to the calculation of the source and, on the other hand, it saves an income for a specific project. The **Transfer of Funds** option is the one that would be used to charge the $2/hour fee to the excavating projects who use small tools in the previous example.

Two other **maestro*** options, **Project-to-Project Transfer** and **Advanced Project-to-Project Transfer**, make it possible to divide project costs through accounting entries done using **PAG**s.

REMINDER

- A cost centre can be defined as a reponsibility centre, with no objective of making a profit.
- A profit centre, on the other hand, is defined as a value-generating entity and a business unit that is generally an income source.
- In **maestro***, its possible to charge a project's expenses to another project, in exchange of a corresponding income, to make it a profit centre.
- Furthermore, it's possible to spread income in various sources to link sale costs, and thus establish a gross profitability per project.

FOOD FOR THOUGHT – COST CENTRE AND PROFIT CENTRE IN MAESTRO*

- ☐ How do you redistribute your project costs?
- ☐ Do you buy and maintain equipment and assets?
- ☐ Do you charge the use of equipment in your projects?
- ☐ Do you rent your equipment to third-parties?
- ☐ Do you wish to charge administrative or general expenses to projects?