The competitiveness of a company depends to a large part on whether or not it can control costs.

**Cost center accounting** is a tool that helps make the responsibility for costs clear and make all the employees more aware of the costs incurred.

For this purpose, so-called **cost centers** are established. They are areas of responsibility to which costs can be attributed, according to where the costs have been incurred. Common cost centers are, e.g.: warehouse, production, distribution, administration, training, data processing, vehicles fleet; but also individual branches and even individual employees can be a separate cost center.

The **head of a cost center** assumes responsibility for all the costs incurred by this cost center.

As for the individual **cost elements** we can distinguish between:

- costs that can be uniquely allocated to a single cost center. These are called **direct costs** or **prime costs**. Typical examples are: materials used, sales input, costs of the cost center personnel, etc.
- costs that cannot be uniquely allocated to a single cost center. They are called **overheads, overhead costs** or **indirect costs**. Typical examples are: the costs of the management, advertising, administration, etc.

**direct cost accounting / full cost accounting**

The so-called **direct cost accounting** does not attribute the **overheads** to the individual cost centers, whereas **full cost accounting** tries to attribute all the costs to the respective cost centers, according to who incurs them.

To do so, certain distribution keys are used (e.g. by sales revenues, units sold, number of employees, etc.).
expense distribution sheet (also called: cost distribution sheet)

Attributing costs to the respective cost centers is done by means of a cost distribution sheet, where those costs are listed, which the respective cost center has incurred and for which it is responsible.

The expense distribution sheet serves to check whether the amount of costs is within the set goals ("target"), or whether the respective cost center has incurred higher costs ("actual performance") than agreed upon (= target-performance comparison or performance report).

intra-plant cost allocation ("allocation")

The so-called intra-plant or intra-company cost allocation, among other things, is meant to counteract the idea that services rendered by one's own firm cost nothing and can therefore be used as often as you want.

Example: the advertising department immediately requests the help of the in-house computer department for even the smallest problems. To cut this down, the computer department charges the advertising department a certain amount for the services rendered.

However, "payment" for this exists only on paper, when, in the course of periodical cost accounting, the cost center "Advertising" is attributed the cost of the computer costs it has incurred. They show up on the expense distribution sheet (cost distribution sheet), and with that they have to be justified by the advertising department (in practical operations often called "allocation costs").