

CHAPTER 3

Analysis Centers

A. DEFINITION OF THE ANALYSIS CENTER

A division of the accounting unit of the institution where the analysis of indirect costs before being loaded on the subject of its own charge.

B. DETERMINATION OF THE ANALYSIS CENTER

Depends on the structure and organization of the institution, following the organizational structure and the distribution of responsibilities in the institution, the analysis centers are opened according to the analysis of the institution and the type of activity and its needs, and the analysis center as an accounting division can agree:

- 1 imaginary division: which often agrees a function.
- 2 real division: who often agrees an interest or an office.

C. METHOD OF ANALYSIS CENTERS

Represented in the distribution of indirect costs and eventually loaded to various costs center. These distributions are in two stages: primary distribution, secondary distribution.

- C. 1. Primary Distribution: At this stage, the costs according to their direct and indirect nature, and the additional costs are distributed to the analysis centers.

C. METHOD OF ANALYSIS CENTERS

- C.2. secondary distribution: Upon completion of the initial distribution comes the secondary distribution and to make this distribution we must distinguish between two types of centers: assisting, and main, in the secondary distribution, the full cost of the assisting centers is distributed among the main centers, however, during the process, assisting centers can benefit from each other's services, ie, an interactive distribution can be established between the assisting centers.

C. METHOD OF ANALYSIS CENTERS

- ◉ C. 3. Conversion of Analysis Centers on Costs:
There are two methods that can be used to convert analysis centers after secondary distribution by one of the cost objects (products, activities, orders), and each method is suitable for one type of analysis centers.

C. METHOD OF ANALYSIS CENTERS

- ◎ C.1. 3. Work Unit method: This method is used with centers whose activity can be measured in physical units which are called work units: such as workers' working hours, or working hours of machines, quantities of used materials, quantities produced, etc., choosing the work unit of the center assumes a strong relationship between the cost center and the selected work unit to measure its activity.

C. METHOD OF ANALYSIS CENTERS

- C. 2. 3. Expense rate method: This method is used for centers whose activity is difficult to measure in units of measurement. In the absence of physical units of measurement, the expense rate is calculated in terms of an agreed vessel expressed in monetary value in order to distribute the cost center, such as taking a container: \$ 1000 from Purchases in case it is difficult to determine a physical unit to measure the cost of the supply department, or take \$ 10 of the Sales in case it is difficult to determine a unit of measurement for the cost of the distribution department.

By analyzing the indirect cost of an institution, we draw the following table:

Cost by nature		Cost by function (indirect burden distribution):					
		Administr ation	Maintena nce	Purchase	Shredder	Completi on	Distributi on
61. External Services	12,000	5	5	5	5	50	30
62. Other external services	10,000	20	-	-	-	50	30
63. Employees costs	260,000	6	20	20	20	24	10
64. Taxes	8,000	-	10	30	-	10	50
65. Other operating costs	5,000	-	-	-	-	40	60
66. Financial costs	5,000	44	12	8	10	6	20
68. Depreciations and accruals	15,000	20	40	-	-	10	30

Analysis of the distribution of the costs of assisting departments, administration and maintenance on the four main sections is given in the following table:

Cost by nature	Assisting Centers		Main Centers			
	Administr ation	Maintena nce	Purchase	Shredder	Completi on	Distributi on
Primary Distribution						
Secondary Distribution	(A)	20	10	40	20	10
	10	(M)	10	40	40	-

- ◎ The nature and number of work units of the main analysis centers are given as follows:

Analysis Center	Work units	Numbers
Purchase	Kg of raw material purchased	3,250
Shredder	Kg of raw material used	3,660
Completion	Direct working hours	4,600
distribution	\$ 100 of sales	481,000

- ◎ **Complete the distribution of indirect cost table**

1- Primary Distribution Table: We distribute the costs according to the percentages as follow:

Cost by nature		Cost by function (indirect burden distribution):					
		Administr ation	Maintena nce	Purchase	Shredder	Completi on	Distributi on
61. External Services	12,000	6,000	600	600	600	6,000	3,600
62. Other external services	10,000	2,000	-	-	-	5,000	3,000
63. Employees costs	260,000	15,600	52,000	52,000	52,000	62,400	26,000
64. Taxes	8,000	-	800	2,400	-	800	4,000
65. Other operating costs	5,000	-	-	-	-	2,000	3,000
66. Financial costs	5,000	2,200	600	400	500	300	1,000
68. Depreciations and accruals	15,000	3,000	6,000	-	-	1,500	4,500
Total Primary distribution		23,400	60,000	55,400	53,100	78,000	45,100

2- Secondary Distribution Table:

After the primary distribution we find the solution to these equations:

$$A = 23,400 + 0.1 M$$

$$M = 60,000 + 0.2 A$$

We replace M in the first equation to find

$$A = 23,400 + 0.1 (60,000 + 0.2 A) \text{ so } A = 29,400 + 0.02 A$$

$$A = 29,400 / 0.98 \text{ we get } A = 30,000 \text{ and } M = 66,000$$

Cost by nature	Cost by function (indirect burden distribution):					
	Administra tion	Maintenan ce	Purchase	Shredder	Completi on	Distributi on
Total Primary distribution	23,400	60,000	55,400	53,100	78,000	45,100
Secondary distribution	(30,000)	6,000	3,000	12,000	6,000	3,000
	6,600	(66,000)	6,600	26,400	26,400	-
Total Secondary distribution	0	0	65,000	91,500	110,400	48,100
Work unit	-	-	Kg of raw material purchased	Kg of raw material used	Direct working hours	\$ 100 of sales
	-	-	3,250 kg	3,660 kg	4,600 hour	4,810 \$
Indirect cost / unit	-	-	20 \$	25 \$	24 \$	10 \$