

Upgrading Fund Management to Transform Cost Center into Profit Center

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ABSTRACT

With the development of society, a large number of enterprises in China have entered the stage of group development, and the management of enterprise funds has also changed accordingly. Fund management has moved from a single cost control model to a profit control model. Funds are the lifeblood of enterprises, and the quality of fund management affects the development ability of enterprises. The fund management of enterprises needs to involve cost control. Transforming from a cost center to a profit center can eliminate unreasonable parts of the cost structure and effectively reduce production costs.

KEYWORDS: Cost center, Profit center, Ship repair enterprise

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Definition of Cost Center and Profit Center

Cost center refers to the responsible unit that can control the cost of the enterprise. According to the different scope of work of cost centers, they can be divided into basic cost centers, composite cost centers, etc. The cost center must take into account cost control and be responsible for controllable costs. In addition, the cost center also needs to evaluate the responsibility cost, which is predictable, measurable, and controllable.

The profit center refers to a unit that not only incurs costs and revenue, but also calculates profits based on the ratio of revenue and cost. The level of profit center is higher than that of cost center, and it usually includes multiple cost centers at different levels. Profit centers are more concerned about revenue than cost centers because they are not only responsible for profits, but also need to regulate revenue and costs.

From the classification of profit centers, there are roughly two types: natural profit centers and virtual profit centers. From the perspective of the enterprise, the profit center can freely control the use of working capital and manage its employees. It can make its own profit statement and evaluate the operation of the

profit center according to the profit and loss of the profit center, including material procurement, product development, manufacturing and sales. Enterprises can set up different profit centers in each production process according to their production and operation needs, delicately dividing enterprise goals, and achieving maximum enterprise benefits.

The difference between cost center and profit center

A. The scope of application varies

Units that incur costs and can control them can become cost centers, such as factories, workshops, sections, teams, and individuals. The profit center needs to have an independent source of income, or can be considered as a department with independent income, so the scope of application is relatively small compared to the cost center.

B. The focus of control is different

The focus of cost center control lies in the input-output ratio and the decision-making of management personnel, with the process being the focus of control. The profit center needs to control costs, increase revenue, and emphasize cost savings. Therefore, it is

the result of comparing two variables, and the focus of control is on the outcome.

C. Different assessment indicators

Evaluating a cost center requires measuring two indicators: the amount of cost change and the rate of cost change. The assessment of indicators can be divided into two situations: firstly, when the profit center does not calculate common costs or uncontrollable costs, the assessment indicator is the total marginal contribution of the profit center; The second is that when the profit center calculates common or uncontrollable costs and adopts the variable cost method to calculate costs, its assessment indicators increase to the total marginal contribution of the profit center, the total controllable profit of the profit center head, and the total controllable profit of the profit center.

The Role of Cost Center Transformation and Profit Center

A. Strengthen internal economic accounting and supervision, and mobilize the enthusiasm of all parties

On the one hand, to help ensure that economic activities are carried out in a transparent and responsible manner, transforming from a cost center to a profit center can fully leverage the enthusiasm and creativity of various departments, promote innovative development of enterprises, and improve management level and economic efficiency. On the other hand, the establishment of a profit center can strengthen the management and supervision of the company's financial department. By taking input and output analysis as the core, horizontal and vertical comparisons among various departments of the enterprise complement each other, comprehensively evaluating the operational performance of each department, and increasing the operational efficiency and market competitiveness of the enterprise.

B. Quantify the budget and goals of the enterprise

In order to decompose the goals of the enterprise as clearly as possible into various profit centers and fairly evaluate the performance of each profit center, it is necessary to quantify the goals of the enterprise. The profit center is closely related to the budget system. The budget system can effectively assist the profit center in achieving business objectives. The budget system can be either a database or a lower limit for setting financial goals, making the performance evaluation indicators of the profit center more challenging.

A Case Study of Cost Center Transformation into Profit Center in Ship Repair Enterprises

A. Current Situation and Problems of Cost Assessment for Ship Repair Enterprises

At present, most domestic ship maintenance enterprises classify the cost based on the consumed materials, labor, and various auxiliary expenses, and use the "order method" to calculate product costs. In terms of business content, conventional maintenance services have the characteristics of multiple varieties and small batches. Since the implementation of comprehensive budgeting by enterprises, when designing the target cost of a single ship, certain purchase and sale contracts with uncertain prices have brought difficulties to the cost budgeting work, making it difficult to implement the various cost budget formulated for a single ship and ineffective control of various cost indicators.

There are basically two types of employment models for domestic ship repair enterprises, which are the combination of unit employees and outsourced labor teams, or only the use of outsourced labor teams. These two modes make frontline workers more mobile, and most of them are labor team members. The quality of workers varies, making it difficult to effectively manage costs.

With the continuous growth and development of the shipbuilding industry, industry competition has become increasingly fierce, and the costs of various shipping companies remain high. To stand out in such an environment, it is necessary to consider developing new cost assessment methods. At present, most domestic companies have the following problems in cost assessment: a single assessment and evaluation system; Unable to meet the requirements of financial decision-making; Distorted cost information for a single ship; Obvious defects in functional organizational structure, etc.

B. Overall idea of cost assessment for ship repair enterprises

A functional organizational structure will make each department only focus on its own departmental goals, while neglecting the overall goals of the enterprise. Moreover, insufficient communication between departments can easily lead to conflicts. Therefore, the introduction of a virtual profit center to improve the situation.

Virtual profit centers can enable each department not only to consider the execution of their own department's cost budget, but also to seek profits for

the enterprise as a whole from the perspective of the enterprise. Each department can generate profits, and departments can cooperate to undertake orders or mutually undertake orders, which also improves the poor communication situation.

C. Operating mechanism of profit center

Although the profit center is affiliated with the company, it has high independent autonomy in a series of operations such as purchasing raw materials, manufacturing production products, operating the market, and using cash flow. The profit center can prepare a separate income statement to reflect and evaluate business performance.

Applying the profit center model to daily assessment management is to change the original organizational framework and enterprise strategic planning to achieve better cost control. Each organizational structure has a corresponding set of management rules and regulations, and the profit center is no exception. As an internal management operation mode of the enterprise, it must have strict management systems to achieve the expected results.

The profit center system depends on the support of strategic control and financial control, and these two factors are closely related. Strategic guidance for the implementation of a company's overall plan can be understood as the goal of the enterprise, and the implementation of this plan is the driving force for the company's success. The implementation of the profit center system is actually a dynamic management cycle. The strategic goals formulated by the enterprise are subdivided and allocated to the divided profit centers, executed by each profit center, and regularly reported and evaluated by the internal audit of the enterprise.

D. Profit Center Cost Control Process

According to the characteristics of ship repair enterprise production, the production department can

be divided into hull, mechanical and electrical, dock repair, and coating repair. Profit centers can be divided according to the organizational structure of the production department. Other auxiliary departments such as the Materials Department, Production Support Department, Finance Department, and Marketing Department are all set up as cost centers. The financial control department follows certain allocation principles. Allocate the costs of each cost center to each profit center.

On the basis of financial control and strategic control, the implementation of profit centers should balance centralization and decentralization. Under the premise of a certain overall strategic goal of the company, implementing a profit center belongs to a decentralized management mechanism, which can effectively improve management efficiency. In this situation, each profit center should fulfill their respective responsibilities, and the division of responsibilities becomes more important.

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