Cost Element - Overview and Purpose

Purpose

The purpose of this WIKI contribution is to provide a full and clear understanding of what a Cost Element is, what its purpose in Controlling is and how it helps in the integration between FI and CO primarily.

Overview

Cost Elements play a very important role in the reconciliation/alignment of costs and postings between Financial Accounting (FI) and Management Accounting/Controlling (CO). There are different types of cost elements such as Primary Cost Elements, Secondary Cost Elements and Revenue Cost Elements all of which have a specific purpose. The category set for a Cost Element at the time of creation will determine the transactions that can utilize the cost element.

What is a Cost Element?

Due to the integrated nature of SAP Systems there is a requirement to create expense accounts in Financial Accounting with corresponding primary cost elements in Controlling. This ensures that expenses in Financial Accounting and primary costs in Management Accounting can be reconciled.

Primary Cost Elements

To be able to post a primary cost element, you require an object in Management Accounting (such as a cost center) to identify the origin of the costs. Examples of primary cost elements are material costs and salary costs.

Secondary Cost Elements

Secondary cost elements are used exclusively in Management Accounting to identify internal cost flows such as assessments or settlements. They do not have corresponding general ledger accounts in Financial Accounting (FI) and are defined in Management Accounting only.

When creating secondary cost elements remember they should be valid from the first day of the current fiscal year through to the default 'Valid to' date.

Revenue Elements

When you analyze revenues in cost controlling (CO), the SAP system records them as revenue elements. Revenue elements are primary cost elements.

Cost Element Category

When you create a cost element, you must assign a cost element category. This assignment determines the transactions for which you can use the cost element. For example, category 01 (general primary cost elements) is used for the standard primary postings from Financial Accounting (FI) or Materials Management (MM).

Automatic Creation of Cost Elements

You can create cost elements automatically. You provide the default settings through which the cost element or the cost element range that you want to create is given and enter the cost element types for the cost elements.

Primary Costs are only created when the respective general ledger exists in the operational chart. The SAP system takes the cost element name from the G/L account master data in Financial Accounting (FI). However, you can change the name in Management Accounting/Controlling (CO) in transaction KA02.

Secondary cost elements are generated for all cost elements you have defined. The description is taken from the cost element category. Once you have entered your default settings, a background session starts that generates the cost elements.

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