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To,

The Chief General Managers/IFAs
All Territorial/Non-Territorial Circles
Bharat Sanchar Nigam Limited.

Sub : **Maintenance of Appropriate Cost Centre Mapping of Employee Positions for accurate Employee Cost Allocation and Segment-wise Profitability.**

The cost centre maintained against an employee position in SAP has a direct impact on the allocation of employee-related expenditure and consequently, on the cost and profitability reported for different Lines of Business/segments. It is, therefore, important that the cost centre mapping of each position appropriately reflects the nature of work performed and the Network/Line of Business to which the position contributes.

In order to ensure appropriate allocation of employee costs and reliable segment-wise profitability analysis, the following principles may be followed:

1. **Cost centre should reflect the nature of work**

   The cost centre mapped to an employee position should, as far as practicable, reflect the actual nature of work and functional responsibilities attached to the position. Mapping should not be based merely on the employee's administrative location, reporting office or historical cost centre.

2. **Appropriate Network/Line of Business should be considered**

   Where the work performed by an employee can reasonably be attributed to a particular Network/Line of Business (LoB)/segment, the corresponding cost centre should be considered for allocation of the employee cost.

   For example, where an employee is substantially engaged in activities relating to the Network function, the employee cost should, wherever appropriate, be allocated to the relevant Network/LoB cost centre rather than to a generic administrative cost centre.

3. Multiple cost centres may be mapped

Where an employee performs functions relating to more than one Line of Business, segment, project or cost centre, the entire employee cost need not necessarily be charged to a single cost centre.

In such cases, multiple cost centres may be mapped with an appropriate percentage allocation, based on the actual contribution of the employee to the respective functions.

For example:

Cost Centre	Functional Area / Segment	Allocation
CC-A	Network	60%
CC-B	Enterprise Business	25%
CC-C	Support Function	15%
Total		100%

The percentage allocation should have a reasonable basis and should reflect the relative utilisation of the employee's services by the respective functions/segments.

4. Impact on segment-wise profitability

Particular attention is required to the above mapping as employee cost constitutes a significant component of operating expenditure and its allocation directly affects the profitability reported for individual segments/Lines of Business.

Incorrect or inappropriate mapping of employee positions may result in:

- understatement of costs and corresponding overstatement of profitability of one segment;
- disproportionate loading of employee costs on another segment;
- distortion of segment-wise profitability and performance analysis;
- incorrect comparison of performance between Lines of Business; and
- unreliable management information for business and resource-allocation decisions.

Accordingly, segment-wise profitability should be specifically considered while reviewing and finalising the cost centre mapping of employee positions.

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5. **Functional work should take precedence over administrative location**

The primary consideration should be the function for which the employee is actually performing the work, rather than merely the location from which the employee operates.

Where an employee is administratively posted at one office but substantially performs work for another Line of Business or segment, the cost allocation should appropriately recognise the functional utilisation of the employee.

6. **Review of existing default mappings**

All concerned units may undertake a review of employee positions/PERNRs where a default cost centre has been assigned, particularly where the employee is performing identifiable work for a specific Line of Business or functional area.

The review should determine:

a. whether the default cost centre is appropriate;
b. whether a specific LoB/functional cost centre is more appropriate;
c. whether the employee's cost should be distributed across multiple cost centres;
d. where multiple cost centres are applicable, the appropriate percentage allocation; and

7. **Periodic review of mapping**

The cost centre and percentage allocation should be reviewed whenever there is a material change in:

a. duties and responsibilities;
b. functional deployment;
c. Line of Business;
d. project assignment;
e. organisational structure; or
f. utilisation of the employee's services.

The total percentage allocation across all mapped cost centres should always aggregate to 100%.

8. **Validation by Controlling Authority**

The concerned Controlling/Administrative Authority should ensure that the cost centre mapping and wherever applicable, percentage allocation are based on the actual functional deployment and responsibilities of the position.

In view of the above, all concerned units are requested to review the existing cost centre mapping of employee positions/PERNRs and ensure that employee costs are allocated to the appropriate cost centre(s) in accordance with the nature of work, applicable Line of Business and the above priority principles.

The exercise may also specifically take into account the impact of employee-cost allocation on segment-wise profitability, so that the reported profitability of each Line of Business/segment represents, to the extent reasonably ascertainable, the costs attributable to the resources actually deployed for that segment.

The objective is to establish a consistent, transparent and functionally appropriate basis for employee-cost allocation, thereby improving the reliability of segment-wise profitability, management reporting and business performance analysis.

R. Singh

(Rajeev Singh)
Pr. General Manager (CA/ERP-FICO/C-CSC)

Copy for Kind information to:

1. PPS to CMD, BSNL Corporate Office, New Delhi.
2. Director (Finance)/Director (HR), BSNL Corporate Office, New Delhi.
3. PGM(EF)/PGM (Estt)/PGM(Pers)/PGM(CBB), BSNL Corporate Office, New Delhi.