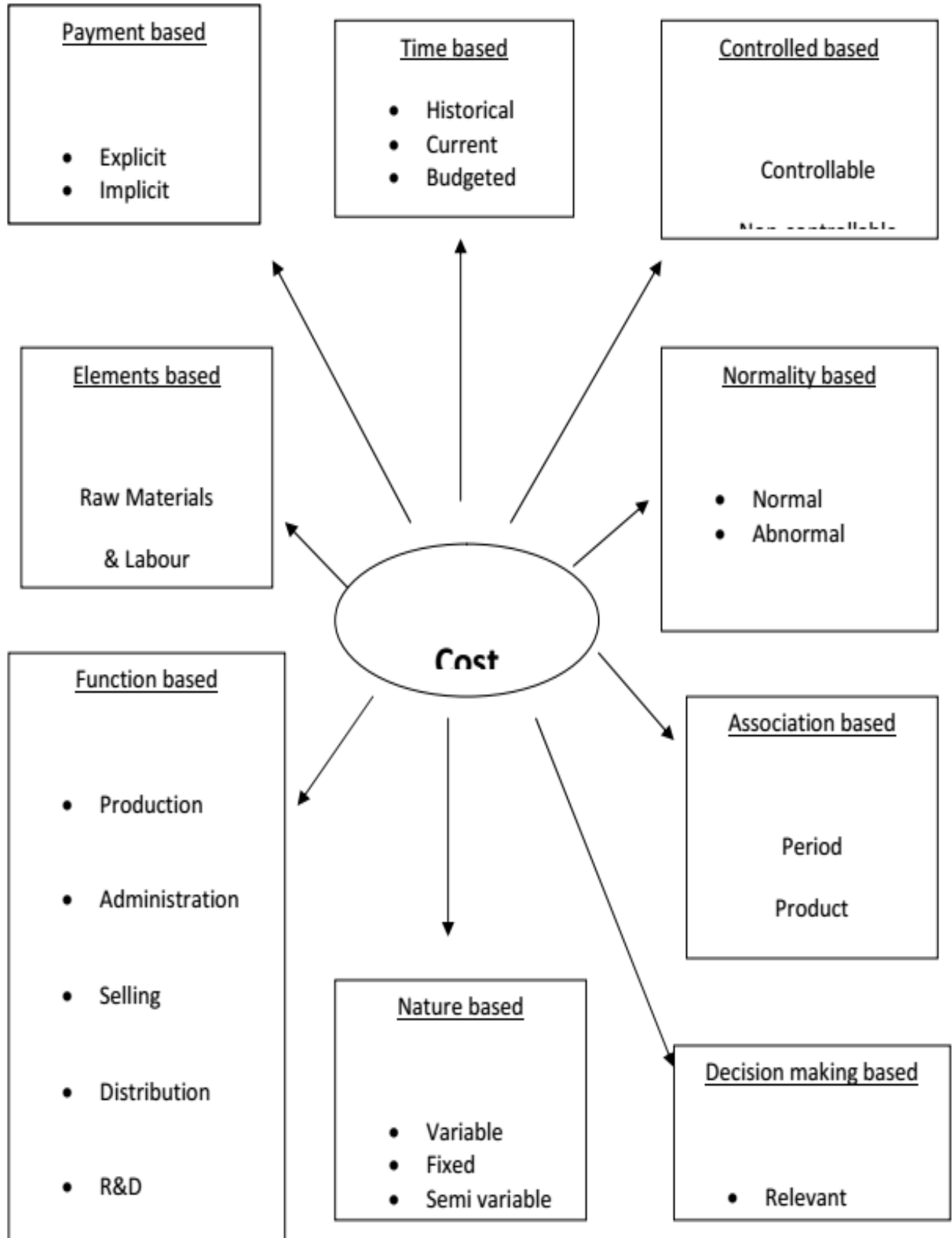


Meaning of Cost

1. Cost refers to the expenditure incurred in producing a product (or) in rendering a service.
2. It is expressed from the producer (or) manufacturer's view point (not that of consumer / end user).

Particulars	Meaning	Ascertained from
Value	Relative worth of a Commodity to an individual at a particular point of time	Users view point
Price	Amount paid by consumer in exchange for a product / service	Consumer's view point
Cost	Expenditure incurred in producing a product (or) rendering a service	Producers view point

Classification or Types of Costs.



List of objectives of Cost accounting

Study contributes to profitability through cost reduction and cost control.

1. Ascertainment of Cost : Collection of information, recording them under suitable heads of account, reporting on a periodical basis.
2. Determination of selling price: Prices cannot be fixed below cost.
3. Cost control and cost reduction
 - Long run, higher profits only through Cost reduction & cost control
4. Ascertaining the profit of each activity
 - Profit of each department/activity/product by comparing its revenue with appropriate cost
5. Assisting Mgt. in decision making
 - Business decision after conducting cost-benefit analysis.

TYPES OF COSTS

A. Time based

Historic cost : Cost relating to the past time period, that is already incurred.

Current cost : Cost relating to the present period

Pre-determined cost : Costs relating to the future period

B. Nature

•Variable Cost : Cost which tend to vary or change in relation to volume of production.

Eg. Cost of raw materials, Labour. Etc.,.

•Fixed Cost : Cost which remain constant at various levels of Production. Eg. Factory

Rent, Insurance.

Average Fixed cost per unit vary inversely with volume of production.

- Semi-Variable Cost : They are partly fixed and partly variable. Eg. Repairs & Maintenance, Electricity and Telephones. 'Step Costs'
- Committed fixed costs : The costs remain unaffected by any short term changes in volume of production. Eg. Plant, Building, Equipment, Rent, Taxes and Insurance Premium.
 - ⇒ Not controlled (Controllable)
- Discretionary fixed costs : It arises from periodic – usually year. Cannot be changed in the very short term.
 - ⇒ Can be controlled (Relates to input & output)

C. On the basis of elements

1. Materials – Cost of raw materials, Consumable stores maintenance items etc.
2. Labour – Wages to workers, staff, training etc.
3. Expenses – Cost of operating & running the enterprise; other than materials, labour ex-factory rent, office maintenance, sales man salary.

D. Relationship

1. Direct – Cost which are directly related to cost centre (or) cost unit eg. Cost of R/m in finished goods and wages paid to labour in construction.
2. Indirect – Cost which are not directly identified with cost centre (or) cost unit. Eg. Rent of various departments, Salary of Supervisor etc.,

Controllability

✓ Controllable costs

Costs which can be influenced and controlled by managerial action.

- | | | |
|----------|---|--|
| Time | – | Certain costs are controllable in the long run and not in short run. |
| Location | – | Certain costs are not influenced and decided at a particular location. Eg. Rent agreement execution centrally by H.O., Factory mgr. can't be controlled. |
| Product | – | Certain costs are controllable by reference to one product (or) market segment. Eg. Raw materials for export product normally higher compare to the R/m for domestic products. |

✓ Non-Controllable Cost

Costs that cannot be influenced and controlled by specific members of organization.

Normality

Normality – Costs which are expected to be incurred under normal, routine and regular conditions.

Abnormal Cost – Costs over and above normal Cost; which is not incurred under normal conditions. Eg. Fines, penalties.

Functions

Production Cost

Cost of the set of operations with supply of materials, labour, and services and ending with the primary packing of product.

Administrative Cost

Cost which is not directly related to production, selling, distribution, R&D etc., Eg. Rent, accounts departments, Audit & legal expenses, Directors Remuneration etc.,

Selling Cost

(Also called marketing costs) Cost seeking to create demand & securing orders. Eg. Advertisement, salesman remuneration, showroom expenses and Cost of samples.

Distribution Cost

Cost which begins with making the packed product available for dispatch and ends with making the reconditioned returned empty package.

Eg. Distribution packing, carriage outwards, maintenance of delivery vans, expenses incurred towards transporting article to central to local storage.

Research Cost

Cost relating to developing new (or) improved products, new applications of materials, improved methods.

Development Cost

The cost of the process which begins with new product production, improved product etc.,

Pre-production Cost

Cost incurred in making a trail production run prior to formal production.

Conversion Cost

Cost to be incurred to convert raw materials into finished stage.