Cost:- The amount that has to be paid or given up in order to get something. In business , cost is usually a monetary valuation of effort , material , resources , time and utilities consumed , risks incurred , opportunity foregone in production and delivery of good or service . All expenses are cost but not all costs such as those incurred in acquisition of an income generating asset are expenses.

Expense:- An expense consists of the economic costs a business incurs through its operations to earn revenues . It is the money spent in an organization's effort to generate revenue , representing the cost of doing business such as salaries and wages paid to employees.

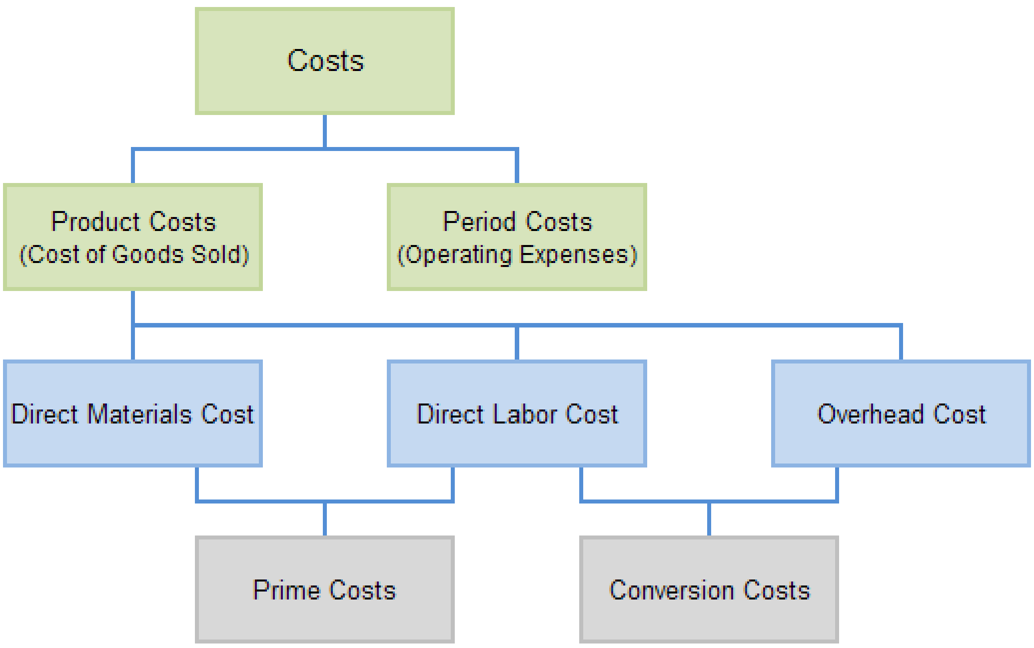
For accounting & taxation purposes costs are related to business assets and they are shown on the balance sheet Expenses are related to business income and they are shown on the business net income profit and loss statement.

Balance Sheet:- A statement of the assets , liabilities , capital of a business or other organisation at a particular point in time , detailing the balance of income expenditure over the preceding period.

Profit & Loss Statement:- A profit & loss statement is a financial statement that summarizes the revenues , costs , expenses incurred during a specific period of time.

Classification of Cost:-

Product Based Classification of Cost:-



Direct materials Cost:- Represents the cost of the materials that can be identified directly with the product at a reasonable cost . Example:- Cost of paper in Newspaper Printing.

Direct Labor Cost:- Represents the cost of the labor time spent on that product . Example:- Cost of the time spent by a petroleum engineer on an oil rig.

Manufacturing Overhead Cost:- Represents all production and operational costs except those for direct materials and direct labor. Example:- The cost of an accountant's time in an organization , depreciation on equipment , electricity , fuel.

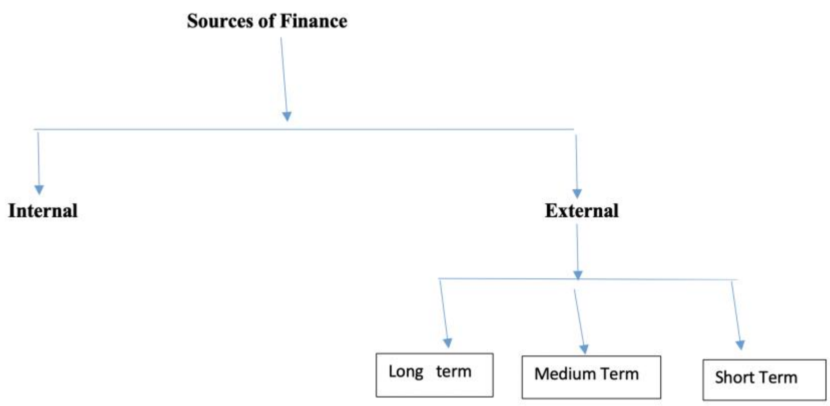
Prime Cost:- Prime costs are the sum of all direct costs such as direct material , direct labor and any other direct cost.

Conversion cost:- Conversion costs are the costs incurred to convert the raw materials into finished products and they equal the sum of direct labor , other direct costs other than materials and manufacturing overheads.

Behavioural Based Classification of Cost:-

Fixed Cost:- Fixed Costs are those costs which remains constant within a certain level of output or sales . This certain limit where fixed costs remain constant regardless of the level of activity is called relevant change . Example:- Depreciation on fixed assets.

Variable Cost:- Variable costs are costs which change with a change in the level of activity . Example:- direct materials , direct Labor.

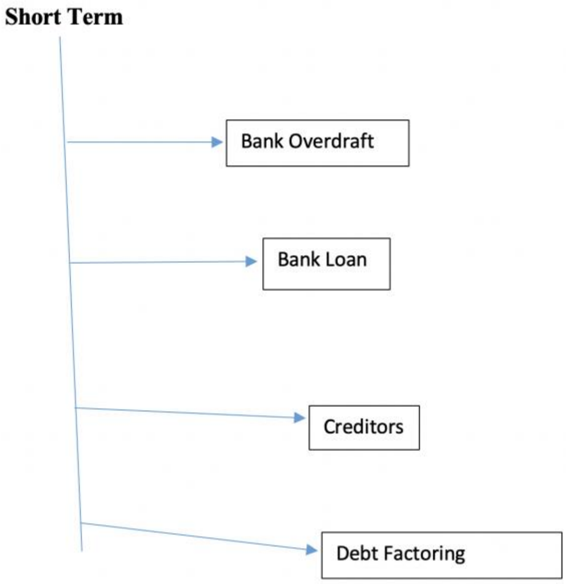


Long Term

- Shares
- Debentures
- Long Term Bank Loans
- Grants

Medium Term

- Leasing
- Hire Purchase
- Medium Term Bank Loans



Asset:-An asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit. Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations. An asset can be thought of as something that in the future can generate cash flow, reduce expenses, improve sales, regardless of whether it's a company's manufacturing equipment or a patent on a particular technology.

Liability:-A liability is a company's financial debt or obligations that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services. Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues and accrued expenses.Liabilities are a vital aspect of a company because they are used to finance operations and pay for large expansions. They can also make transactions between businesses more efficient. For example, in most cases, if a wine supplier sells a case of wine to a restaurant, it does not demand payment when it delivers the goods. Rather, it invoices the restaurant for the purchase to streamline the dropoff and make paying easier for the restaurant. The outstanding money that the restaurant owes to its wine supplier is considered a liability. In contrast, the wine supplier considers the money it is owed to be an asset.

Equity:- equity is the value of an asset less the amount of all liabilities on that asset. It can be represented with the accounting equation: Assets -Liabilities = Equity. In finance in general, you can think of equity as one’s degree ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered entirely the owner's equity because he or she can readily sell the item for cash, and pocket the resultant sum. Stocks are equity because they represent ownership in a firm, though ownership of shares in a public company generally does not come with accompanying liabilities.

Shares:- Shares are units of ownership interest in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends. The two main types of shares are common shares and preferred shares. Physical paper stock certificates have been replaced with electronic recording of stock shares, just as mutual fund shares are recorded electronically. Most companies issue common stock. The stock may benefit shareholders through appreciation and dividends, making common stock riskier than preferred stock. Common stock also comes with voting rights, giving shareholders more control over the business. In addition, certain common stock comes with pre-emptive rights, ensuring that shareholders may buy new shares and retain their percentage of ownership when the corporation issues new stock.

Preference Share:-Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first. Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do.

Equity Shares:-Equity shares were earlier known as ordinary shares. The holders of these shares are the real owners of the company. They have a voting right in the meetings of holders of the company. They have a control over the working of the company. Equity shareholders are paid dividend after paying it to the preference shareholders.The rate of dividend on these shares depends upon the profits of the company. They may be paid a higher rate of dividend or they may not get anything. These shareholders take more risk as compared to preference shareholders.Equity capital is paid after meeting all other claims including that of preference shareholders. They take risk both regarding dividend and return of capital. Equity share capital cannot be redeemed during the life time of the company.

Bank Overdraft:- Loan arrangement under which a bank extends credit up to a maximum amount (called overdraft limit) against which a current (checking) account customer can write checks or make withdrawals. The most common form of business borrowing, an overdraft is a type of revolving loan where deposits (credits) are available for re-borrowing, and interest is charged only on the daily overdraft (debit) balance. It is, however, also a demand loan: the facility can be cancelled (and entire outstanding amount 'called') at any time by the lender at its discretion, without any warning notice or explanation. If the overdraft is secured by an asset or property, the lender has the right to foreclose on the collateral in case the account holder does not pay.

Grants:- Grants are non-repayable funds or products disbursed or gifted by one party (grant makers), often a government department, corporation, foundation or trust, to a recipient, often (but not always) a nonprofit entity, educational institution, business or an individual. In order to receive a grant, some form of "Grant Writing" often referred to as either a proposal or an application is required.

Lease:- A lease is a contract outlining the terms under which one party agrees to rent property owned by another party. It guarantees the lessee, the tenant, use of an asset and guarantees the lessor, the property owner or landlord, regular payments from the lessee for a specified number of months or years. Both the lessee and the lessor face consequences if they fail to uphold the terms of the contract.

Hire Purchase:- A hire purchase is a method of buying goods through making installment payments over time. The term "hire purchase" originated in the United Kingdom and is similar to rent-to-own arrangements in the United States.

Debt Factoring:- A factor is a financial intermediary that purchases receivables from a company. A factor is essentially a funding source that agrees to pay the company the value of the invoice less a discount for commission and fees. The factor advances most of the invoiced amount to the company immediately and the balance upon receipt of funds from the invoiced party.

Creditors:- A creditor is an entity (person or institution) that extends credit by giving another entity permission to borrow money intended to be repaid in the future. A business who provides supplies or services to a company or an individual and does not demand payment immediately is also considered a creditor, based on the fact that the client owes the business money for services already rendered.Creditors can be classified as either personal or real. People who loan money to friends or family are personal creditors. Real creditors such as banks or finance companies have legal contracts with the borrower, sometimes granting the lender the right to claim any of the debtor's real assets (e.g. real estate or cars) if he fails to pay back the loan.

Debtor:- A debtor is a company or individual who owes money. If the debt is in the form of a loan from a financial institution, the debtor is referred to as a borrower, and if the debt is in the form of securities, such as bonds, the debtor is referred to as an issuer. Legally, someone who files a voluntary petition to declare bankruptcy is also considered a debtor.

Dividends:- A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

Debentures:- A debenture is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Like other types of bonds, debentures are documented in an indenture.

Loans:- A loan is the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as an open-ended line of credit up to a specified limit or ceiling amount.The terms of a loan are agreed to by each party in the transaction before any money or property changes hands. If the lender requires collateral, that is outlined in the loan documents. Most loans also have provisions regarding the maximum amount of interest, as well as other covenants such as the length of time before repayment is required. A common loan for American consumers is a mortgage. The mortgage calculator below illustrates the various types of mortgages and their different terms. Loans can come from individuals, corporations, financial institutions, and governments. They offer a way to grow the overall money supply in an economy as well as open up competition and expand business operations. The interest and fees from loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities.

The Difference Between Secured Loans and Unsecured Loans

Loans can be secured or unsecured. Mortgages and car loans are secured loans, as they are both backed or secured by collateral.

Loans such as credit cards and signature loans are unsecured or not backed by collateral. Unsecured loans typically have higher interest rates than secured loans, as they are riskier for the lender. With a secured loan, the lender can repossess the collateral in the case of default. However, interest rates vary wildly depending on multiple factors.

Opportunity Costs:- Opportunity cost refers to a benefit that a person could have received, but gave up, to take another course of action. Stated differently, an opportunity cost represents an alternative given up when a decision is made. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it is the difference in return between a chosen investment and one that is necessarily passed up.

Sunk Costs:- A sunk cost is a cost that has already been incurred and thus cannot be recovered. A sunk cost differs from future costs that a business may face, such as decisions about inventory purchase costs or product pricing. Sunk costs (past costs) are excluded from future business decisions, because the cost will be the same regardless of the outcome of a decision.