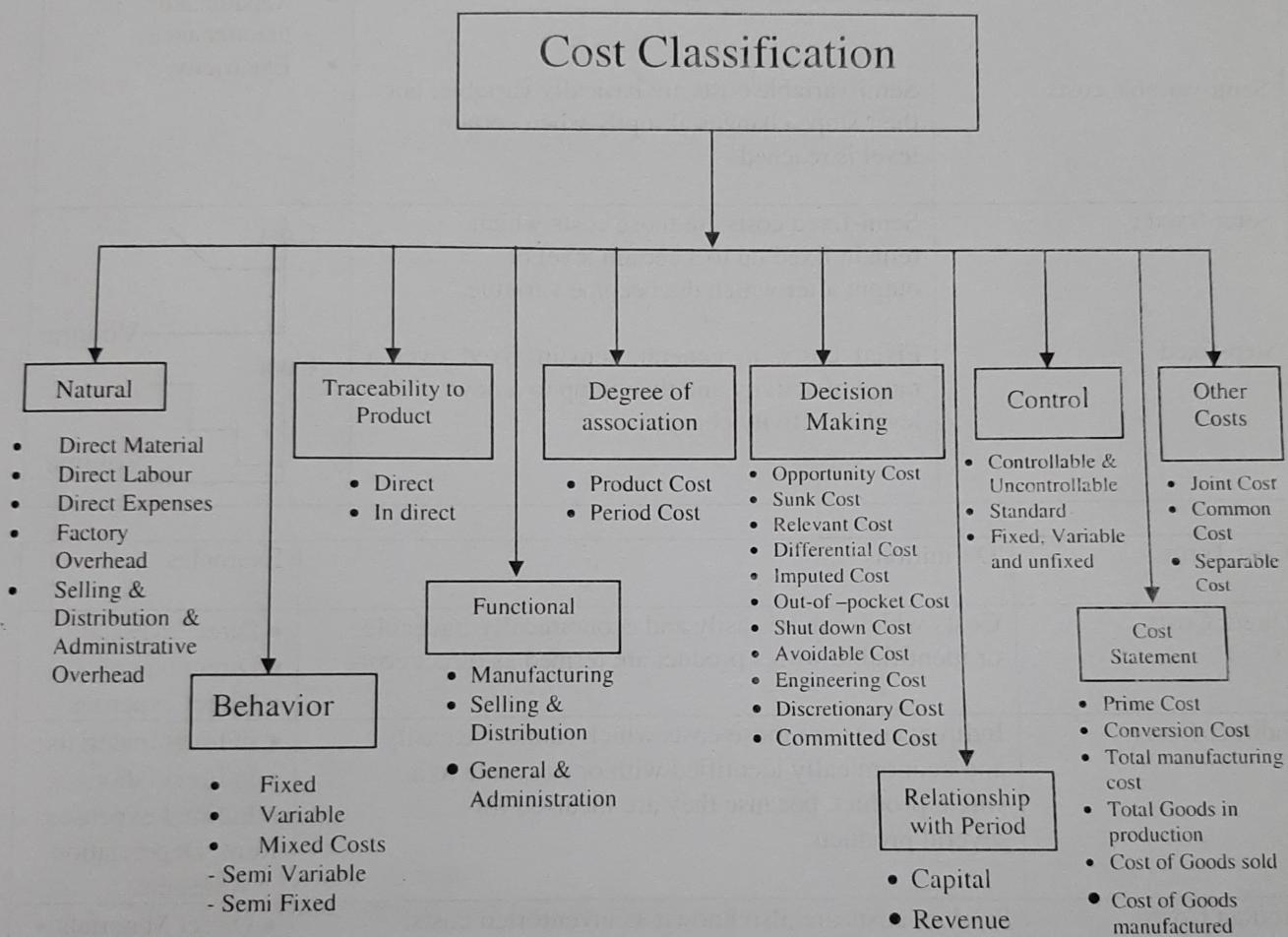


2.03 : Cost Classification

Once identified, costs must be classified and reported. The existence of different decision making models with different information needs results in a variety of classification schemes. Each system arises to resolve a given organizational problem.

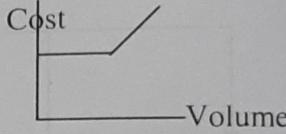
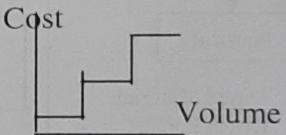
Bases of Cost Classifications :

- | | | | |
|------|--------------------|-------|------------------------------|
| i) | Natural classes | ii) | Functional classes |
| iii) | Asset-Expense-Loss | iv) | Behavioral classes |
| v) | Responsibility | vi) | Tractability |
| vii) | Accounting Period | viii) | Relevance to decision-making |
| ix) | Cost Statement | x) | Costs for Control |
| xi) | Other Costs | | |



Cost of Goods manufactured

Cost terms	Definitions	Examples
Fixed Costs :	Costs which do not vary with the variation in the volume of activity. Total fixed costs remains constant over a relevant range, while the per unit fixed cost varies with the changes in the volume of activity.	<ul style="list-style-type: none"> Supervisor's salaries Depreciation
Committed Fixed costs :	Costs which cannot be reduced as they are related to long term policies and planning of the organization. These are sunk or irrecoverable.	<ul style="list-style-type: none"> Depreciation Rent Insurance

Discretionary Fixed costs :	Costs which can be reduced partly or dropped wholly according to the policy of the management and need of the situation	<ul style="list-style-type: none"> Advertisement Research Consultancy Fees Cost of training
Variable costs :	Variable costs vary directly with the changes in the volume of activity. The total variable costs tend to vary in respect to changes in the volume of production, while the variable cost per unit stays at the same level for a considerable period of time.	<ul style="list-style-type: none"> Direct material Direct labor
Mixed costs :	These costs have the characteristics of both fixed and variable costs.	<ul style="list-style-type: none"> Telephone charges Repairs and maintenance Electricity
Semi-variable costs :	Semi-variable costs are basically variable, but their slope changes abruptly when certain level is reached.	
Semi-fixed :	Semi-fixed costs are those costs which remain fixed up to a certain level of output after which they become variable.	
Step-fixed :	Fixed costs, in general, remain fixed over a range of activity and then jump to a new level as activity changes.	

Cost Terms	Definitions	Examples
Direct Costs	Costs which can be easily and economically traceable or identifiable with a product are termed as direct costs	<ul style="list-style-type: none"> Direct material Direct labor Direct expenses
Indirect Costs	Indirect costs are those costs which cannot be easily and economically identified with or traceable to a single product, because they are incurred for several products.	<ul style="list-style-type: none"> Indirect materials Indirect labor Indirect expenses: Rent, Depreciation Rates etc.
Product Costs	Product costs are also known as inventoried costs. Costs which are identified with the product and included in the inventory value are product costs.	<ul style="list-style-type: none"> Direct Materials + Direct Labor + Direct Expenses + Factory Overhead General & Administrative expenses Selling and distribution expense
Period Costs [charge or expenses]	<p>Kohler :</p> <p>i) Any expenditure assigned to expenses on a basis of service yield</p> <p>ii) Any cost applicable to the operations of a period without allocation to inventory.</p> <p>Period costs are those costs which are not identified with product or job and are totally deducted as expenses during the period in which they are incurred.</p>	

Controllable Costs	<p>Kohler:</p> <ul style="list-style-type: none"> i) Any cost which can be directly regulated at particular level of management authority. ii) Cost that varies with volume efficiency, choice of alternatives and management determination <p>ICMA</p> <p>*A cost which can be influenced by the action of a specified member of an undertaking.</p>	<p>Raw material cost :</p> <ul style="list-style-type: none"> • Purchase Manager for price variance • Production Manger for quantity variance
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Cost Terms	Definitions	Example
Standard Cost	<p>Kohler :</p> <p>'A forecast of predetermination of what actual costs should be under projected conditions, serving as a basis of cost control and as a measure of productive efficiency or standard of comparison when ultimately, aligned against actual cost.'</p>	All predetermined costs
Joint Cost :	<p>Joint Cost :</p> <p>Joint costs are costs of a joint process. When two or more products are produced simultaneously by a process out of same raw materials and other ingredients, the cost of operation including all input costs is termed as joint cost. More specifically, joint costs are common cost of two or more simultaneously produced or otherwise closely related operations, commodities and services</p>	<p>Cost of a joint process :</p> <ul style="list-style-type: none"> • Direct material • Direct labor • Manufacturing overhead
Common Cost	<p>Kohler :</p> <p>Common costs are the cost of facilities or services employed in the output of two or more operations, commodities or services. These are different from joint costs. Joint costs emerge when multiple products are manufactured in a common process and when common inputs are used.</p>	<ul style="list-style-type: none"> • Fire insurance premium • Salaries of production supervisors
Separable Costs	<p>Separable Costs</p> <p>Separable costs are those costs which are definitely identifiable with a product. This term is used to mean the amount of costs needed to process further any product of a joint process.</p>	<ul style="list-style-type: none"> • Cost incurred specially for one of the joint products

2.06 Formulated cost terms for management decision-making :

- i. **Opportunity Cost : [Kohler]**
 - a. The value of alternatives forgone by adopting a particular strategy or employing resources in a specific manner.
 - b. The opportunity cost of any designated alternative is the greatest net benefit lost by taking an alternative.
- ii. **Sunk Cost :**

A past costs which cannot now be revised and hence cannot or should not enter into current decisions for increasing or decreasing present project levels.
- iii. **Relevant Cost :**

' Costs or components which enter into a choice between alternative courses of action.'

Relevant costs are future costs which differ among alternatives.
- iv. **Differential Costs :**

Differential cost is the difference in total costs between any two alternatives.

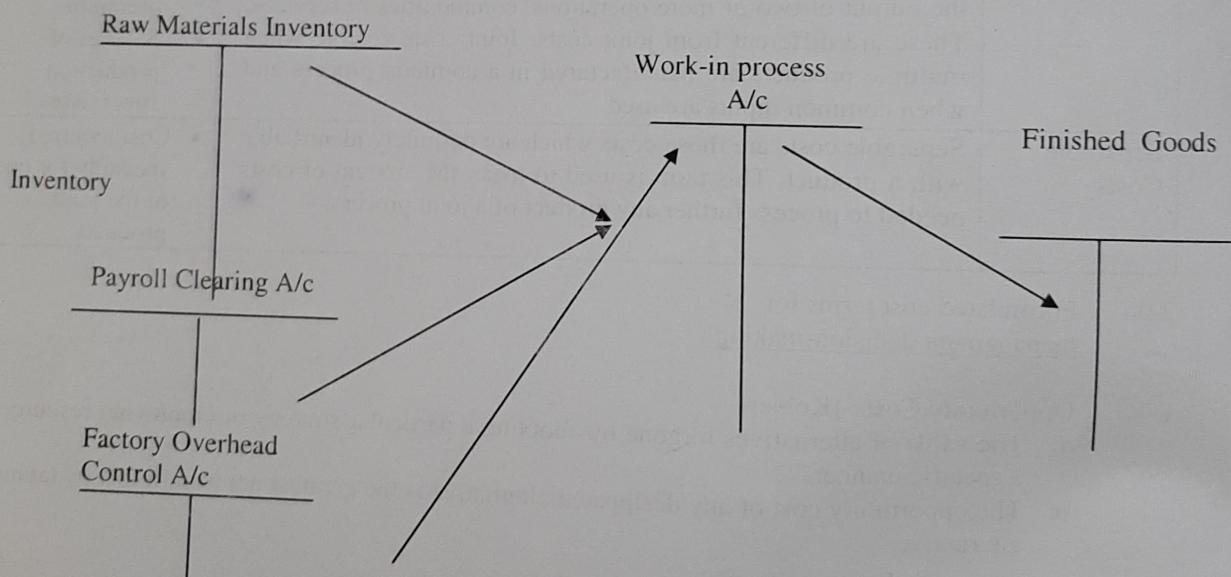
- v. **Imputed Costs :**
Imputed costs are costs not actually incurred in some transactions but which are relevant to the decision as they pertain to a particular situation.
- vi. **Out-of-pocket Cost :**
Out-of-pocket costs signify the cash cost incurred on an activity.
- vii. **Shutdown Cost :**
Shutdown costs are those costs which have to be incurred under all situations. Shutdown costs are fixed costs.
- viii. **Avoidable Cost :**
Avoidable costs are those costs which may not have been incurred under certain expected conditions.
- ix. **Committed Cost :**
A cost necessary to maintain a basic organization.

2.07 → Statement of Cost of Goods produced : Cost Sheet

Definition :

E.L. Kohler :

' A cost sheet is a statement showing a summation of the elements entering into the cost of a product. Collectively cost sheets may serve as a subsidiary ledger supporting a goods in process or finished goods control.'



Features of a Cost Statement :

- Name of the enterprise
- Title of the statement
- Time period covered by the statement
- Bottom line figure will fulfil the objective of the statement
- Contents
 - Materials consumed
 - Direct labor worked
 - Total manufacturing costs
 - Cost of completed goods