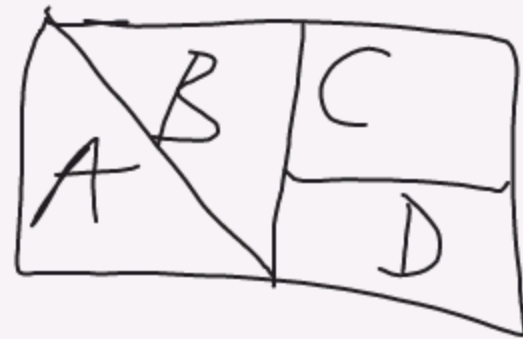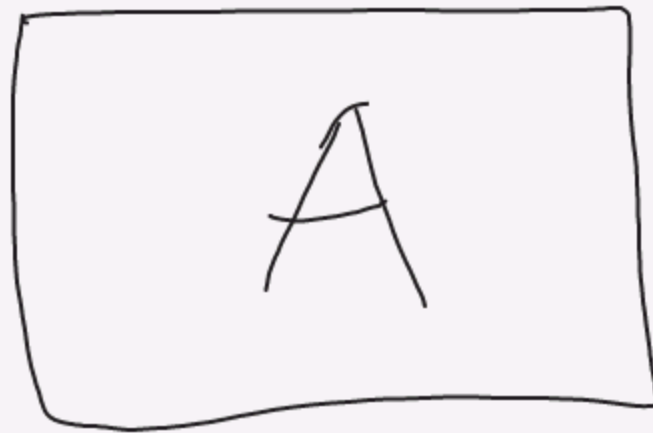# Criteria: Traceability to a Cost obj

Yes

Direct

Truck

$$A$$

$P_1 \rightarrow P_2$
freight
= 50 000

A B C D

③ Element of
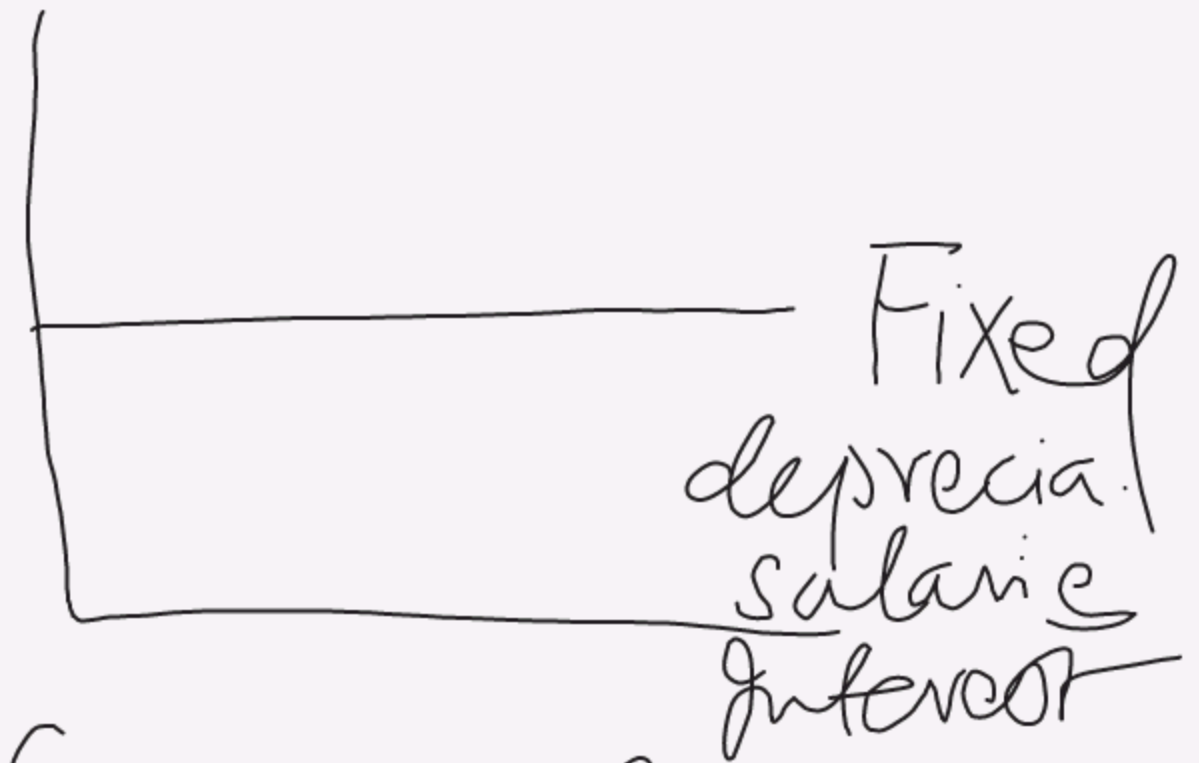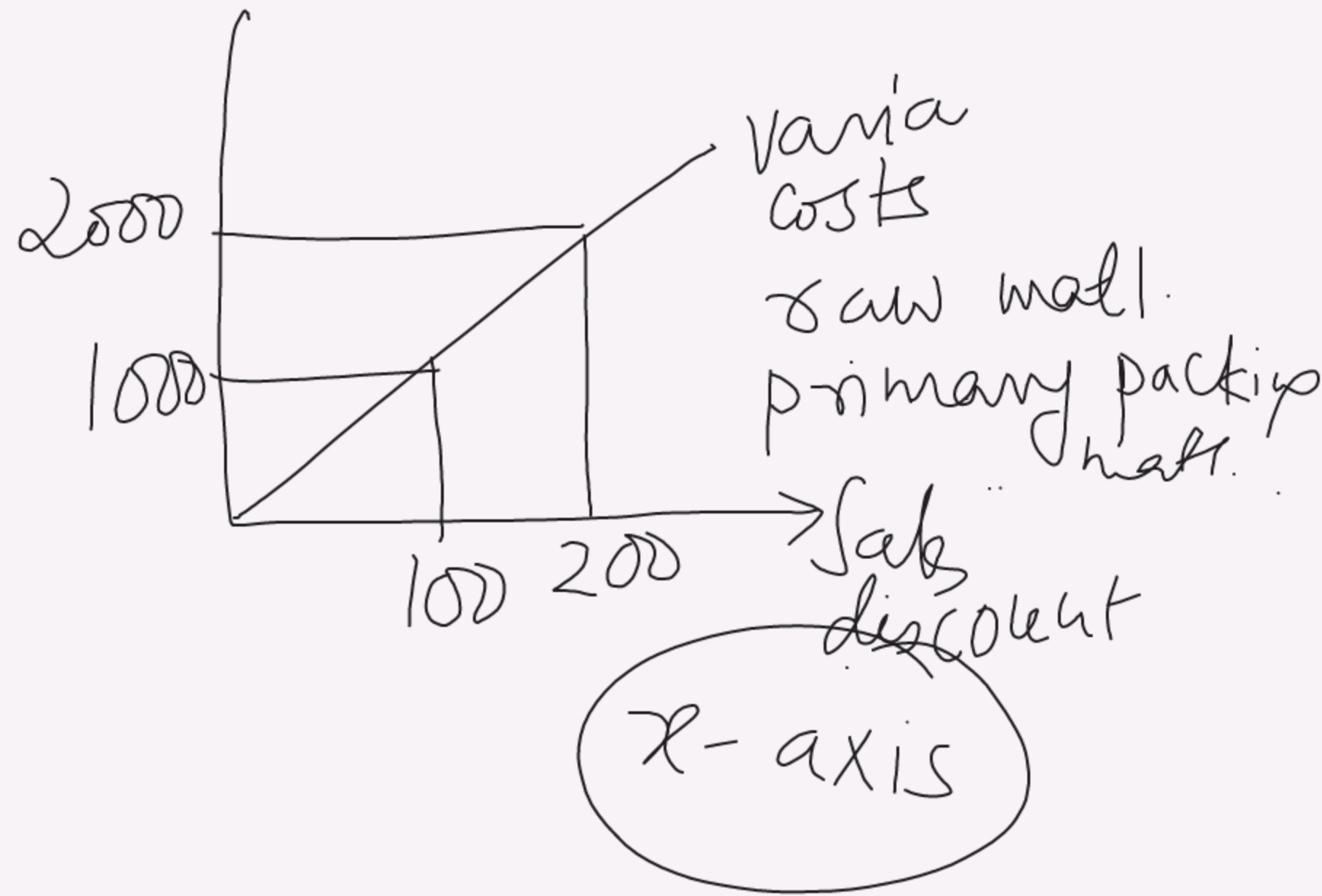a Cost is negligible
w.r. to total
Cost of a Cost
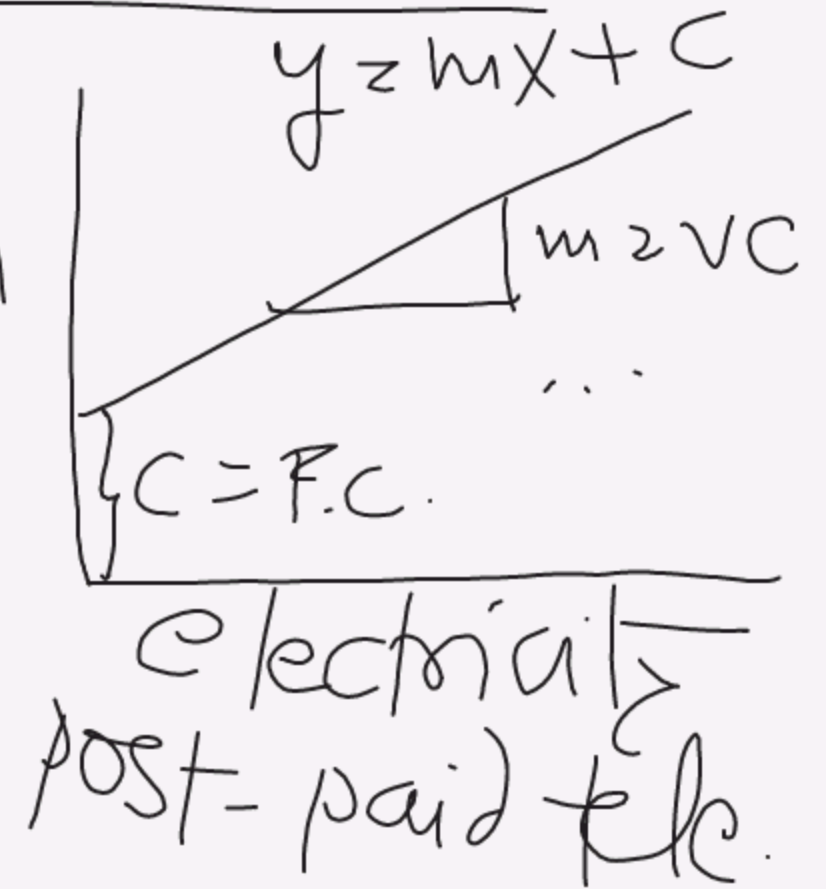object

No

indirect Costs/
overheads
Why they arise!?

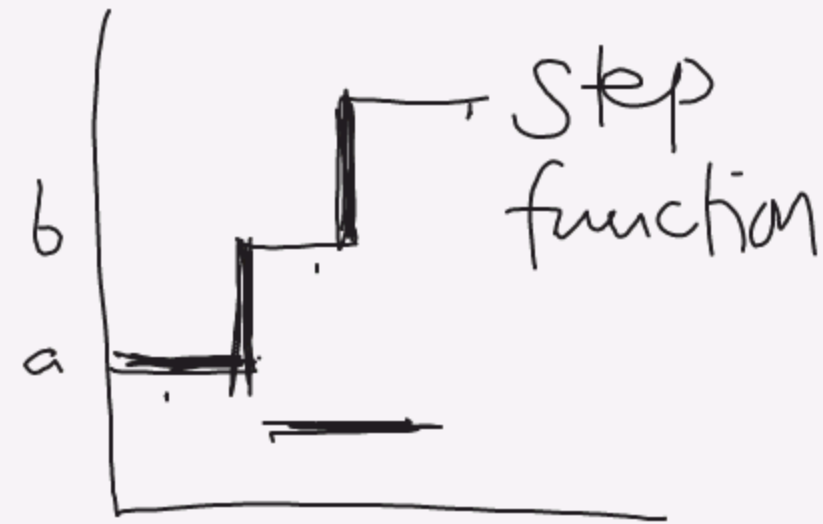① Common resources
used for multiple cost
objects

② Absence of relationship
betu. incurring costs in the
dept & level of activity

Criteria: Variability

varia[ble]
costs
raw matl.
primary packing
matl.

2000

1000

100 200

→ Sales
discount

x-axis

Fixed
deprecia[tion]
salarie[s]
interest

Semi-variable

$y = mx + c$

b

a

step
function

$m = VC$

$\{ c = F.C.$

electricity
post-paid tele.

Full Cost
$$\frac{\text{Full Cost}}{\text{Cost object}}$$

= direct costs
+ fair share of indirect costs

Allocation of indirect Costs

Conventional System

$$\frac{\sum \text{overheads}}{\text{allocation base}}$$

e.g. $\dfrac{\text{Mfg. overheads}}{\text{prod}^n.}$

e.g. $\dfrac{\text{Nursing care Costs}}{\#\ \text{patient days}}$

$$\frac{\text{Total KYC Costs}}{\#\ \text{new insurance policies}}$$

$$\frac{\text{Total Purchase Costs}}{\#\ \text{P.O.s}}$$

Midwest Recommenda.
BPR, CRM, Pricing.

Desktop

Prepaid → ← Receivable period ↔ Pricing

N

1) Minimum order Value COD

2) only EDI orders

Incentives to encourage EDI orders

3) Defined radius

4) Bunching → deli. time