

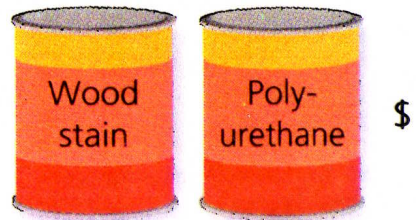
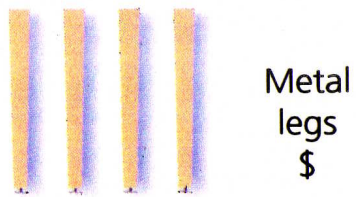
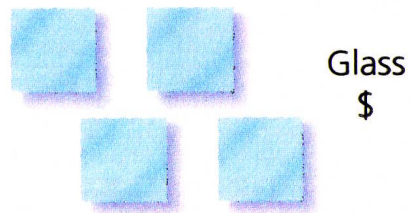
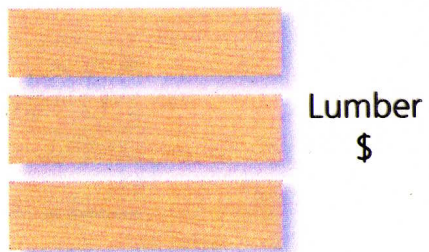
CHAPTER 2

An Introduction to Cost Terms and Purposes

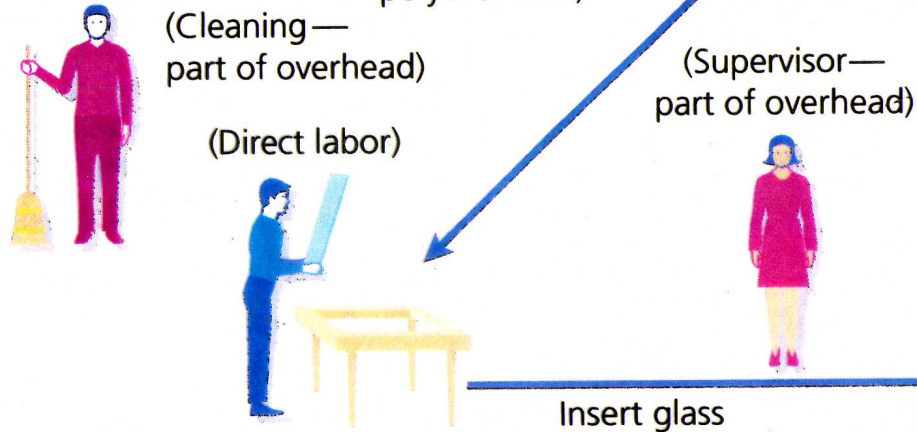
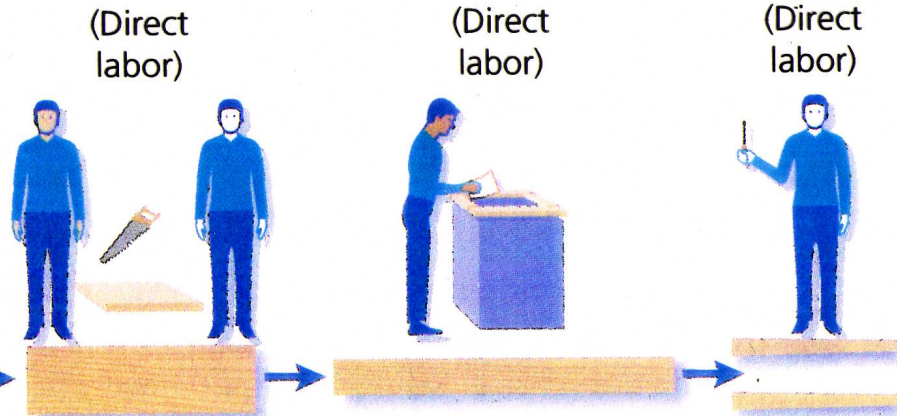
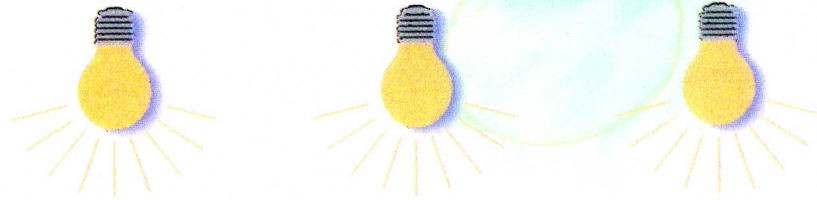
What Do We Mean By a Cost?

The amount of money
given in exchange for
a good or a service

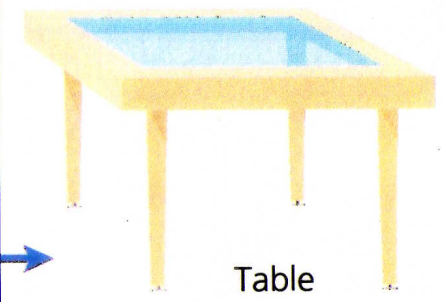
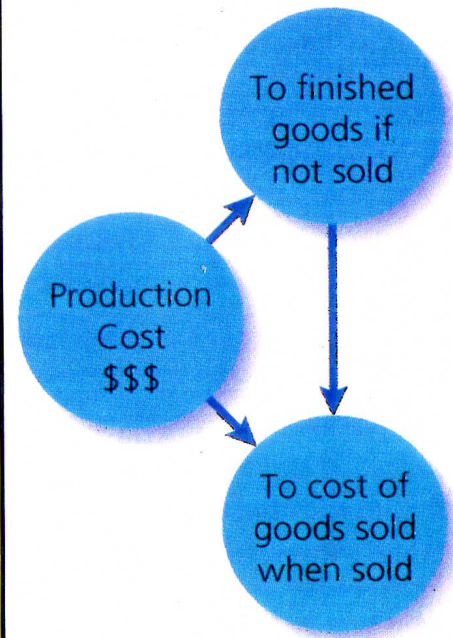
WORK NOT STARTED
(Materials and supplies)



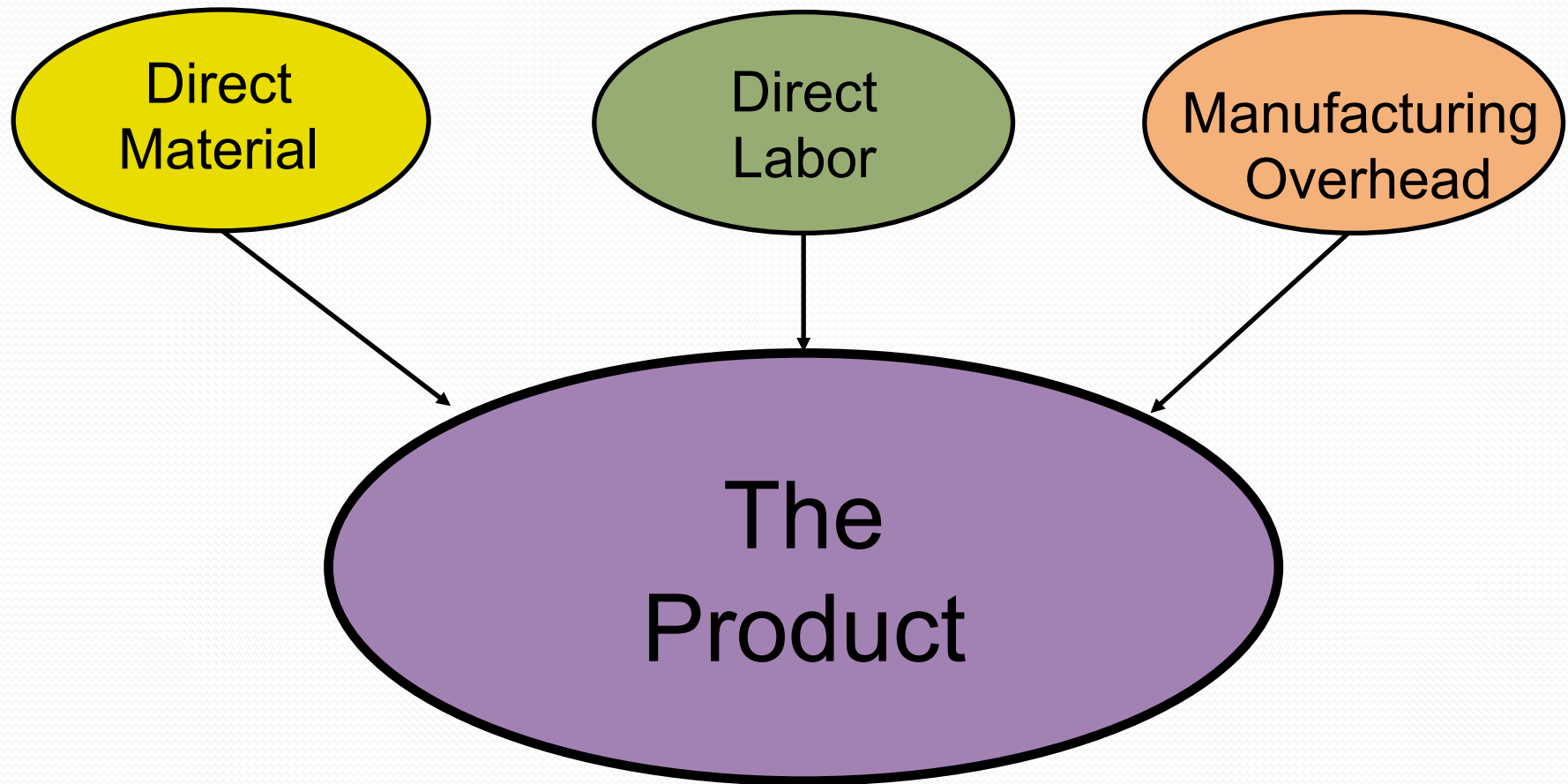
WORK IN PROCESS



FINISHED WORK

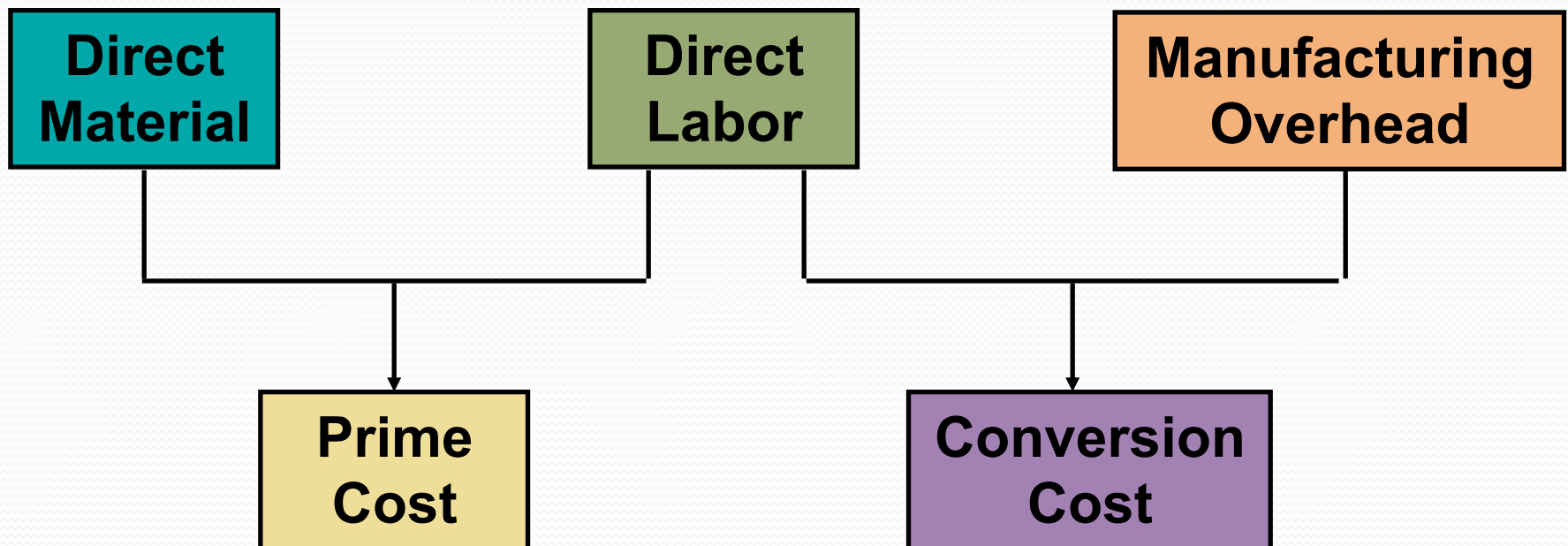


Manufacturing Costs



Classifications of Costs in Manufacturing Companies

Manufacturing costs are often combined as follows:



Direct & Indirect Costs

- Direct costs – can be conveniently and economically traced (tracked) to a cost object
- Indirect costs – cannot be conveniently or economically traced (tracked) to a cost object. Instead of being traced, these costs are allocated to a cost object in a rational and systematic manner

Cost Behavior Summarized

	Total Dollars	Cost Per Unit
Variable Costs Variable Costs	Change in proportion with output More output = More cost	Unchanged in relation to output
Fixed Costs Fixed Costs	Unchanged in relation to output	Change inversely with output More output = lower cost per unit

Cost Traceability

Traceability is the ability to assign a cost to a cost object in an economically feasible way by means of a cause-and-effect relationship.

Direct costs are those costs that can be easily and accurately traced to a cost object.

Indirect costs are those costs that cannot be easily and accurately traced to a cost object.

