SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)

TYPES OF COSTING

Introduction

- According to the common usage, cost is the fiscal value of commodities and facilities that manufacturers and customers buy. According to the fundamental economic discern, the cost price is the estimate of the substitute opportunities bygone in the option of one commodity or pursuit over others. Such a basic cost is normally mentioned as the opportunity cost.
- More ordinarily, cost price has an association between the value of production inputs and the degree of output.
- TC (total cost) price is mentioned to be the total expenditure sustained in attaining a particular degree of output. If such TC is divided by the unit manufactured, then the aggregate or quantity cost is procured.
- A part of the total cost is known as fixed cost, for example, the cost prices of machineries do not differ with the quantity manufactured, and in the short run, do not change with the changes in the unit manufactured. Variable costs, such as the costs of raw materials or labour, change with the degree of output.

TYPES OF COSTING

FIXED COST:

- Fixed cost is referred to as the cost that does not register a change with an increase or decrease in the quantity of goods produced by a firm. Fixed costs are those costs that a company should bear irrespective of the levels of production.
- Fixed costs are less controllable in nature than the variable costs as they are not dependent on the production factors such as volume.
- The different examples of fixed costs can be rent, salaries, and property taxes.

VARIABLE COST:

- Variable cost is referred to as the type of cost that will show variations as per the changes in the levels of production.
- Depending on the volume of the production in a company, the variable cost increases or decreases.
- The various examples of variable costs are the cost of raw materials that are used for production, sales commissions, labour cost, and more.

TYPES OF COSTING – CONT…

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TYPES OF COSTING – CONT..

MARGINAL COST:

- Marginal cost is referred to as the cost that is incurred by any business when there is a need for producing additional units of any goods or services.
- It is calculated by taking the total cost of producing the additional goods into account and dividing that by the change in the total quantity of the goods produced.
- Marginal cost includes variable costs like material and labour. It also includes increments in any fixed costs such as overhead, administrative, and selling.
- The marginal cost formula is used to optimise the cash flow generation and is represented as follows:

Marginal cost = (Change in cost) / (Change in quantity)

FIXED COST

Vs.

VARIABLE COST

Basis of Difference	Fixed Cost	Variable Cost
Meaning	It refers to the expenditure incurred by the producer on fixed factors of production.	It refers to the cost incurred on variable factors of production.
Nature	Fixed Costs are time-based costs as these are fixed in short-run and can be variable in long run.	Variable Costs are volume of production based as these are dependent on the units produced.
Behaviour	These costs are fixed and don't change with increase or decrease in the output.	These costs are variable. Thus, keep on changing with the change in output.
Incurred	These costs are incurred even before the start of actual output.	These costs are incurred only when there is the actual output produced.
Unit Cost	The per-unit fixed cost decreases with an increase in production and vice versa. Thus, it changes when comes to per-unit cost.	The per-unit variable cost is always fixed whatever be the production.
Control	These costs cannot be controlled and have to be paid.	These costs can be controlled by controlling the volume of production.
Also known as	These costs are also known as supplementary costs, overhead costs or indirect costs.	These costs are also known as Prime cost or direct cost.
At zero production level	These costs have to be incurred even when the output is zero.	These costs are zero when the production is zero.
Examples	Expenditure on Machinery and Plant, Licence fee, Expenditure on Land and Building etc.	Expenditure on purchase of raw material, Wages to labour, Expenditure on electricity, Wear and tear Expenses etc.

THANK YOU