

Topic: Types of Cost (E and F)
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Types of Cost

The different bases of cost classification are:

- A. By time (Historical, Pre-determined).
- B. Association with the product (Product, Period).
- C. By Changes in activity or volume (Fixed, Variable, Semi-variable).
- D. By function (Manufacturing, Administrative, Selling, Research and development, Pre-production).
- E. Relationship with accounting period (Capital, Revenue).
- F. Controllability (Controllable, Non-controllable).
- G. Cost for analytical and decision-making purposes (Opportunity, Sunk, Differential, Joint, Common, Imputed, Out-of-pocket, Marginal, Uniform, Replacement).
- H. Others (Conversion, Traceable, Normal, Avoidable, Unavoidable, Total).

In previous PDF I have discussed type A, B, C and D cost In this PDF I am going to discuss Type E and F Cost

E. Relationships with Accounting Period Costs can be capital and revenue: Capital expenditure provides benefit to future period and is classified as an asset. On the other hand, revenue expenditure benefits only the current period and is treated as an expense. As and when an asset is written off, capital expenses to that extent becomes cost. Only when capital and revenue is properly differentiated, the income of a particular period can be correctly determined. It is not possible to distinguish between the two under all circumstances.

F. Controllability (Controllable, Non-controllable):The Chartered Institute of Management Accountants defines controllable cost as “cost which can be influenced by its budget holder”. Non-Controllable Cost: It is the cost which is not subject to control at any level of managerial supervision. The difference between the terms is very important for the purpose of cost accounting, cost control and responsibility accounting. A controllable cost can be controlled by a person at a given organisational level. Controllable cost are not totally controllable. Some costs are partly controllable by one person and partly by another e.g., maintenance cost can be controlled by both the production and maintenance manager. The term “controllable costs” is often used to mean variable costs and non-controllable costs as fixed. Belkaoni has mentioned the following fallacies about controllable costs:

- (i) All variable costs are controllable and fixed are not.
- (ii) All direct costs are controllable and indirect costs are not.
- (iii) All long-term costs are controllable.

Sometimes the time factor and the decision making authority can make a cost controllable. If the time period is long enough, all costs can be controlled. Proper delegation helps in establishing clear responsibility and controllability. But all costs can be controlled by one or another person. The authority and responsibility of cost control is delegated to different levels, though the managing director is responsible for all the costs.

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