MASTER OF COMMERCE

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BY

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Topics for Discussion: Methods of Cost Accounting, Techniques of Cost Accounting, Terminologies of Cost Accounting and Classification of Cost.

METHODS OF COSTING ACCOUNTING

Costing has been defined as the "technique and process of ascertaining costs." The principles of every type of costing are the same but the methods of analyzing and presenting the costs differ with the nature of business.

(a) Job Costing: Where production is not highly repetitive and in addition consists of distinct jobs or lots so that material and labour costs can be identified by order number, the method of job costing is used.

(b) Contract Costing: Contract costing does not in principle differ from job costing. A contract is a big job while a job is a small contract. The term is usually applied where at different sites large scale contract are carried out.

(c) Cost Plus Costing: In contracts where besides 'costs' an agreed sum or percentage to cover overheads and profit is paid to the contractor, the method is termed as cost plus costing.

(d) Batch Costing: Where order or jobs are arranged in different batches after taking in to account the convenience of producing articles, batch costing is employed. Thus in this method, the cost of a group of products is ascertained.

(e) Process Costing: If a product passes through different stages, each distinct and well defined, it is desired to know the cost of production at each stage.

(f) Unit Costing: In this method cost per unit of output or production is ascertained and the amount of each element constituting such cost is determined.

(g) Operating Costing: This method is employed where expenses are rendered by bus companies, electricity companies or railway companies or it is used by public utility companies.

(h) Departmental Costing: Ascertainment of cost of output of each department separately the objective of department costing.

(i) Multiple Costing: Under this method the costs of different sections of production are combined after finding out the cost of each part manufactured.

TECHNIQUES OF COST ACCOUNTING

For ascertaining cost, following techniques of costing are usually used:-

a) **Uniform Costing:** The practice in which common methods of costing for different undertakings in the same industry are used is known as uniform costing.

b) **Historical Costing:** In this technique, ascertainment of cost is done after they have been incurred but the utility of this technique is limited.

c) **Direct Costing:** The practice of charging all direct costs to operations, processes or products leaving all indirect costs to be written off against profit's in which they arise are called as direct costing.

d) **Absorption Costing:** In this all costs, both variable and fixed are charged to production, operations or processes.

e) **Marginal Costing:** The method of ascertaining marginal cost by differentiating between fixed and variable costs. This technique is used to ascertain effect of changes in volume or type of output over the profits.

f) **Standard Costing:** The preparation of standard costs and applying them to measure the variations from actual cost and analyzing the causes of variations with a view to maintain maximum efficiency in production is known as standard costing.

g) Activity Based Costing: ABC is a system that focuses on activities as fundamental cost objects and utilizes the cost of these activities as building blocks or compiling the costs of other cost objects.

LIMITATIONS OF COST ACCOUNTING

These are the following reasons for which cost accounting is criticized by the different sections of society:

a) Not Reliable: Cost Accounting is based on estimates and so it is not reliable.

b) Failure of the System: Cost Accounting system has failed to produce desired results in many concerns. Thus it could be said that this system is at fault.

c) Unnecessary: it is not necessary in Business concern as it involves duplication of work.

d) Inapplicability: Modern methods of cost accounting are not applicable to every type of industries.

e) Expenses: It is expensive because double set of account books has to be maintained and its introduction involves considerable amount of expenditure.

TERMINOLOGY OF COST ACCOUNTING

a) Cost

The term 'cost' can be defined as the amount of expenditures incurred on or attributable to a specified thing or activity.

Cost is characterized by the word sacrifice. As such it is very much in the management's interest to control and reduce where possible the sacrifices involved in carrying on it business. Business transactions typically, involve both the reward (revenue) and the sacrifice (cost), the differences between the two being gain (or profit). Thus:

Reward - Sacrifice = Gain Revenue - Cost = Profit

Generally cost may be explained as the amount of expenditure, actual or notional, relating to a specific thing or activity such as product, job, service, process etc. It may also be expressed as a sacrifice which may be defined in the terms of money means it is the amount of resources given up in exchange for some goods and services. Cost and expenses are different but relative terms.

Where 'costs' includes the cost of material and labour in addition to expenses, the term expenses is widely applied in financial accounts for various types of historical cost. In cost accounting, it is used for costs other than cost of raw material and wages. To understand the meaning of cost, it is necessary to define the meaning of expenses.
Cost is the amount of expenditure, actual (incurred) or notional (attributable), relating to a specific thing or activity. The specific thing or activity may be a product, job, service, process or may other activity.

Basically, when a cost is incurred, it could be in the form of deferred cost (asset) or expired cost (expense). Deferred costs are unexpired costs, capitalized costs, which provide benefits in the future periods and known as assets and hence appears in the balance sheet.

Expired costs are costs which have been used up totally in generating revenue. They are not capitalized but only shown as expenses on income statement.

Cost, which is defined as the amount of expenditure (actual or notional) incurred on or attributable to a produced item or a service unit. But the term 'cost' cannot be exactly defined. Its interpretation depends upon: (i) the nature of business and (ii) the context in which it is used. This in reality is the quantification of human performance in monetary unit.

b) Expenses

Generally expenses are called expired costs means those costs which have been used up totally in generating revenue. They are not capitalised but only shown as expenses in income statement. There are so many examples of expenses such as costs of goods sold expenses, selling expenses and administrative expenses. For expenses, there is no need to be paid in cash immediately; even a promise to pay could be made for the profits received. The manufacturing costs are capitalised in the form of finished goods inventory and when a sale is incurred, they expire becoming expenses. The cost of unsold stock which was an asset prior, now converts expenses of cost of goods sold as it has contributed to the generation of revenue.

Manufacturing expenses may be expressed as cost because this is included in the cost of fished goods stock which is an asset unless sale is made.

For example, depreciation of a factory machine increases the utility of goods manufactured which are therefore included in work-in-progress and finished goods inventory. Selling and administrative expenses, when not included in the cost of finished goods stock, are deemed only as expenses, not cost (asset) and are deducted from revenues whenever obtained. Similarly, depreciation of a factory building is a cost but depreciation of an office building is an expense.

The term cost itself is without any significant meaning and therefore, it is always advisable to use it with an adjective or phrase that will convey the meaning intended such as prime, direct, indirect, fixed, variable, controllable, opportunity, imputed, sunk, differential, marginal, replacement and the like. Future costs are also considered in cost accounting but not in financial accounting.

c) Loss

To understand the concept of cost, the term 'loss' should be defined.

Loss is lost cost. It is applied to define two accounting events. In financial accounting, it is used to describe a circumstance where expenses exceed revenues for an accounting period, that is, the reverse of net income (earnings) for the accounting period. On the other hand, a loss arises due to the cost of an asset being more than the sale proceeds when the asset is sold. This unfavourable event does not arise from a normal business activity but from non-operating transactions or events. This meaning of loss is used to recognize the reverse of gain. That is, if no gain is achieved from the cost incurred or it becomes definite that no benefits accrue, the cost becomes a lost cost, i.e., loss on sale of fixed asset, loss of stock due to fire etc.

Related Terminology

There are specific terminologies which though have a different meaning but are usually used as a substitution for cost accounting. The three of these are as follows:

Cost: Cost refers to any expense or sacrifice made to develop a product or service.

As far as manufacturing units or industries are concerned, the three significant elements of cost are material, labour and overheads. These are further bifurcated into two categories each, i.e. direct and indirect. The cost can also be identified by its variability as the fixed cost, variable cost and semi-variable cost.

Costing: Costing is the technique and method used for calculating the cost of a product or service.

Cost Accountancy: Cost Accountancy is a systematic process of applying the costing, as well as cost accounting methods in business activities. It ensures cost control and reduction.

Cost Accounting : Cost accounting is the accounting method for ensuring cost-effectiveness by accumulating, organising, recording, calculating, analysing and assessing the overall expenses incurred on a product, process or project, etc. It is mostly used in industrial units or factories where the goods are manufactured.

Difference between Costing and Cost Accounting

Basis of Distinction	Costing	Cost Accounting
1. Nature	It is a technique and process of ascertaining costs.	It is regarded as a specialised branch of accounting.
2. Scope	The costing techniques include principles and rules which govern the procedure of ascertaining the cost of products/services.	It involves classification, accumulation, assignment and control of costs.
3. Process	The process of costing consists of routines of ascertaining costs by historical or conventional costing, standard costing or marginal costing.	It involves establishment of budgets, standard costs or actual costs of operations, classification, recording and appropriate allocation of expenditure.

CLASSIFICATION OF COSTS

There are so many objectives of cost accounting such as planning, decision- making, stock valuation, profit measurement, control etc. For achieving these objectives, cost should be computed, classified and grouped.

Cost classification may be known as the process of grouping costs according to their general characteristics.

The various cost classifications are as follows:

1. Natural Classification of Cost

(A) Direct Material Cost
(B) Indirect Material Cost
(C) Direct Labour Cost
(D) Indirect Labour Cost
(E) Direct Expenses Cost
(F) Indirect Expenses Cost

2. According to Variation in Production Activity and Quantity
(A) Fixed Cost (B) Variable Cost
(C) Semi-variable/Fixed Cost (Mixed Cost)
3. Degree of changeability to the product
(A) Direct Cost (B) Indirect Cost
4. Degree of Relation with the Product
(A) Product Cost (B) Period Cost
5. Functional Classification of Cost
(A) Manufacturing Cost (B) Selling and Distribution Cost
(c) Administrative Cost
6. Association with the Accounting Period
(A) Capital Cost (B) Revenue Cost
7. Costs for Decision-Making and Planning
(A) Opportunity Cost (B) Sunk Cost
(C) Relevant Cost (D) Differential Cost
(E) Imputed Cost/Notional Cost (F) Out-of-pocket Cost
(G) Fixed, Variable and Mixed Cost (H) Shut Down Cost
8. Costs for Control
(A) Controllable and Uncontrollable Cost (B) Standard Cost
(C) Fixed, Variable and Mixed Cost
9. Other Costs
(A) Joint Cost (B) Common Cost

1. NORMAL CLASSIFICATION OF COST

A) Direct Material Cost: Material means those items which are applied for manufacturing of a product and direct material is directly related to production. For example, raw cotton in textiles, crude oil to make diesel etc. There are so many names of direct materials such as process material, prime cost material, stores material and construction materials.
Main points for direct material can be summarized as follows:

(1) Direct material specially acquired for a particular Job, order, process or product.
(2) It is integrated part of manufacturing unit.
(3) Value of direct material is comparatively higher than that of other materials.
(4) Material passing from one process to another process.
(5) Primary packing materials e.g. wrapping, cardboard boxes, the glass bottle in production of syrup etc
(6) It Increases in the same ratio as the increase in production

B) Indirect Material Cost: In the words of **C.I.MA., London**, “indirect material cost is the material cost which cannot be allocated but which can be apportioned to or absorbed by cost centres or cost units’’.
Thus it may be said that indirect cost is the cost which cannot be directly identified to the unit of output or to the segment of a business activity e.g. oil, grease, consumable stores etc.

C) Direct Labour Cost: Direct labour is known as the wage of those workers who are involved in the production process whose time can be efficiently and economically traceable to units of products e.g. wages paid to compositors in a printing press, labour of machine operators and assemblers. It may also be defined as prime labour cost, process labour cost, operating labour cost, manufacturing wages, Direct wages and productive labour cost. In the words of **C.I.MA., London**, “direct wages is that wages which can be allocated to cost centres or cost units.”

D) Indirect Labour Cost: Some workers does not engage directly in conversion of output but contribute indirectly. Labour is paid for the objective of carrying tasks incidental to goods or service provided.
It cannot be practically traced to particular units of output e.g. wages of store-keepers, foremen, time-keepers, supervisors, Inspectors etc. In the words of **C.I.M.A., London**, "Wages which cannot be allocated but which can be apportioned or absorbed by cost centres or cost units is indirect wages.''

E) Direct Expenses Cost: It is also defined as chargeable expenses. These direct expenses are incurred directly on a particular product, Job or cost units and recognizable with the cost units.
According to C.I.M.A., London, "Direct expenses means, expenses which can be allocated to cost centres or cost units." For example, -

(1) Hiring of a particular tool plant or equipment for job.
(2) Cost of special moulds, designs and patterns.
(3) Fees paid to architects, surveyors and consultants.
(4) Insurance charges on special materials chargeable to a job.

F) Indirect Expenses Cost: Those expenses which cannot be directly, conveniently and fully charged to cost units are known as indirect expenses In the words of **C.I.M.A.**, London, "Indirect expenses are expenses which cannot be allocated but which can be apportioned to or absorbed by cost centres or cost unit" For example, insurance, power, lighting and heating, rent, rates and taxes, depreciation etc.

2. ACCORDING TO VARIATION IN PRODUCTION ACTIVITY AND QUANTITY:
Costs can be divided into (i) fixed, (ii) variable, and (iii) mixed costs, in terms of their changes in cost behaviour in relation to variation in output, or activity or volume. Activity can be expressed in any form such as units of output, hours worked, sales, etc.

A) Fixed Cost: Fixed cost is a cost which does not vary in total for a given time period in spite of wide fluctuation in production or volume of activity. These costs are also termed as standby costs, capacity costs or period costs. Few examples explaining the nature of fixed costs are rent, property taxes, supervising salaries, depreciation on office facilities, advertising, Insurance, etc. Fixed costs are incurred with the passage of time and not with the production of the product or the job.
Hence, fixed costs are defined in terms of time, such as per day, per month or per year and not in terms of unit. It is totally illogical to say that remuneration of supervisor in the form of salary and perquisites are so much per unit but, it can be said that supervisor's salary and perquisites are so much per month. Fixed costs can be further classified in the following categories

a. **Committed Costs:** Those costs are unavoidable in short-term if the concern has to function. Such costs are basically incurred to maintain the company's benefits and physical existence, and over which management has little or no discretion. Few examples of committed costs are plant and equipment depreciation, taxes, insurance premium, rate and rent charges.

b. Managed Costs: Managed costs are related to current activities which must continue to be incurred to ensure the operating existence of the company e.g., management and staff salaries.

c. Discretionary Costs: They are also identified as programmed costs. Discretionary costs result from special policy decisions, management programmes, new researches etc. Few examples of such costs are research and development costs, marketing programmes, new system development costs.

The difference between committed and discretionary costs is that it is hard to eliminate or neglect committed costs in times of low production or decline in business activity, whereas discretionary costs such as research and development could be reduced to a desirable level.

d. Step Costs: A step cost is fixed for a given amount of production and then rises in a constant amount at a higher production level. For example, in a manufacturing concern, one supervisor is needed at a salary of Rs 20,000 p.m. for every 50 workers. So long as 50 workers or less than that are working, the supervision costs will be Rs. 20,000 p.m. But, as soon as the 51st worker is employed, the cost of supervision rises by Rs. 20,000 p.m. and will be Rs. 40,000.Up to 100 workers the cost of supervision remains fixed at Rs. 40,000. But, if more than 100 workers are employed the cost of supervision will go up further. The following figure can be used to explain this concept:

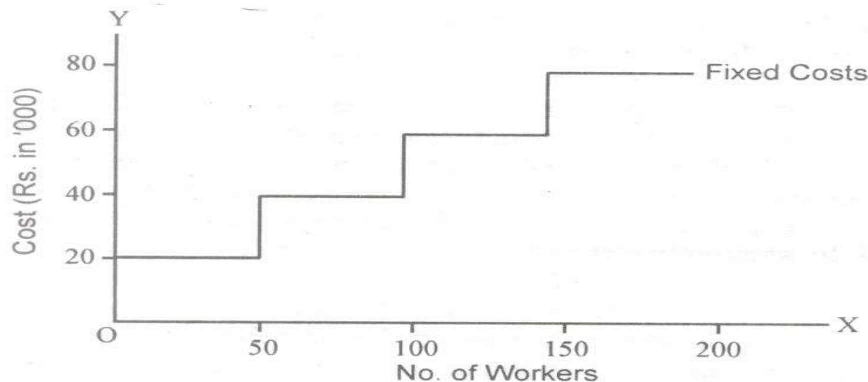

Figure : Step Cost

B) Variable Cost: Variable Cost is those costs that change directly and accordingly with the production. There is a fixed ratio between the variation in the cost and variation in the level of output. Direct materials cost and direct labour cost is the costs which are generally variable costs. For example, if direct material cost is Rs. 50 per unit, then for producing each extra unit, a direct material cost of Rs. 50 per unit will be incurred. That is, the total direct material cost increases in direct proportion to increase in units manufactured. However, it should be highlighted that it is only the total variable costs that vary as more units are produced; the per unit variable cost remains fixed.

Variable overheads like factory supplies, indirect materials, sales commission, office supplies are some other examples of variable costs. If the factory is shut down, variable costs are eliminated. Variable cost is always revealed in terms of units or percentage of volume; it cannot be stated in terms of time. For every increase in the units produced there is a proportionate increase in the cost. When production increases to 3,000 units from a level of 2,000 units, the cost of direct materials increases in direct proportion at the fixed rate of Rs. 50 per unit. The line of variable cost is shown as linear rather than curvilinear.

C) Semi-variable/Fixed Cost (Mixed Cost): Mixed costs are costs made up of fixed and variable items. They are a combination of semi-variable costs and semi-fixed costs. Because of the variable element, they vary with volume; because of the fixed element, they do not fluctuate in direct proportion to output. Semi-fixed costs are those costs which remain fixed up to a certain level of production after which they become variable.

3. DEGREE OF CHANGEABILITY TO THE PRODUCT
According to this basis, cost may be divided into direct and indirect cost.

A) Direct Cost: it may be defined as the term of direct materials, direct labour and direct overheads. That means it is a cost which can be directly identified to a unit of output or the segment of a business operation. It output units are the objects of costing, then direct cost represent cost and resources that can be traced to or identified with the finished product .

B) Indirect Cost: Indirect costs are those costs which cannot be associated with or chargeable to a single product because they are incurred for more products. The examples of indirect costs are: indirect materials (lubricants and scrap materials), salary of factory supervisors (indirect labour), rent, rates and depreciation (indirect expenses). Indirect costs, often related to as overheads, have to be apportioned to various products.

Costs also may be direct or indirect with respect to particular firm segments or divisions. That is some cost which are indirect for a product, may be charged to a segment or department and thus, will be direct costs for that department. A segment may mean any one of a number of things, viz. department, division, specific activity, sales territory etc.

Before classifying the cost into direct and indirect, it is necessary to know whether it is being related with a product, sales area, department or some other activity. For example, if a salesman simultaneously handles several products, his salary is an indirect cost for each product, but a direct cost to his sales area or department.

4. DEGREE OF RELATION WITH THE PRODUCT
Cost may be divided into product costs and period costs in terms of relation with the product.

A) Product Cost: Generally product costs are identified with the product and merged in inventory values. In other words, product costs are those costs that are included in the cost of manufacturing a product. In a manufacturing firm, it is the combination of four elements: (i) direct materials, (ii) direct labour, (iii) direct expenses, and (iv) manufacturing overhead. Thus, product cost is a complete factory cost. Prior to sale, product costs are deferred as inventories and until the goods are sold, are shown on the balance sheet as assets. As finished inventory goods is sold, product costs are transferred from the inventory accounts to the cost of goods sold account thus becoming expenses and part of the period costs at the time revenue is realised.

B) Period Cost: Period costs are those costs which are not identified with product or activity during the period in which they are evolved. They are not carried forward as a part of value of stock to the next accounting period.
These costs are required to generate revenues but they cannot be directly related with units of product. Difference of opinion exists regarding whether certain costs should be considered as product or period costs.

5. FUNCTIONAL CLASSIFICATION OF COSTS

Functional classification of costs defines how the cost was applied (manufacturing, administration or selling). A functional classification expresses that the business performs various functions for which costs are incurred. In measuring net income, expenses are usually classified by function and grouped under the headings of manufacture, selling and administrative costs. Manufacturing costs are all production cost incurred to manufacture the products and to bring them to a saleable condition, including direct materials, direct labour and indirect manufacturing (or factory overhead) costs. Selling and administrative charges may be assumed as expenses when incurred or charged to prepaid expense accounts such as prepaid insurance. Functional classification is also important because it gives an opportunity to the management to calculate the efficiency of departments performing various functions in the firm.

6. ASSOCIATION WITH ACCOUNTING PERIOD

Costs can also be classified into two major classes on the basis of the accounting period to which they relate: (i) capital expenditures, and (ii) revenue expenditures.

A capital expenditure provides benefit to future periods and is classified as an asset; revenue expenditure is treated to benefit the current period and is classified as an expense; a capital expenditure will flow into the cost stream as an expense when the asset is applied up or written off. The difference between capital and revenue expenditures is vital to the accurate matching of costs and revenue and to the right measurement of periodic net income.

7. COSTS FOR DECISION-MAKING AND PLANNING

A) Opportunity Cost: opportunity cost is the cost of opportunity lost. Opportunity cost is the cost of choosing one item of action in terms of the opportunities which are given up to carry out that course of action. Opportunity cost is the profit lost by avoiding the best competing alternative to the one chosen. The benefit lost is normally the net earnings or profits that might have been earned from the rejected alternative.

For example, assume that a manufacturer can sell a semi-finished product to a customer for Rs. 5,00,000. He decides, however, to keep it and eliminate it. The opportunity cost of the semi-finished product is Rs. 5,00,000 because this is the amount of economic resources rejected by the manufacturer to complete the product. Simultaneously, capital which is invested in plant and inventories cannot now be invested in shares and debentures that will earn interest and dividends.

The loss of interest and dividend that would be earned is the opportunity cost. Other examples of opportunity cost are when the owner of a business foregoes the opportunity to employ himself elsewhere; or a machine used to make Product X is said to have an opportunity cost if the machine can be sold or if it can also make Product Y.

Opportunity costs help in decision-making and selecting alternatives. Decision-making is selecting the best alternative which is adopted with the help of opportunity costs. But opportunity costs are not recorded in an accounting system as they relate to opportunities lost.

B) Sunk Cost: Sunk cost is past or historical cost which has already been incurred. It may be known as unavoidable cost, it refers to all past costs since these amounts cannot be changed once the cost is incurred. They are the costs which have been created by a decision in the past and cannot be altered or neglected by any decision that is made in the future. Examples of sunk costs are the book values of existing assets, such as plant and equipment, inventory, investment in securities, etc. Except the possible benefits or losses on sales of any of such assets, the book value is not relevant for decisions regarding whether to use them or dispose them off.

Some accountants make discussion and argument that the total cost of a fixed asset is not the sunk cost, but sunk cost is the difference between the purchase price of a fixed asset and the net amount that could be realised from its sale.

C) Relevant Cost: Relevant costs are related to future, which differ between alternatives. Relevant costs may also be termed as the costs which are influenced and changed by a decision. On the other hand, irrelevant costs are not influenced by the decision, whatever alternative is selected. The features of relevant cost are as follows

(i) Relevant costs are basically future costs, i.e. those costs which are, expected to be charged in future. Relevant costs therefore, are not past (sunk) costs which have already been incurred and cannot be altered by a decision.

(ii) Relevant costs are only incremental (additional) or avoidable costs. Incremental costs refer to an increase in cost between two options. Avoidable costs are those which are not incurred from one alternative to another.

D) Differential Cost: Differential cost is the increase or decrease in total costs between any two alternatives due to change in activity or a particular management decision.
Differential costs are similar to the additional variable expense charged in respect of the additional output, plus the increase in fixed costs, if any. This cost day be evaluated by taking the total cost of production without the additional contemplated outlay and comparing it with the total costs incurred if the additional output is under consideration.
Differential costs are also named as incremental costs, although technically an incremental cost should refer only to an increase in cost from one alternative to another; decrease in cost should be referred to as decremental cost. Differential cost is a broader concept encompassing both cost increases (incremental costs) and cost decreases (decremental costs) between options.

E) Imputed Cost / Notional Costs: Imputed costs are those costs which do not involve actual cash outlay. These costs are not actually incurred in some transaction but which are relevant to the decision as they pertain to a particular situation. These costs do not enter into traditional accounting system or in financial records. Interests on internally generated funds, rental value of company owned property and salaries of owners of a single proprietorship or partnership are some examples of imputed costs.

Costs paid or charged are not imputed costs. For example, if Rs. 60,000 is paid for purchase of raw materials, it is an outlay cost but not an imputed cost, because it would enter into ordinary accounting systems. When a company uses internally generated funds, no actual interest payment is needed. But if the internally generated funds are invested in some projects, interest would have been earned. The revenue forgone (loss of interest) reveals an opportunity cost, and thus, imputed costs are opportunity costs.

F) Out of Pocket Cost: Out of pocket cost involves the cash outflows due to a particular management decision activity. Non-cash costs such as depreciation are not involved in out-of-pocket costs. This cost concept is important for management in deciding whether or not a particular project will at least return the cash expenditures related with the project choosen by management. Similarly acceptance of a special order for production may necessitate the considerations of out-of-pocket costs that need not to be charged if the special order proposal is not accepted. Depreciation on plant and equipment is not relevant in decision-making because no cash goes outside the concern.

G) Shut Down Cost: Shut down costs are those costs which have to be arise under all conditions in the case of stopping manufacture of a product or closing down a department or a division. Shut down costs are always fixed costs. If the manufacture of a product is stopped, variable costs like direct materials, direct labour, direct expenses, variable factory overhead will not be incurred. However, a part of fixed costs (if not total fixed costs) related with the product will be incurred such as rent, watchman's salary, property taxes etc. Such fixed costs are unavoidable. Some fixed costs associated with the product become negligible and need not be incurred in case production is stopped such as supervisor's salary, factory manager's salary, lighting, etc. Shut down costs, thus refer to minimum fixed costs which are incurred in the event of closing down of a department or division.

8. COSTS FOR CONTROL

A) Controllable and Uncontrollable Cost: Controllable cost is that cost which is subject to direct control at some level of managerial supervision.

The concept of controllable cost is very significant in cost accounting and contributes to the achievement of the goals of cost control and responsibility accounting. The CIMA, London, explains *controllable cost as 'a cost which can be influenced by the action of a specified member of an undertaking' and a non- controllable cost as 'a cost which can be influenced by the action of a specified member of an undertakings'*. Basically, a controllable cost is the cost over which a manager has direct and full decision authority. That is, controllable costs can be controlled (reduced) by a manager at a given organizational level. Some examples of controllable costs are indirect labour, lubricants, cutting tools, and power costs incurred in the machine department. Controllable costs do not reveal that they are 100% controllable. Some costs are partly controllable by a responsibility centre manager. For example, the cost of raw materials is controlled by the production managers as well as purchase managers. The production manager controls at quantity level, and the purchase manager at the price level. Such costs are reported to both of them, but one responsible manager should be held accountable for those costs which he can control.

The term "controllable cost'' is different with the terms "variable cost, direct cost''. Variable costs change with the output but are not necessarily. For example, factory supplies used for servicing plant and equipment may vary with the output in the production department, but the production manager cannot control them.

It is influenced from the two factors: (i) the time period factor, and (ii) the decision-making authority, can make a cost controllable or uncontrollable. If the time period is long enough all costs can be controllable and curtailed. Similarly, the decision-making authority affects the cost. If a responsibility center manager has been delegated the authority to spend the cost, he can control it but all costs can be said to be controllable by somebody in the concern. The managing director of a company is responsible for all costs. But practically, the responsibility and authority of controlling costs is delegated to various levels in the concern.

B) Standard Cost: Standard costs are those costs which are planned or pre-determined cost estimates for a unit of output in order to get a basis for comparison with actual costs. It is evaluated at assuming a particular level of efficiency in utilization of material, labour and indirect services. Standard costs are used to prepare budgets. Standard cost is a unit concept and indicates standard cost per unit of output, per labour hour etc. On the other hand, the term budgeted Cost' is a total concept and implies total budgeted cost of an item at some activity level or output level such as budgeted cost of material is Rs 8,00,000 if 8000 units are produced.

9. OTHER COSTS

A) Joint Cost: Joint costs incur where the processing of a single raw material or production resources results in two or more various joint products or by-products up to the point of separation simultaneously. Joint costs relate to two or more products manufactured from a common production process or element-material, labour, or overhead or any combination thereof, or so locked together that one cannot be produced without producing the other(s).
Thus, joint cost is the cost of two or more products that are not identifiable as individual types of products until a particular stage of production known as the split-off point (point of separation) is reached. For example, kerosene, fuel oil, gasoline and other oil products are derived from crude oil. Joint costs are total costs incurred upto the point of separation. Joint costs can be apportioned to different products only by means of some suitable bases of apportionment.

B) Common Cost: Common costs are those which are incurred or charged for more than one product, job or any other certain costing object. These costs are not easily recognisable with individual product and therefore are normally apportioned. Common costs are common to products, processes, functions, responsibilities, customers, sales territories, costing units and period of time.

THE END