SUBJECT –MANAGEMENT ACCOUNT

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✞ **Production or Manufacturing Costs** - Production cost is the cost of all items involved in the production of a product or service. These refer to the costs of operating the manufacturing division of an undertaking and include all costs incurred by the factory from the receipt of raw materials and supply of labour and services until production is completed and the finished product is packed with the primary packing. Direct Material, Direct Labour, Direct Expenses and Factory overhead are considered as Production or Manufacturing Costs.

✞ **Administration costs** - Administration costs are expenses incurred for general management of an organization. These are in the nature of indirect costs and are also termed as administrative overheads. Examples - Salaries of office staff, accountants, directors, Rent, rates and depreciation of office building, Postage, stationery and telephone, Office supplies and expenses etc.

✞ **Selling & Distribution Costs** - Selling costs are indirect costs related to selling of products are services and include all indirect costs in sales management for the organization. Distribution costs are incurred to make the saleable goods available in the hands of the customer. Examples - Salaries and commission of salesmen and sales managers, Expenses of advertisement, Maintenance of Delivery vans etc.

✞ **Cost Sheet** - A cost sheet is a report on which is accumulated all of the costs associated with a product or production job.

✞ **Fixed Cost** - Fixed cost is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs. Example: Rent, Depreciation etc.

✞ **Variable Cost** - Variable cost is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts (i) Variable direct cost (ii) Variable indirect costs. Variable indirect costs are termed as variable overheads. Example: Direct labour, Outward Freight etc.

✞ **Semi-Variable Costs** - Semi variable costs contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity. These are partly fixed and partly variable costs and vice versa. Example: Factory supervision, Maintenance etc.

✞ **Opportunity Cost** - Opportunity cost is the value of alternatives foregone by adopting a particular strategy or employing resources in specific manner. It is the return expected from an investment other than the present one. For example, if fixed deposits in the bank are proposed to be withdrawn for financing project, the opportunity cost would be the loss of interest on the deposits.

✞ **Replacement Cost**: This is the cost in the current market of replacing an asset. For example, when replacement cost of material or an asset is being considered, it means that the cost that would be incurred if the material or the asset was to be purchased at the current market price and not the cost, at which it was actually purchased earlier, should be take into account.

✞ **Relevant Costs**: Relevant costs are costs which are relevant for a specific purpose or situation. In the context of decision making, only those costs are relevant which are pertinent to the decision at hand. Since we are concerned with future costs only while making a decision, historical costs are usually irrelevant to the decision making process.

✞ **Imputed Costs** - Imputed costs are hypothetical or notional costs, not involving cash outlay computed only for the purpose of decision making. In this respect, imputed costs are similar to opportunity costs.

✞ **Sunk Costs** - Sunk costs are historical costs which are incurred i.e. sunk in the past and are not relevant to the particular decision making problem being considered. While considering the replacement of a plant, the depreciated book value of the old asset is irrelevant as the amount is sunk cost.

✞ **Out-of-Pocket Cost** - This is the portion of the cost associated with an activity that involve cash payment to other parties, as opposed to costs which do not require any cash outlay, such as depreciation and certain allocated costs.

- **Process Costing** - When the production process is such that goods are produced from a sequence of continuous or repetitive operations or processes, the cost incurred during a period is considered as Process Cost. Process Costing is employed in industries where a continuous process of manufacturing is carried out. Chemical industries, refineries, gas and electricity generating concerns may be quoted as examples of undertakings that employ process costing.

- **Marginal Costing** - Marginal Cost is the aggregate of variable costs, i.e. prime cost plus variable overhead. Marginal Costing system is based on the system of classification of costs into fixed and variable. The fixed costs are excluded and only the marginal costs, i.e. the variable costs are taken into consideration for determining the cost of products and the inventory of work-in-progress and completed products.
- **Absorption Costing** – Absorption costing means that all of the manufacturing costs are absorbed by the units produced. In other words, the cost of a finished unit in inventory will include direct materials, direct labor, and both variable and fixed manufacturing overhead. As a result, absorption costing is also referred to as full costing or the full absorption method.

- **Absorption vs. Marginal Costing** – Key differences between absorption and marginal costing are as follows:

- **Differential Cost** - Differential Cost is the change in the costs which results from the adoption of an alternative course of action. The alternative actions may arise due to change in sales volume, price, product mix (by increasing, reducing or stopping the production of certain items), or methods of production, sales, or sales promotion, or they may be due to 'make or buy' or 'take or refuse' decisions. When the change in costs occurs due to change in the activity from one level to another, differential cost is referred to as incremental cost. In differential cost analysis, differential costs are compared with the incremental or decremental revenues, as the case may be.