Lecture I . B. Com II by Dr. S. K. Sharma

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What is Cost :-

A Cost Can be defined as the amount of resources given up in exchange for any goods or Service.

What is Cost Accounting :→

Cost accounting involves recording, Controlling, estimating and reporting for Costs. Cost Accounting process begins with the recording of expenditure or the basis on which they are Calculated and ends with the preparation of Statements for Ascertaining and Controlling Costs.

Different Kinds of Cost :→

(1) Historical Cost → It is the sum total of the Expenses already Incurred. It means that payment of all ~~expenses~~ items of Cost has been made and the entire Cost has been paid.

(2) Estimated Cost :→ when Cost of Service or Commodity is pre estimated before its production, it is Called estimated Cost.

(3) Standard Cost :→ when the standards of expenses or Costs to be incurred on different elements of Cost of a Commodity are pre-decided on the basis of a Scientific method and on the basis of Such Standards the Cost of Commodity is pre-determined. Such pre-determined Cost is Standard Cost.

(4) Total Cost :→ The sum total of all expenses incurred in relation to a Commodity or Service is Called Total Cost.

(5) Marginal Cost :→ Change in the Cost of production of a Commodity or Service due to increase of one unit of production is Called marginal Cost. Thus marginal Cost means per unit variable Cost of a Commodity or Service.

(6) Replacement Cost :→ The Cost is used in relation to the Cost of a property. The Cost incurred or likely to be incurred in replacing a property or an assets is Called as replacement Cost.

(7) Opportunity Cost :→ These are the Costs of forgone opportunities or Cost of alternative or a Comparison between the Cost of alternate Choosen and the alternate rejected. This Cost is used for taking managerial decisions and for ascertaining Correct profitability. This has no relevance to financial records.

(8) Imputed Cost :→
These are the Costs which are not actually incurred but it is producer's Sacrifice or Cost of his inconveniences. For example → Interest of Self employed Capital, rent of Self ~~emplo~~ owned building etc. are not real Costs as these are not actually paid. These Cost are included in Cost accounts but are not recorded in financial accounts.

(9) Shut down Cost :→ These are the Costs which have to be incurred in Case the production work is Stopped permanently or

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- temporarily due to unfavourable production conditions or market conditions whatsoever may be fixed costs which are paid regularly during shut-down period and the costs which were paid at the time of closing the factory are shut-down costs.

(10) Relevant Cost :→ CIMA defines relevant costs as "Cost appropriate to a specific management decision."

(11) Social Responsibility Cost :→
CIMA defines it as "Tangible and intangible costs and ~~[illegible]~~ losses sustained by third parties or the general public as a result economics activity, e.g. pollution by industrial effluent.

(12) Conversion Cost :→
Conversion cost is the cost of converting raw material into the finished stock goods or conversion of the same from one stage to the other stage. Such costs include direct wages, direct expenses and production overheads except the cost of raw material. Thus conversion cost is the works costs minus the cost of raw materials.