

Cost Accounting



Cost Accounting

Definition:

This is an information system that classifies, accumulates, controls and assigns costs to determine the costs of activities, processes and products, and thus to facilitate decision-making, planning and administrative control.

Classification of Costs

- A. By Identification:** These are costs that can be identified with an activity, department, function or product.
- **Direct costs:** When the cost can be assigned fully or directly to an activity. (For example: labor of cabinetmakers in a furniture factory)
 - **Indirect costs:** Those that cannot be identified with a specific activity. (For example: labor of supervisors in a furniture factory)

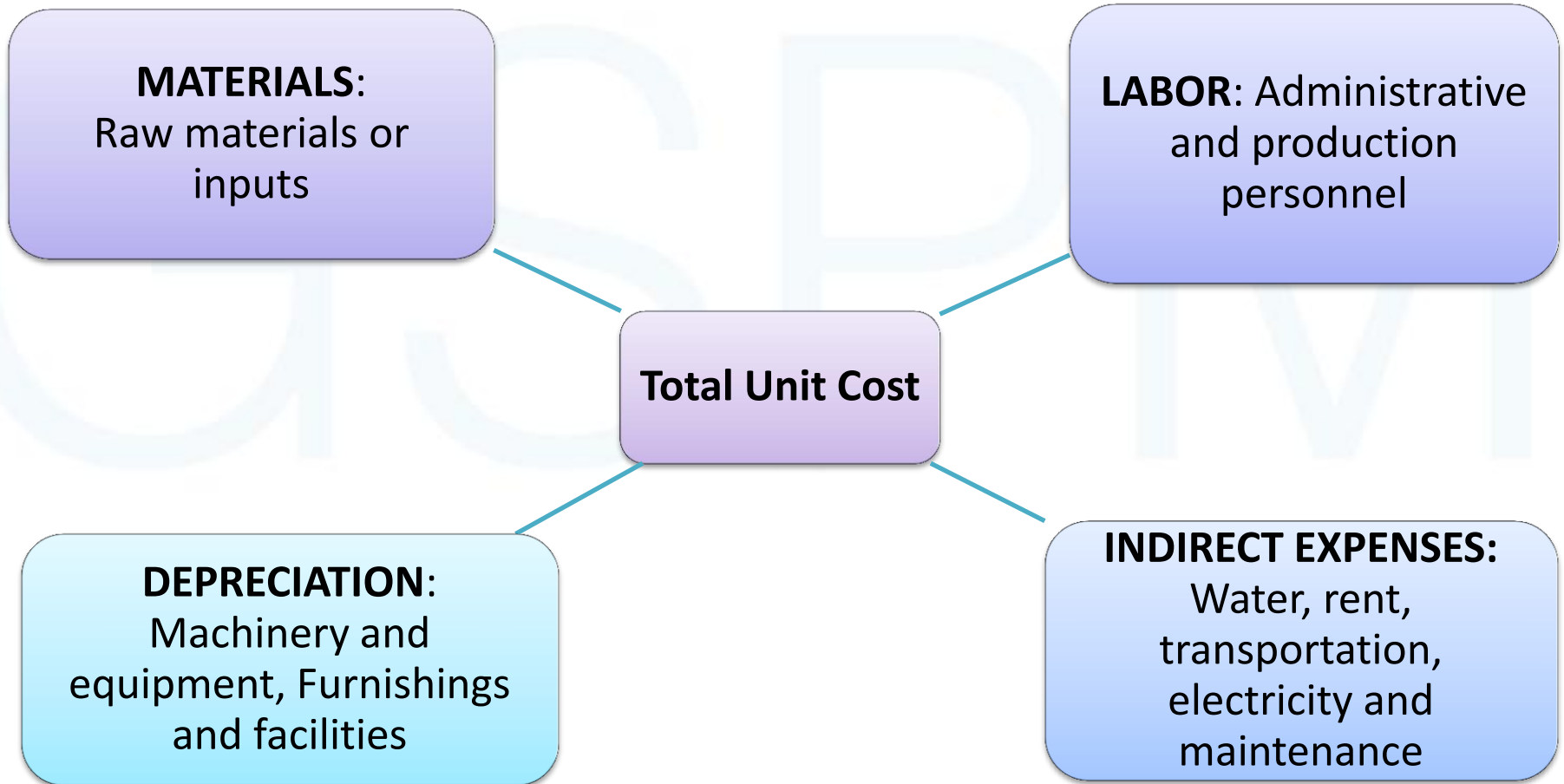
Classification of Costs

B. By Behavior: These are costs that behave according to production volume.

- **Fixed costs:** These are costs that do not change with the company's production volume or level of activity and are determined more with respect to time. (For example: salaries, rents and depreciation)
- **Variable costs:** These are costs that change with respect to the company's increased production or activity. (For example: raw materials and sales commissions)

Cost Accounting

Factors in the Cost of a Product



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Factors in the Cost of a Product

Example: The following costs are incurred for making a shirt:

- The materials used cost 3000
 - Two hours of work are invested; each hour costs 750
 - Depreciation of the machinery is 100
 - The other indirect expenses are calculated at 1000
1. Determine the total unit cost.
 2. What would the price be if a 35% profit is desired?

Factors in the Cost of a Product

Materials	3,000.00
2 Hours of labor (750 x 2)	1,500.00
Machinery depreciation	100.00
Indirect expenses	1,000.00
UNIT COST	5,600.00

To determine the sale price, taking into account a 35% profit, calculate it proportionately. That is, using the rule of three:

Profit	3015.38	35%
Unit Cost	5600.00	65%
Price	8615.38	100%



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