

Classification of Cost

According to Function



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.

Classification of Cost

According to Function



Production or Manufacturing costs are all production cost incurred to manufacture the products and to bring them to a saleable condition, including direct materials, direct labor and indirect manufacturing (or factory overhead) costs.

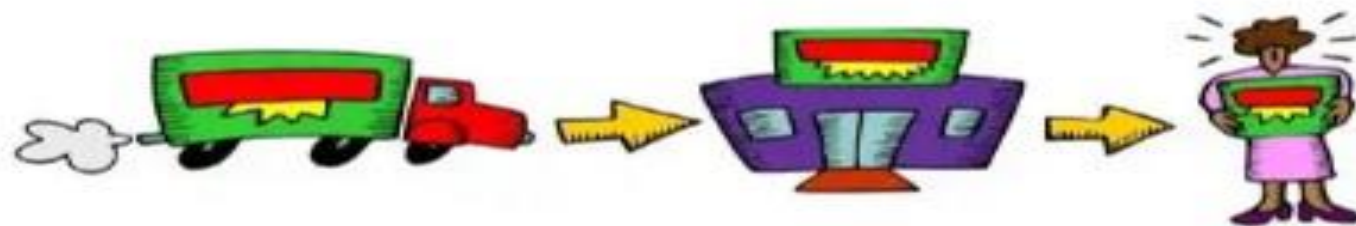
Classification of Cost

According to Function



Selling costs are the costs of marketing function.

Distribution costs include expenditure incurred in **packing, unpacking, and transporting** activities.



Classification of Cost

According to Function



Administrative Cost is the cost of formulating the policy, directing and controlling the business activities which is not related directly to a production, selling & distribution, research or development activity or function.

Classification of Cost

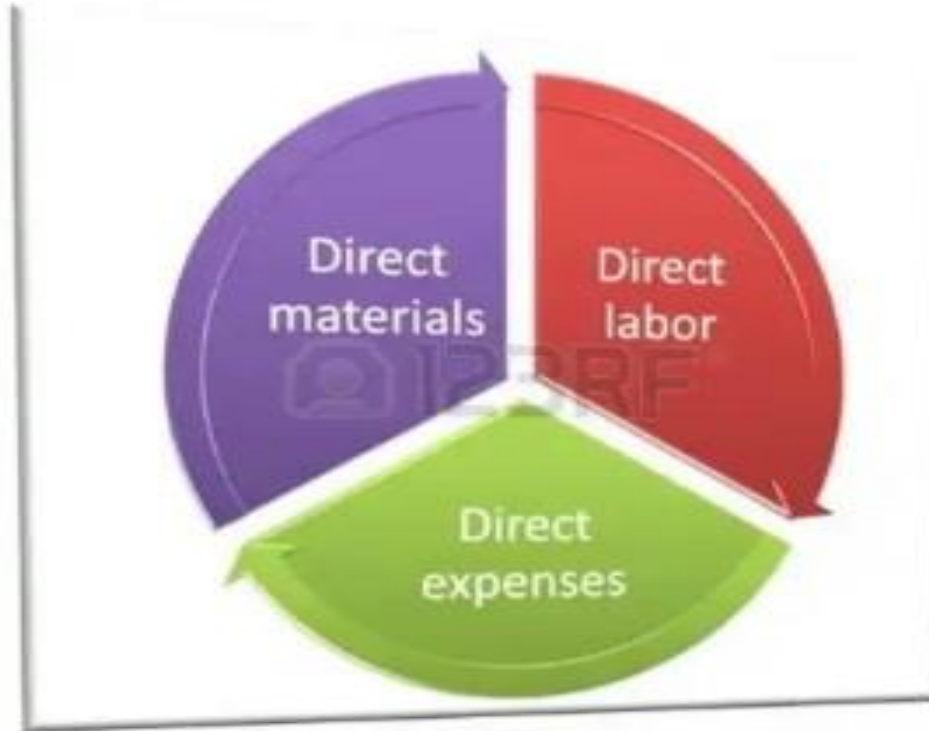
According to Identifiable (Relation Between Product and Cost Center)

Direct Cost

Indirect Cost

Classification of Cost

According to Identifiable (Direct-Indirect Costs)



Direct Costs

The expenses that can be completely attributed to the production or cost center.

In the process of production of articles, material cost, labor cost and other expenses incurred directly related with manufacturing activity.

Classification of Cost

According to Identifiable (Direct-Indirect Costs)

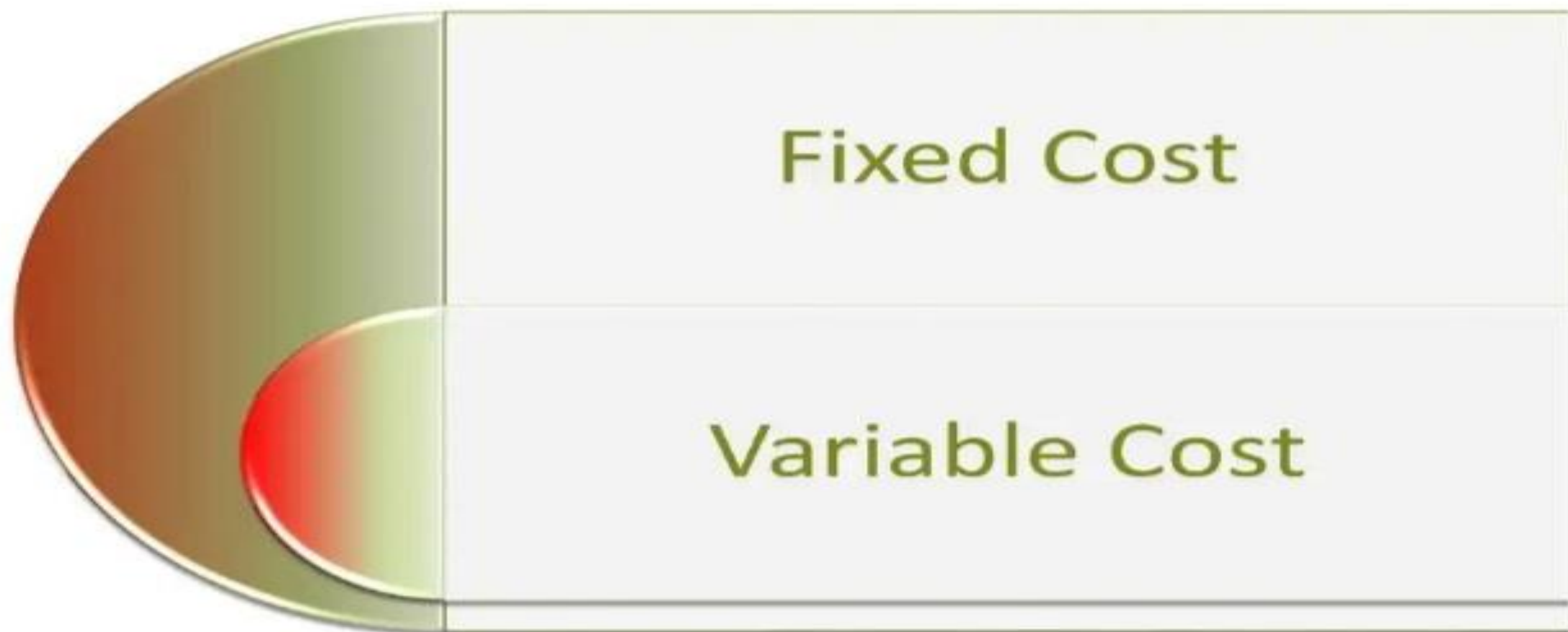


Indirect Costs

Other costs, such as depreciation or administrative expenses, are more difficult to assign to a specific product, and therefore are considered indirect costs.

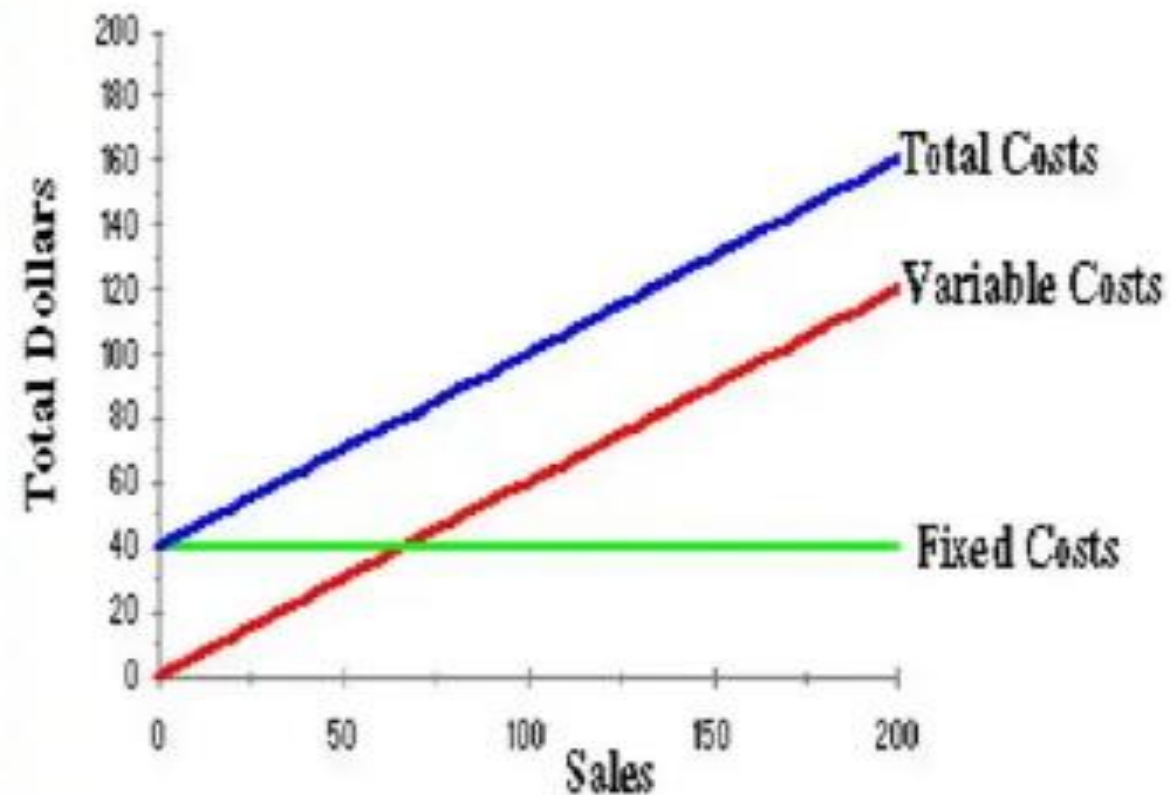
Classification of Cost

According to Behavior



Classification of Cost

According to Behavior

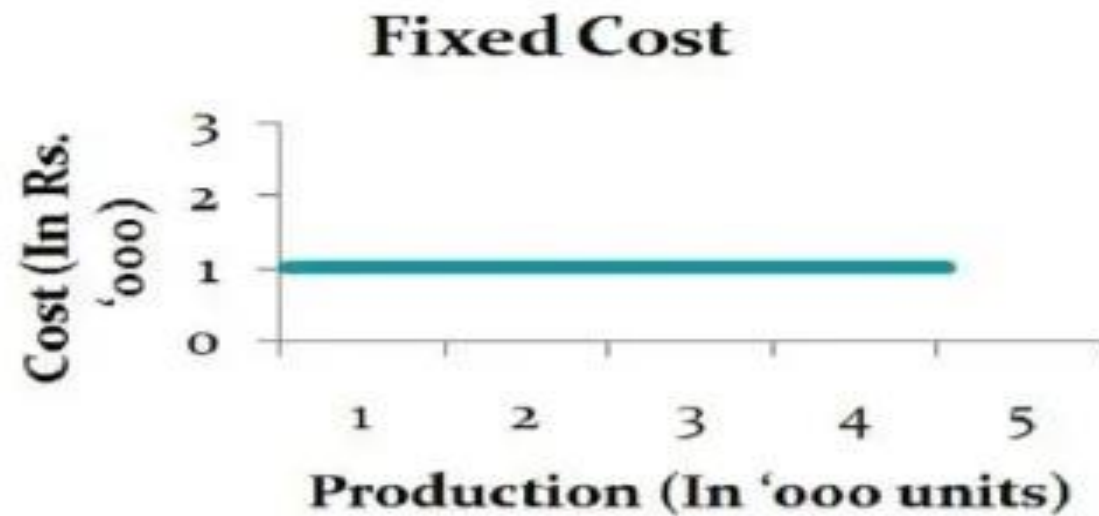


In this classification, costs are classified by their **behavior to changes in the level of activity.**

This is the analysis of how cost or profits change as volume changes.

Classification of Cost

According to Behavior- Fixed Costs

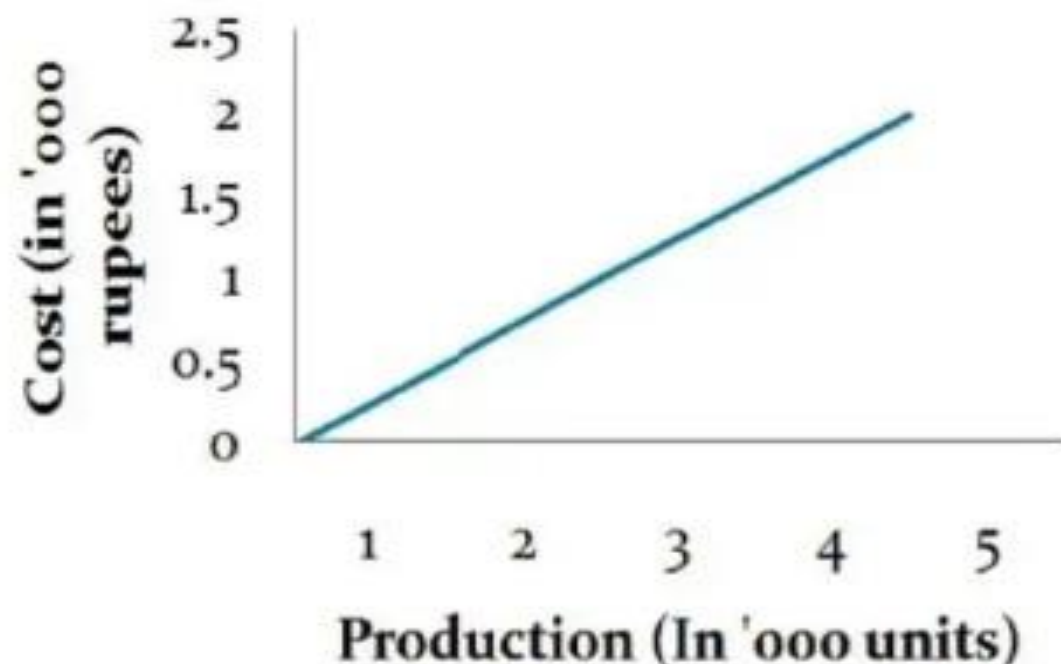


The cost which **does not vary** but **remains constant** within a given period of time or range of activity is called fixed costs.

Example: Rent, insurance of factory buildings, depreciation etc. remain the same for different levels of production.

Classification of Cost

According to Behavior- Variable Costs



The costs **tend to vary** with the **volume of output** called **variable costs**.

Any increase in the volume of production results in an increase in the variable cost.

Example: cost of material, cost of labor etc.

Classification of Costs

