Managing Financial Resources

Costs

Basics (8)

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Costs

Chapter 6 Study guide

3 elements

- Materials
- Labour
- Expenses
- Over-recovery (too much costs included) and under-recovery (too little costs charged)

Column A			Column B			Column C		
Standard hours times standard rates			Actual hours times standard rates			Actual hours times actual rates		
Hours	Rate	£	Hours	Rate	£	Hours	Rate	£
5000	5	25000	5600	5	28000	5600	5.5	30800

Standard costing

Control technique that reports variances by comparing actual costs to pre-set standard costs

Classification

- Direct / Indirect costs
  - Direct
    - fully traced to product
    - **Prime costs**
    - e.g. Material costs, hours spent on product
  - Indirect
    - Can't be traced directly to product
    - **Overheads = Corporate or Business costs**
    - e.g. Occupancy costs, Depreciation of facility, People not directly related to output
- Variable / Fixed costs
  - Variable
    - Increases with activity directly
    - e.g. materials
  - Semi variable
    - Costs which have an fixed part & variable depending upon usage (Phone etc.)
  - Fixed
    - Doesn't increase with activity in the short term
    - e.g. Rent, Insurance etc.
  - stepped fixed costs
    - After the short term, the fixed costs will become stepped fixed costs as there is more fixed costs required
    - e.g. employ more staff

Target costing

- start from the price to define costs

Absorption costing

Umlegung der Kosten

- Charging indirect costs (overheads) to products
  - 1 Allocation & apportionment
  - 2 Absorption rates
- Most commonly used are labour hours / machine hours
- Closing stock valued at full production costs (11)

Difference if there is closing stock --> Closing stock will be deducted

Marginal costing

Grenzkostenrechnung

- Distinction between variable / fixed costs
- Deduct Variable costs from revenue = **Contribution (Deckungsbeitrag)** - Fixed costs = Profit/Loss
- ***How much contribution each product makes against fixed costs and profit***
- Closing stock value at variable costs (8)

Activity based costing

- allocate overheads based on the use made of them
- time consuming but a "fresh" way to identify costs