

Different Costs for Different Purposes

Costs

Relevant costs

The costs that differ across the decision alternatives

Opportunity costs

The value sacrificed when the factor of production is used for a specific purpose

Avoidable costs

The costs that eliminated when a part, product line, or business segment is discontinued

Direct costs

Indirect variable costs

Incremental costs

It is the additional cost that may result from each degree of change in the level or nature of activity.

Differential costs

It is the difference between the cost of two alternative decisions.

Irrelevant costs

The costs that do not differ across the decision alternatives

Unavoidable costs

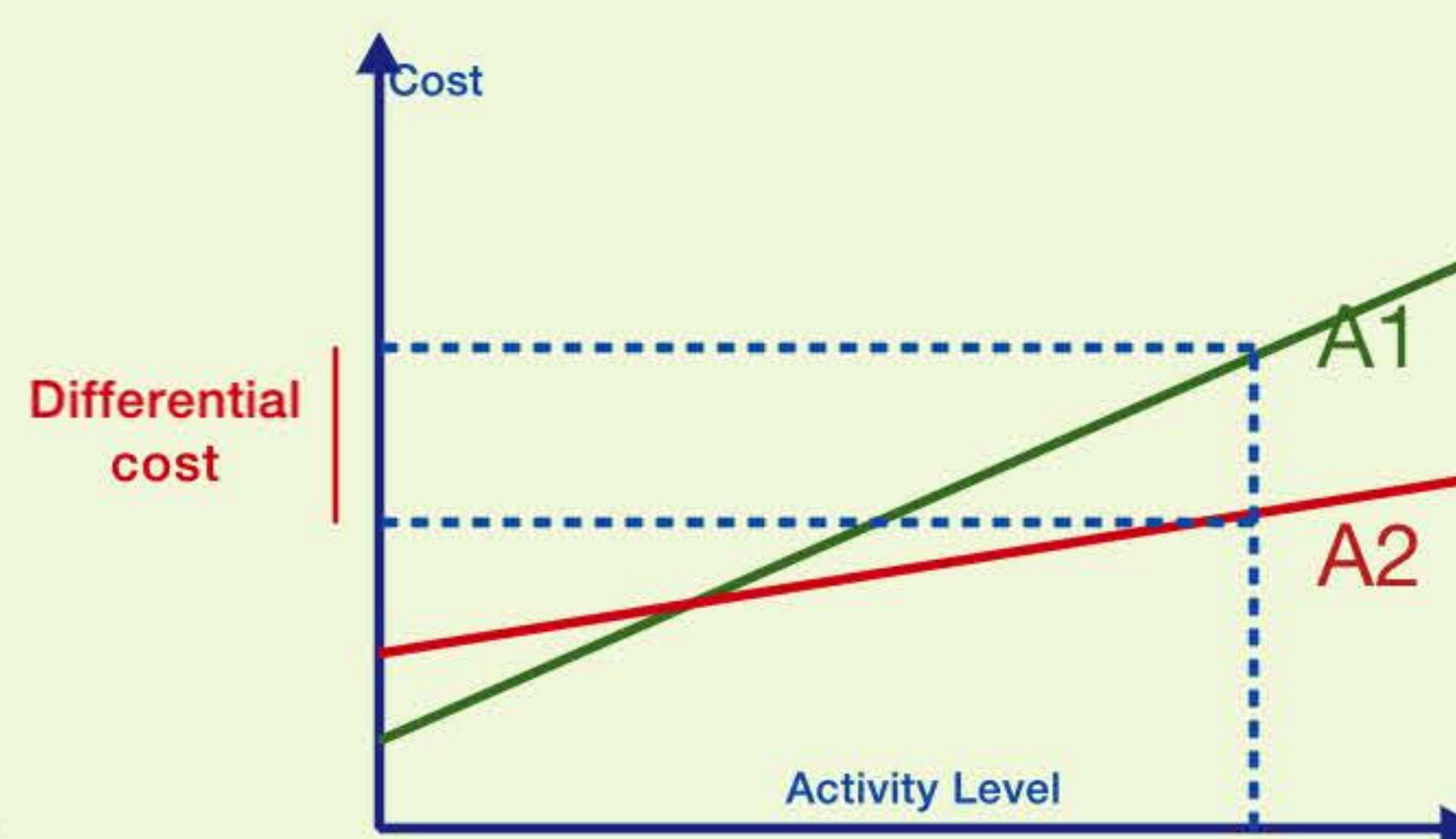
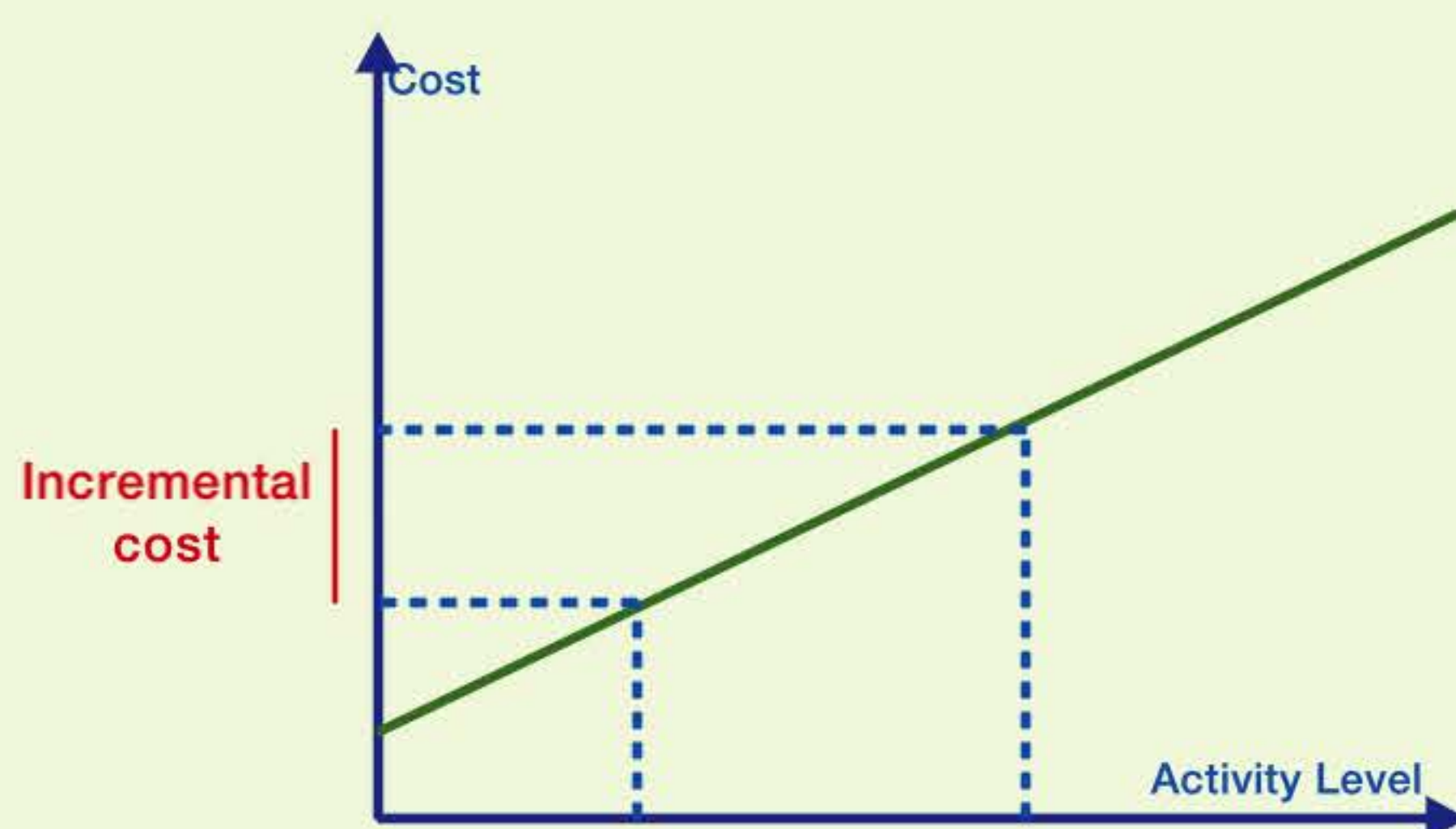
The costs that not eliminated when a part, product line, or business segment is discontinued

Sunk costs

The costs of resources that already have been committed and cannot be changed (recovered or reversed) by any action or decision

Historical costs of fixed assets

Fixed costs



Cost function:

A mathematical formula used to predict the cost associated with a certain level of output.

$$\text{Total of Cost} = a + bx$$

Fixed Cost

Number of Units Produced

Variable Cost Per Unit