

-Modules-

COST CONCEPTS

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Cost Concept

- Money Cost
- Real Cost
- Opportunity Cost
- Explicit Costs
- Implicit Costs
- Costs according to Accountant
- Costs according to Economist

- **Money Cost:** money cost is the monetary expenditure on inputs of various kinds - raw materials, labor etc. required for the output. It is the money spent on purchasing the different units of factors of production needed for producing a commodity. Money cost is obviously the payment made for the factors in terms of money. Money cost is the outlay cost, i.e. actual financial expenditure of the firm.
- **Real Cost:** the real cost of production of a commodity refers to the exertion of labor, sacrifice involved in the abstinence from present consumption by the savers to supply capital, and social effects of pollution, congestion and environmental distortions.

Opportunity Cost: opportunity costs are cash inflows prevented by taking one course of action instead of another. They include returns which the entrepreneur could have earned in an alternative use of his services and capital. Since opportunity costs represent the notional costs of an action, they cannot be recorded in the books of account. However, these costs must be accounted for in decision making. The opportunity cost concept applies to all situations where a thing can have alternative uses.

The sacrifice or loss of alternative use of a given resource is termed as opportunity cost.

- **Explicit Costs:** explicit costs are direct contractual monetary payments incurred through market transactions. Costs of raw material, wages and salaries, power charges, rent of business, interest payments, insurance premiums, taxes, duties, license fees, miscellaneous business expenses (marketing, advertising, administration etc.)
- **Implicit Costs:** implicit costs are the opportunity costs of the use of factors which a firm does not buy or hire but already owns. Wages of labour rendered by the entrepreneur himself, interest on capital supplied by him, rent of land and premises belonging to the entrepreneur himself and used in his production etc.

- **Costs according to Accountant:** (Includes explicit costs only) Accountant's classifications of costs are usually set up for legal, financial control and auditing purposes. The main function of accounting has been that of reporting and control. It reports or records what has happened, present information that will protect the interests of the stock holders, creditors and tax collectors and provides standards against which performance can be judged.
- **Costs according to Economist:** (Include both explicit and implicit costs) Economist's classifications are designed to provide decision making guidelines for management to achieve the firm's economic goals.

- Cost of Production [.....](#)
- Short and long run cost [....](#)
- Cost tables [....](#)

Discussion