International Scholars Journals

International Journal of Accounting, Auditing and Taxation ISSN 2756-3634 Vol. 8(2), p. 001, December, 2021.
Available online at www.internationalscholarsjournals.com

Perspective

Overview on cost concepts

Roelof Peter*

Department of Accounting, University Rotterdam, Rotterdam, Netherlands.

Accepted 21 December, 2021

INTRODUCTION

Various components of cost concepts are shown in the following below, which is followed by a detailed description of each component.

Concept of objectivity

This is the fundamental concept, which forms the basis of various activities relating to cost finding, cost analysis, recording and cost reporting. It ensures that the costs carried out are in tune the overall objectives of setting up the system of cost accounting. Objectives may include reporting for various decisions and internal operations as well as external. Objectives can impact cost treatment and cost strategies.

Concept of materiality

The underlying essence of this concept is that accuracy may be moderated with good judgement. Otherwise the product cost is likely to be distorted. The concept would be clearer from an example. Under the head 'Overhead Expenses' there may be certain items of small value representing direct cost, which need to be overlooked. Perhaps tracing those items to a specific unit of production would not be worthwhile. A specific course of action may be logically justified and useful, but if the benefits are likely to accrue from such action are not material enough, and then there is no point in implementing the same. The basis for determination of materiality is nature of the organisations activities and managerial policies and competitors practices.

Concept of time span

The validity of various postulations pertaining to respective cost is applicable only for a specific time span under consideration. The statement that cost is fixed is true only for a specific period, as no cost would continue to remain fixed forever. Selection of the time span should be sufficiently long, so as to ensure smooth procedure for recording the accurate associated cost, output, labour hours and other factors, which are required for the purpose of a meaning full analysis. If the time span taken is not long enough, it may result in 'Leads and Lags' in recording the cost data. And if the cost relating to a specific time span activity is recorded to a different time span activity, the cost results would not be correct.

Concept of relevant range of activity

Relevant range of activity may be defined as the level of activity within which a business organisation is expected to operate. Various budgeting and costing are carried out with the underlying presumption of relevant range of activity. Fixed costs may not be fixed and variable cost may not be variable outside the relevant range of activity. The relevant range of activity differs from one organisation to another. Even in the case of an individual business entity, it may change from time to time.

Concept of relevant cost and benefit

This concept is the most significant one, as far as the decision making process is concerned. While assessing the best course of action, the most important aspect to be focused by the management is the pertinent coast and benefit likely to accrue from individual alternative and undertake a comparison of various alternatives on hand. Immaterial costs and benefits in this regard need to be overlooked. The relevance of costs and benefits for operating decisions and normal and abnormal cost are discussed.

*Corresponding author. Roelof Peter, E-mail: rpeter@fac.fbk.eur.nl