



# Cost concepts and measurements

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### Chapter preview

There are many individual concepts and measurements of 'cost', and sometimes these are confusing, or even conflicting. Different costs (or cost information) may be needed for financial accounting and external reporting, for forward planning for short-term as distinct from long-term decision making, and for budgetary and other forms of management control. The objective of this chapter is to clarify this diversity as a background to the topic discussions in the chapters which follow.

Cost is a sacrifice through resource loss, consumption or transformation. The choice of cost concepts and measurements is affected by the type of decision or control situation, by the timespan with which we are concerned, by how identifiable or traceable is the cost data which is available, and by the type of production or other business (or public-service) activity that is being carried out. Here we have a particular concern for opportunity cost, fixed v. variable costs, direct v. indirect costs, and historical and absorption costs v. costs relevant for management planning, decisions and control.