

Chapter 4 - Full costing

1. What is full costing

- **Full cost**: the total amount of resources, usually measured in monetary terms, sacrificed to achieve a given objective.
- The logic of **full costing** is that the entire cost of running a facility, such as an office or a factory, must be regarded as part of the costs of the output that it helps to generate.
- A **cost unit** is a unit of whatever is having its cost determined, such as an architectural assignment.

2. Why do managers want to know the full cost ?

- Managers want to know the full cost to improve the quality of management decisions, including
 - **pricing and output decisions**
 - **exercising control**
 - **assessing relative efficiency** (ie. finding new sources of supply and so on).
 - **assessing performance** (assessing past decision, guiding future decisions, continuing with or abandoning the particular product or service).

3. Single product business

- In this case, the business process involve a serie of continuous or repetitive activities and the output consist of identical or near identical items.
- **Process costing** → The full cost per unit of output = average the total manufacturing cost over the number of units produced.
- Issues with the process costing :
 - deduction of the cost of depreciation
 - relevant or replacement cost to be used ?
 - for some reasons, the historic cost is more widely used in practice.
 - work in progress should be taken into account when calculating the total output.
 - take into account the equivalent unit of outputs that the work in progress represent, finding to which degree the work in progress has been completed. (ie. 15 statues completed at 80%, is like 12 statues completed fully).
 - another complication arises when there are various degree of completion for the work in progress.

4. Multi-product business

- **Job costing approach**: accumulating costs for each individual unit of output in order to determine its full cost.
 - identify the direct costs of the cost unit \suitable share of the indirect cost using the **absorption costing**.
- **Direct cost**: cost that can be identified with specific cost units = cost that can be traced to a particular cost unit and can be measured reliably.
 - direct material and direct labour
 - collecting elements of the direct costs is a matter of having a cost-recording system.
- **indirect cost = overheads**: other elements of the total cost.
- Full costing and cost behavior:
 - FC and VC are defined in terms of cost behavior in the face of change in **volume of activity**.