

- Sunk cost (not recoverable)
- Private cost (spent for business interests)
- Variable cost (will vary depending on the volume of output)

2. Income earned from a job: This expense can be –

- Economic cost (the person could earn more money by working for his business)
- Opportunity cost (same reason as above)

3. Rent paid for factory premises: This expense can be –

- Accounting cost (spent on procuring facilities for production)
- Direct cost (directly affects manufacturing)
- Outlay cost (spent on procuring access to input, i.e. factory)
- Private cost (used for private business interests)
- Fixed cost (does not change with variance in production levels)

❖ **SO THIS WAS THE BASIC CONCEPTS OF COST OR YOU CAN SAY TYPES OF COST, TO UNDERSTAND THE COSTING AS A SUBJECT YOU NEED TO UNDERSTAND THE CONCEPTS GIVEN ABOVE.**

4. Cost Classification (CAS-1)

✧ CAS means **COST ACCOUNTING STANDARDS** as in Accounting we have **ACCOUNTING STANDARDS (ASs)** in Auditing we have **STANDARDS ON AUDITING (SAs)**. The Institute/Board has so far issued 24 Cost Accounting Standards, Generally Accepted Cost Accounting Principles, 9 Guidance Notes on Cost Accounting Standards and two Guidance Notes on “Treatment of Costs Relating to Corporate Social Responsibility (CSR) Activities” and

➤ How Do Perpetual and Physical Inventory Compare?

1. Perpetual Inventory

- **Technology** — Perpetual inventory is impossible to keep track of manually. It requires automation, and advanced software is available to help you do it. You can either enter or scan your goods into the software.
- **Data** — It provides a real-time accounting of your goods — wherever they are in the process. If items are bought, sold, discarded, or moved to another location, you'll instantly see it and understand what happened. Every transaction — quantity and cost — is updated automatically.
- **Cost** — Depending on the size of your business and the technology needed to track its inventory, setup costs vary from minimal to high.

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2. Physical Inventory

- **Technology** — You'll establish a schedule to periodically count each item in the inventory and record the results. You can create a record-keeping system. But easy-to-use accounting software is available to manually enter or scan inventory items and their cost into the software.
- **Data** — You'll refer to your manual or automated records to compare previous and existing inventory. You can choose the detail you want to track as items are bought, sold, moved, or

➤ Meaning

VED analysis is an inventory management technique that classifies inventory based on its functional importance. It categorizes stock under three heads based on its importance and necessity for an organization for production or any of its other activities. **VED analysis** stands for Vital, Essential, and Desirable.

✧ V-VITAL CATEGORY

As the name suggests, the category “**Vital**” includes inventory, which is necessary for production or any other process in an organization. The shortage of items under this category can severely hamper or disrupt the proper functioning of operations. Hence, continuous checking, evaluation, and replenishment happen for such stocks. If any of such inventories are unavailable, the entire production chain may stop. Also, a missing essential component may be of need at the time of a breakdown. Therefore, order for such inventory should be before-hand. Proper checks should be put in place by the management to ensure the continuous availability of items under the “vital” category.

✧ E- ESSENTIAL CATEGORY

The essential category includes inventory, which is next to being vital. These, too, are very important for any organization because they may lead to a stoppage of production or hamper some other process. But the loss due to their unavailability may be temporary, or it might be possible to repair the stock item or part.

The management should ensure optimum availability and maintenance of inventory under the “Essential” category too. The unavailability of inventory under this category should not cause any stoppage or delays.