

# **COST ACCOUNTING**

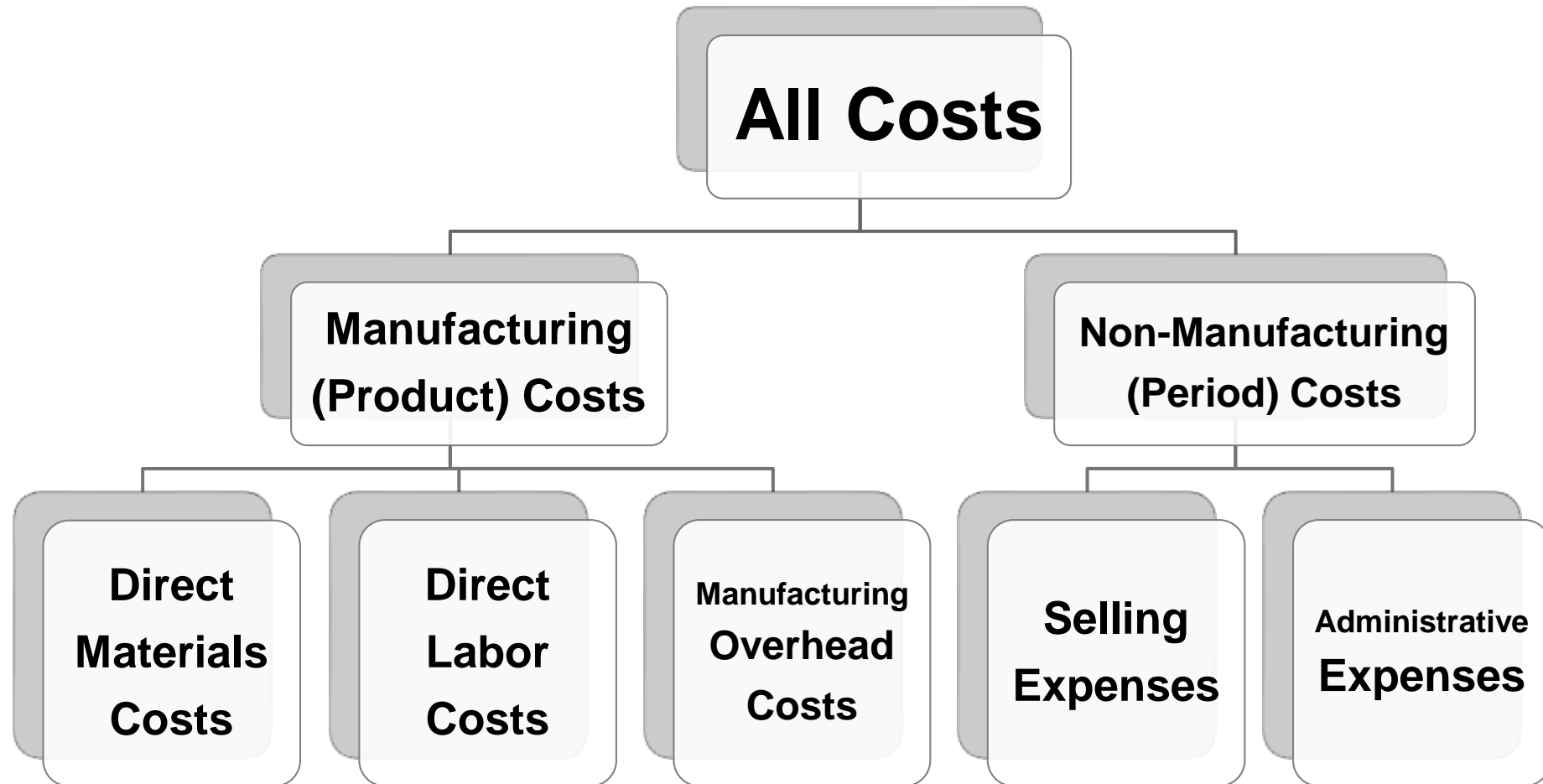
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# Chapter 2

## Cost Classification

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# **Raw materials**

**Raw materials are materials or substances used in the primary production or manufacturing of goods. Raw materials are commodities that are bought and sold on commodities exchanges worldwide. Businesses buy and sell raw materials in the factor market because raw materials are factors of production.**

# **Direct material cost**

**Direct material cost is the cost of the raw materials and components used to create a product. The materials must be easily identifiable with the resulting product.**

# **Indirect material cost**

**Indirect Material Cost. It is an expense, which is included in Overhead Cost of manufacturing cost, and consists of subsidiary material cost, shop supplies cost, perishable tools and equipment cost. Here the material means the one indirectly or supplementarily consumed.**

# **Direct Labor cost**

**Direct labor cost is a part of wage-bill or payroll that can be specifically and consistently assigned to or associated with the manufacture of a product, a particular work order, or provision of a service.**

# **Indirect Labor cost**

**Indirect labor cost is the cost of labor that is not directly related to the production of goods and the performance of services. It refers to the wages paid to workers whose duties enable others to produce goods and perform services.**



# **Overhead costs**

**Overhead costs are those that are not directly related to the production of goods or services, but are necessary for the operation of a business. Examples of overhead costs include rent, utilities, insurance, legal fees, office supplies, advertising, payroll, and accounting fees.**

# **Selling Expenses**

**Selling expenses are the costs associated with distributing, marketing and selling a product or service. They are one of three kinds of expense that make up a company's operating expenses. The others are administration and general expenses.**

# **Administrative Expenses**

**Administrative expenses are expenses an organization incurs that are not directly tied to a specific core function such as manufacturing, production, or sales. These overhead expenses are related to the organization as a whole, as opposed to individual departments or business units.**

**THE END**