




Managerial Accounting



Chapter 2

Cost Behavior



Assumptions in Cost–Behavior Estimation

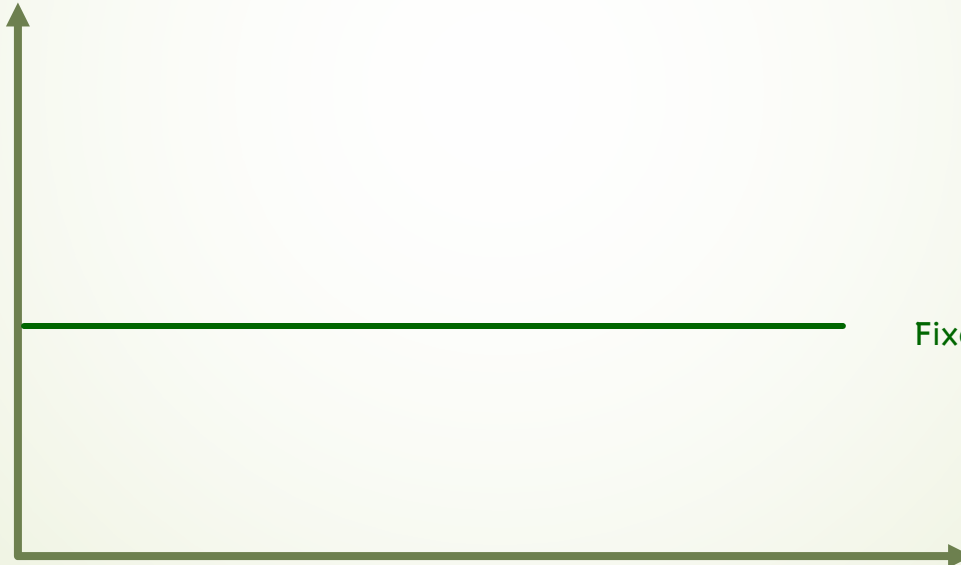
Changes in total costs can be explained by changes in the level of a single activity.

Cost behavior can adequately be approximated by a linear function of the activity level within the relevant range.

Cost Behavior

Fixed Costs

Costs



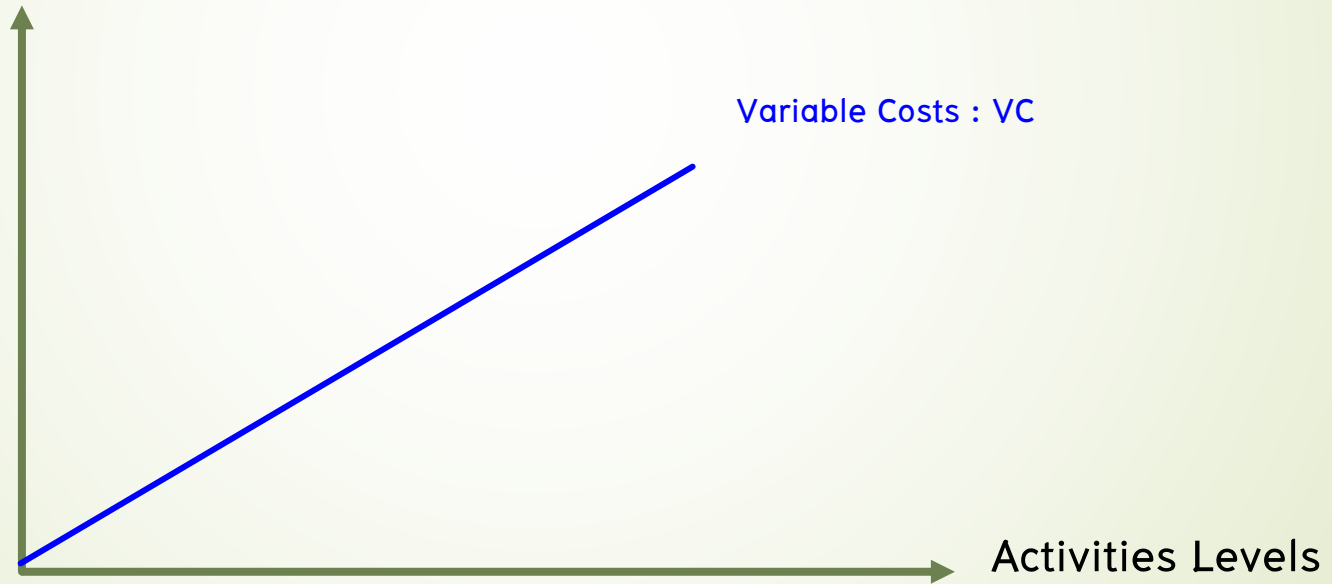
Fixed Costs : FC

Activities Levels

Cost Behavior

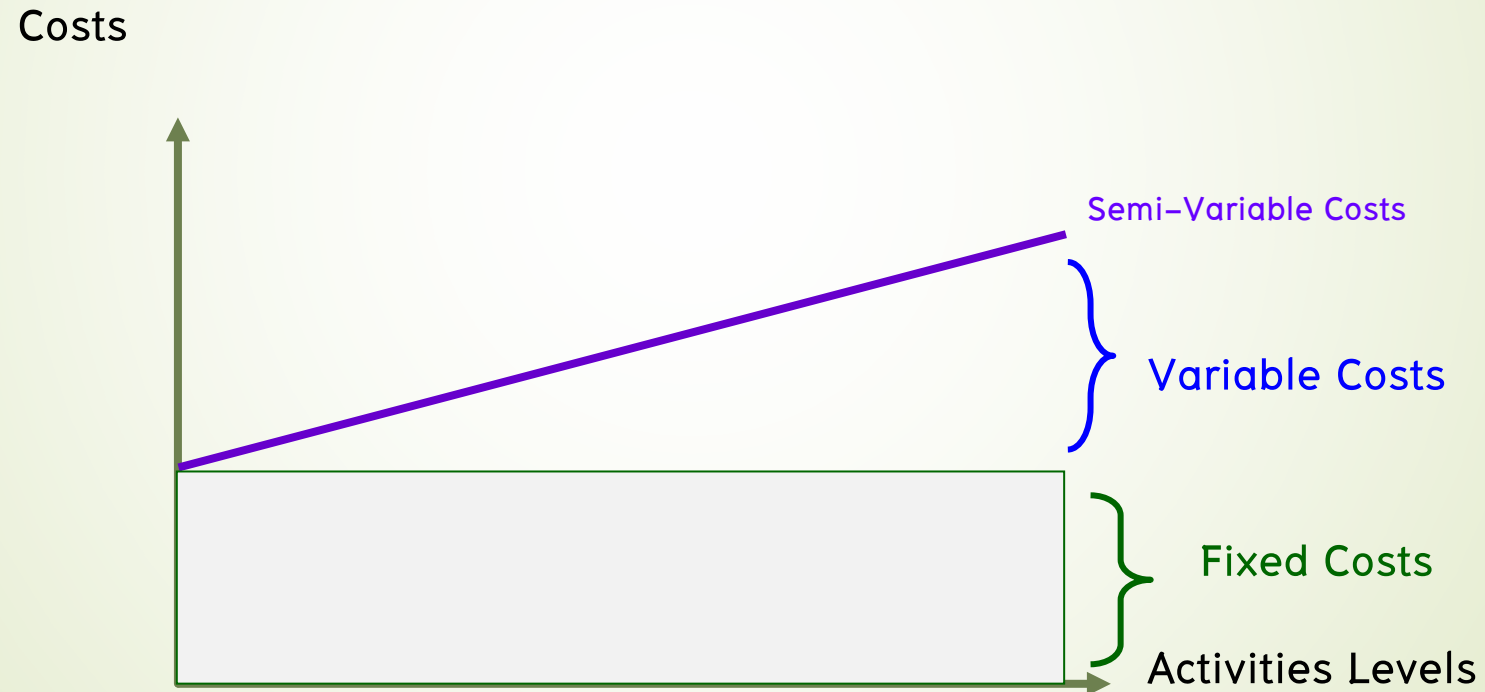
Variable Costs

Costs



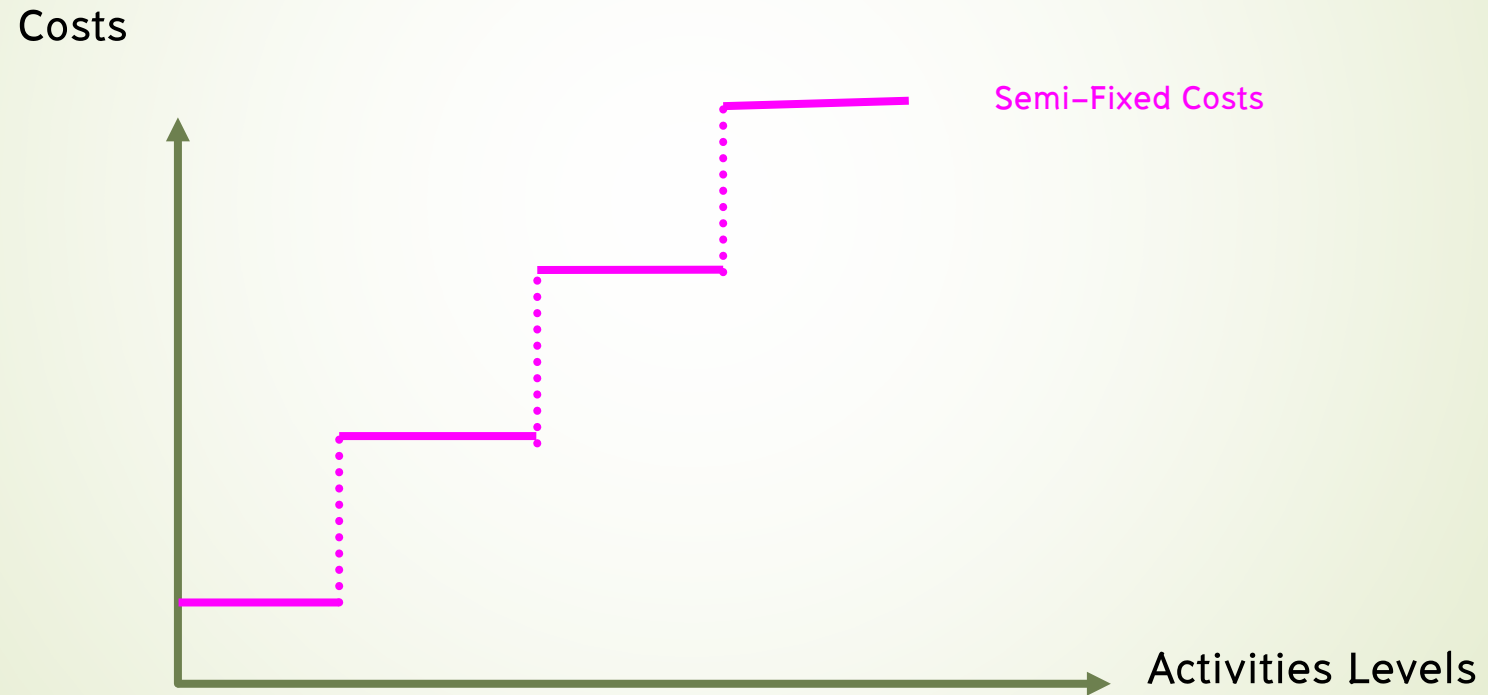
Cost Behavior

Semi-Variable Costs / Mixed Costs



Cost Behavior

Semi-Fixed Costs/ Step Costs





Cost Function

$$Y = a + bX$$

a is fixed costs or a constant or intercept

b is variable costs per unit or the slope of the cost function

X is the level of activities



Cost Function

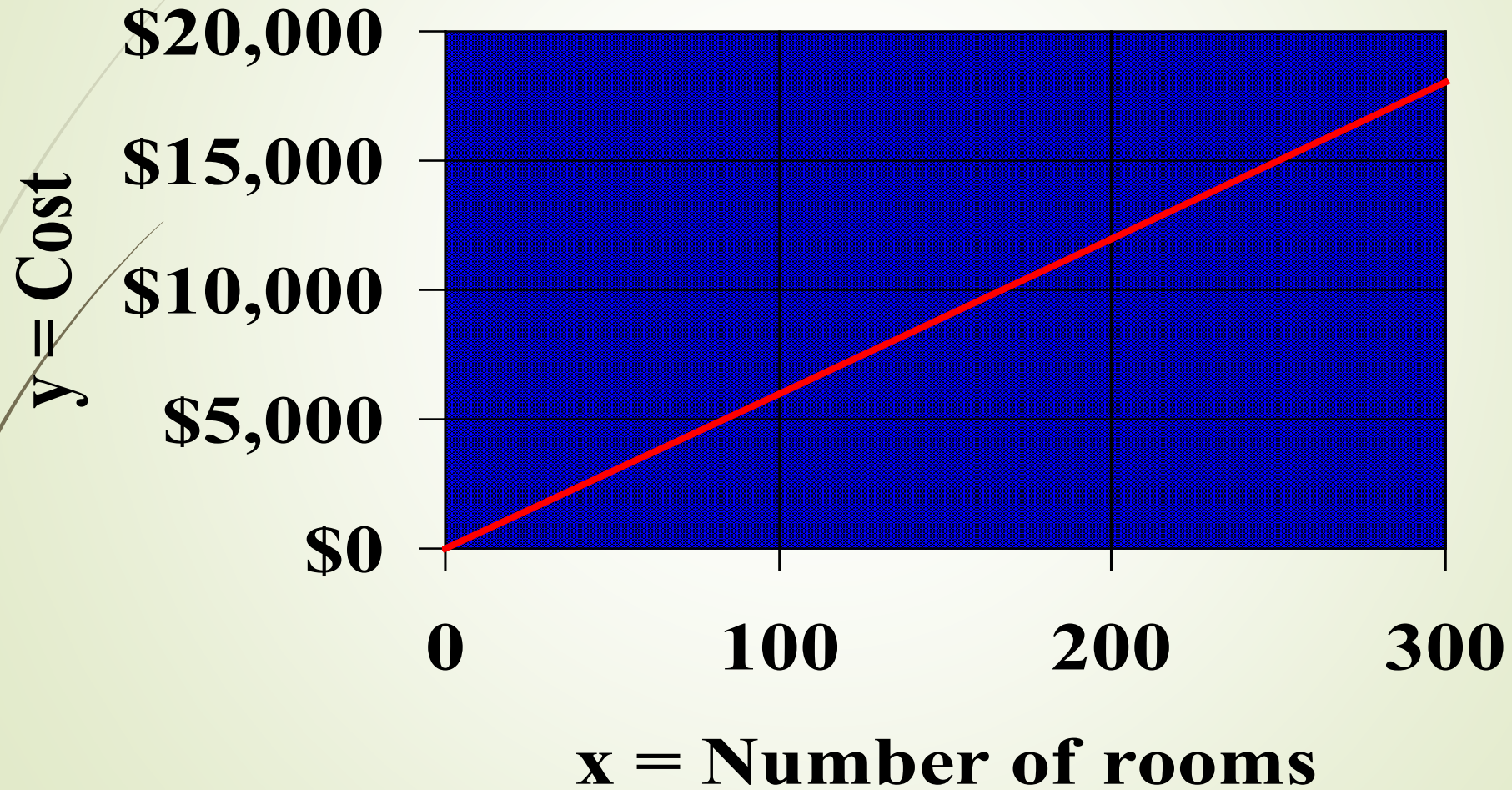
EX.1 Company offers an airline three alternative cost structures to accommodate its crew overnight:

Alternative 1 : \$60 per night per room usage

$$Y = \$60X$$

The slope of the cost function is \$60.

Cost Function





Cost Function

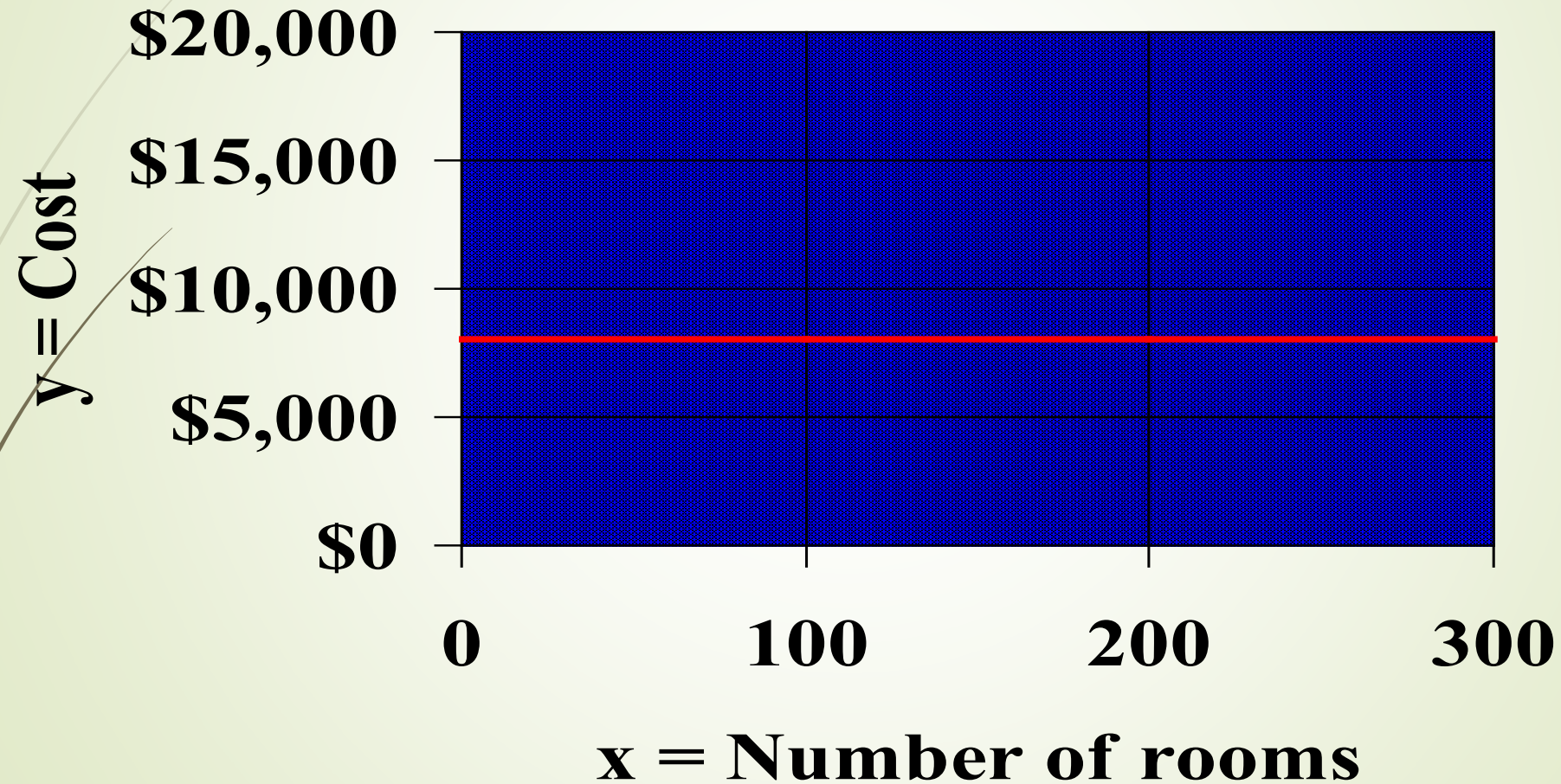
Alternative 2 : \$8,000 per month

$$Y = \$8,000$$

\$8,000 is called a constant or intercept.

The slope of the cost function is zero.

Cost Function



Cost Function

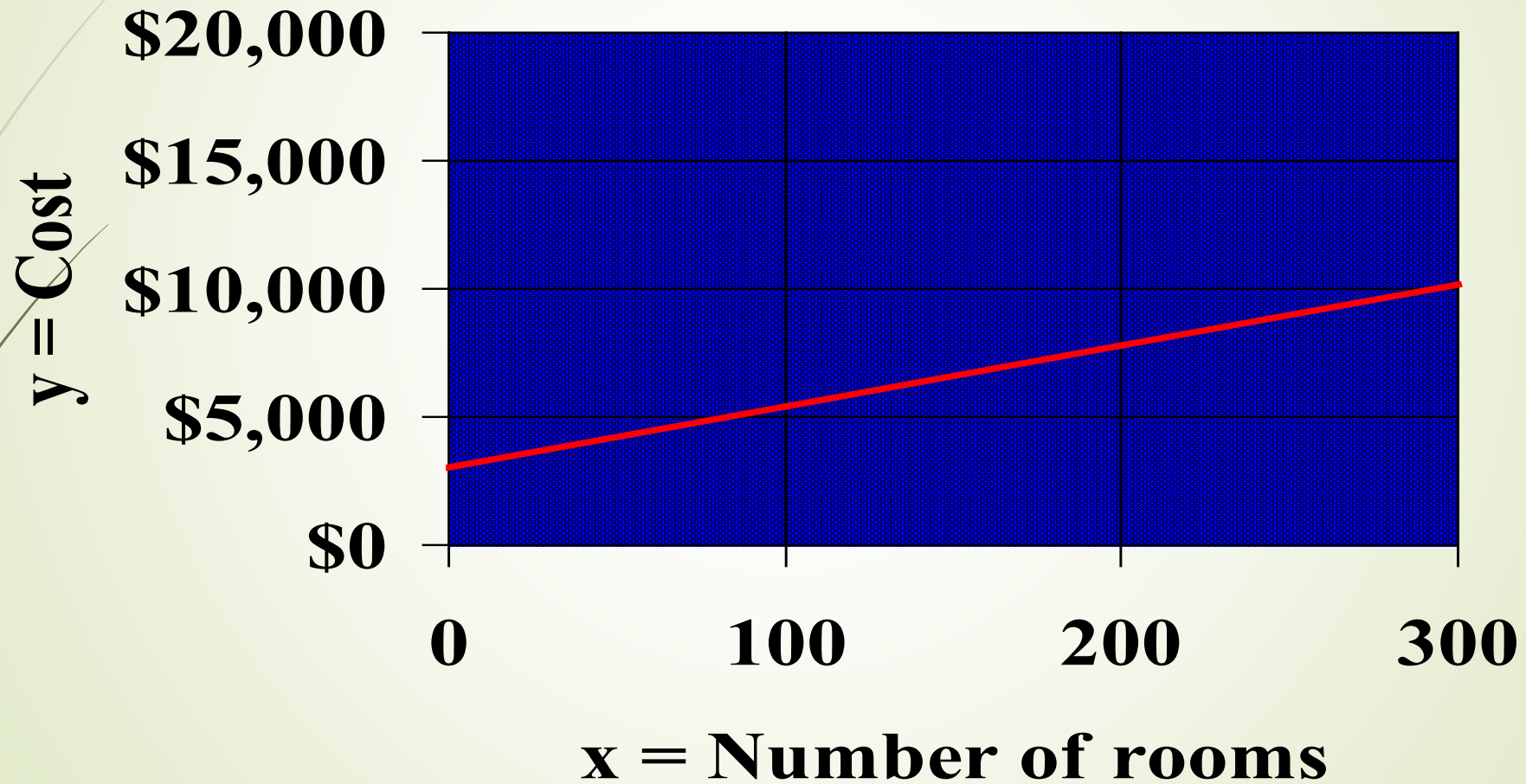
Alternative 3 : \$3,000 per month plus \$24 per room

This is an example of a mixed cost.

$$Y = \$3,000 + \$24X$$

$$Y = a + bX$$

Cost Function





The End

