

MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Cost Classification by Functions.

Cost Classification by Functions

The cost can also be classified by the business functions for which the resources have been used.

There are five significant functions of a business which involves some expense and are essential to the organisation in their way. The cost involved in such business operations are explained below:



- **Production:** Production cost comprises of all the direct and indirect costs incurred in the production of goods and services.
- **Administration:** The costs involved in the management activities of an organisation like electricity, stationery, telephone expenses, rent etc. These are also known as administrative overheads.
- **Selling:** The indirect costs incurred on the sales function of the goods and services like an advertisement, promotion, research, customer service, etc. are clubbed under selling cost.
- **Distribution:** Distribution cost refers to the cost incurred for making the goods or services available to the customers. These are warehousing, delivery service, transportation, etc.
- **Research and Development:** Research is essential to develop a new product or modify an existing one. The cost incurred on the research team, research implementation, findings, etc. comes under this category.

