

## MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Cost Classification by Relation to Cost Centre

### Cost Classification by Relation to Cost Centre

Another basis of differentiating the costs is categorising them by their allocation in the production process of goods or services.

The points as mentioned earlier under the cost classification by nature are used under this category to further sub-categorise the elements of this category. To get a better understanding of it, let us read below.



- **Direct Cost:** Direct cost is the significant cost immediately associated with a production process. It can be seen as a prime cost for any business. It is sub-divided into direct material cost, direct labour cost and other direct expenses.
- **Indirect Cost:** Indirect cost is the cost which cannot be directly allocated to a particular process of production. It is a secondary cost and is majorly seen as of three types – indirect material cost, indirect labour cost and other indirect expenses.