MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Cost Classification.PART-1.

Cost Classification

Definition: Cost classification is the logical process of categorising the different costs involved in a business process according to their type, nature, frequency and other features to fulfil accounting objectives and facilitate economic analysis. Cost refers to the value sacrificed with the aim of gaining something in return. Every business process involves some cost. It is the basis of profit determination for an organisation.

A particular cost can be allocated under multiple categories. For instance; salary paid to an employee is a labour cost as well as a fixed cost. Moreover, the different elements of cost classification are linked to each other in one or the other way.

Content: Cost Classification

1. [Basis of Classification]

   - [Cost Classification by Nature]

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Cost Classification by Nature

The cost can be differentiated by its nature or the purpose for which it has occurred. It can be treated as an expense under this category and the expenses so incurred is divided as follows:

- **Material**: Material cost is the cost of the raw material and its related cost such as procurement cost, taxes, insurance, freight inwards, etc.

- **Labour**: Labour cost is the salary and wages paid to the employees, i.e., permanent, temporary or contractual employees working in an organisation. It also includes PF contribution, bonus, commission, incentives, allowances, overtime pay, etc.

- **Other Expenses**: All the other overheads excluding material and labour comes under this head. Some of these are packaging, promotion, job processing charges, etc.