

**Direct vs.
Indirect Cost**

**Product vs.
Period Cost**

**Variable vs.
Fixed Cost**

**Controllable vs.
Noncontrollable Cost**

**Other
Costs**

**Rework, Scrap,
and Waste**

**Normal vs.
Abnormal Cost**

**Joint vs.
Separable Cost**

**MANUFACTURING
(PRODUCT COST)**



**Direct
Material**



**Direct
Labor**



**Variable
Manufacturing
Overhead**



**Fixed
Manufacturing
Overhead**

**NON-MANUFACTURING
(PERIOD COST)**



**Selling and
Marketing Expenses**



**Administrative
Expenses**



**Avoidable vs.
Committed Cost**

**Incremental vs.
Differential Cost**

**Engineered vs.
Discretionary Cost**

**Economic vs.
Imputed Cost**

**Relevant vs.
Sunk Cost**

**Outlay vs.
Opportunity Cost**

COSTS CLASSIFICATION

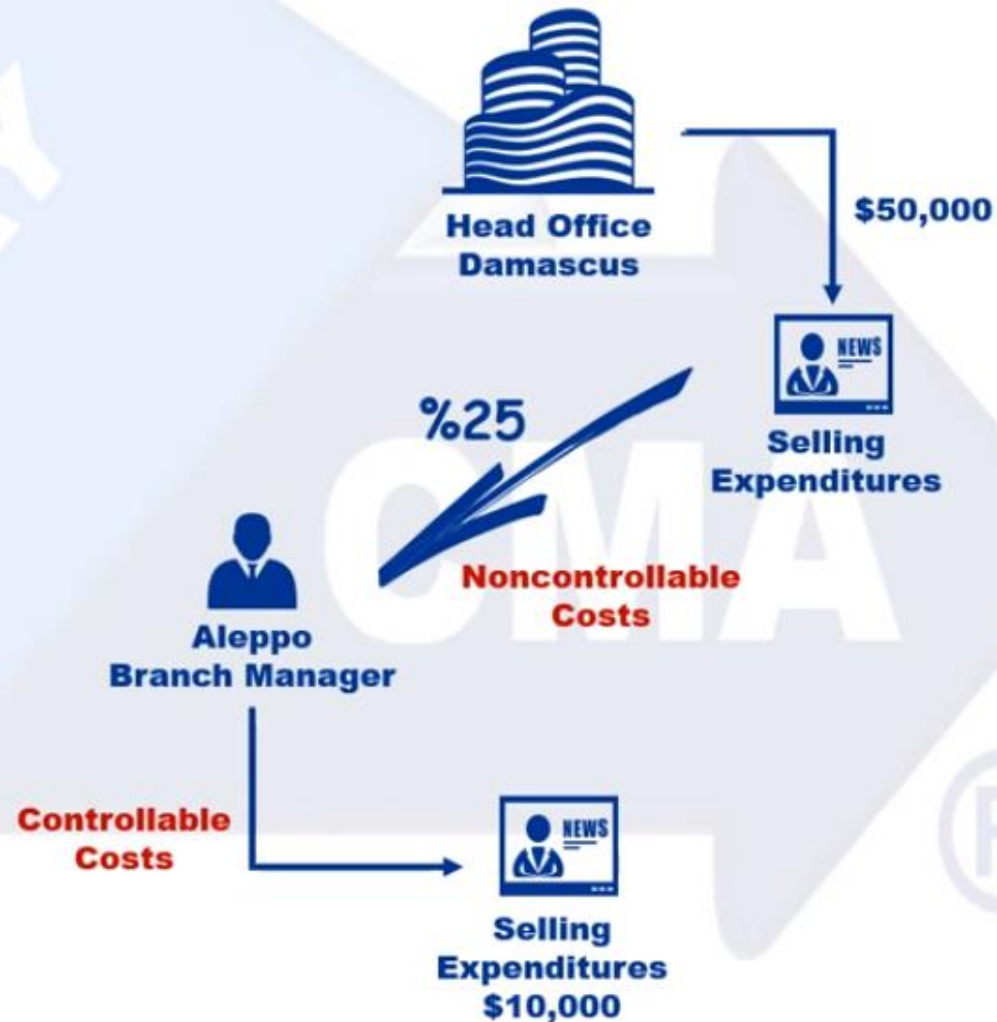
Controllable vs. Noncontrollable

التكاليف التي يمكن التحكم بها

- **Controllable Costs** are those that are under the discretion of a particular manager (e.g. marketing expenses decided by a branch manager).

التكاليف الغير قابل التحكم بها

- **Noncontrollable Costs** are those to which another level of the organization has committed, removing the manager's discretion (e.g. marketing expenses allocated by head office to the branch manager).



COSTS CLASSIFICATION

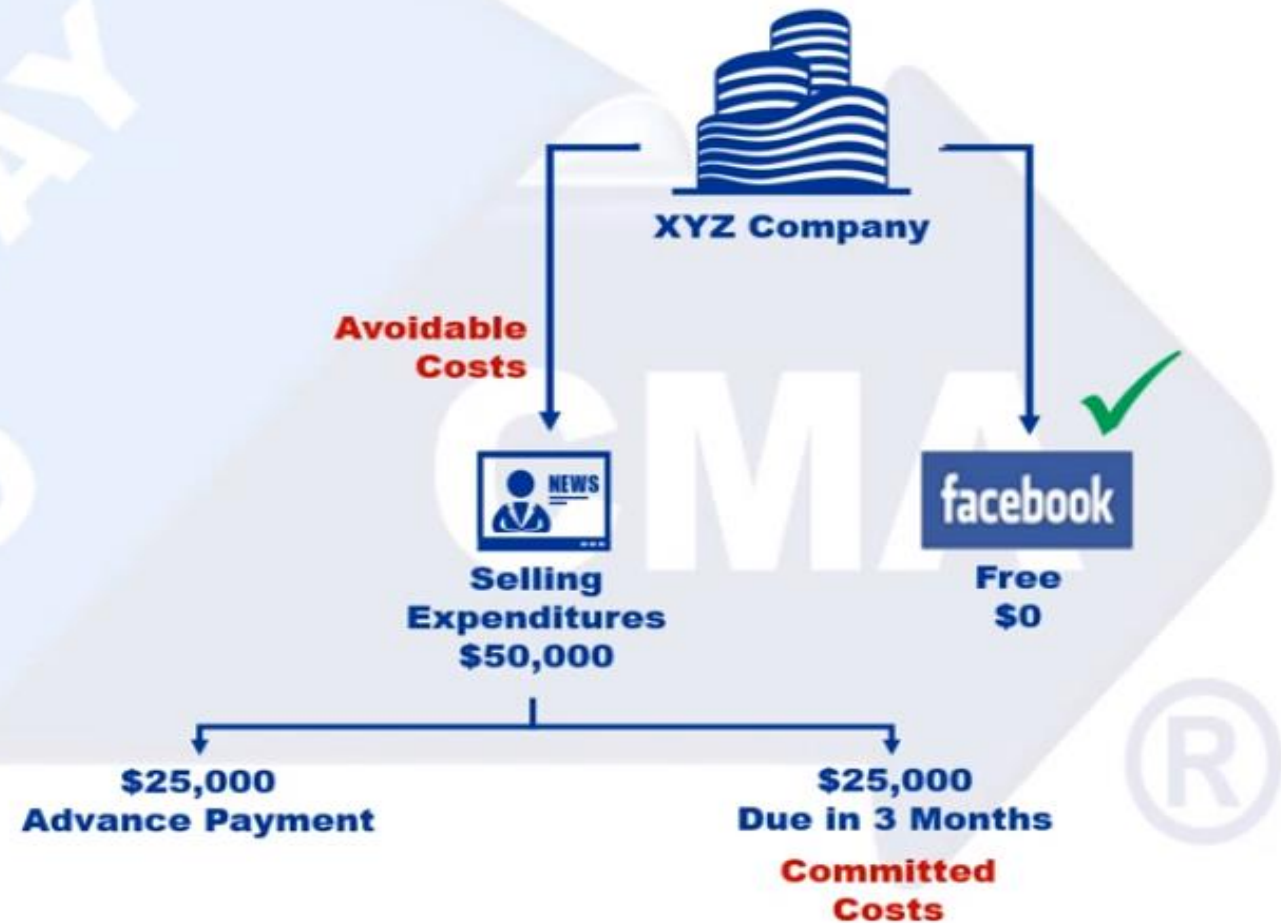
Avoidable vs. Committed Cost

التكاليف التي يمكن تجنبها

- **Avoidable Costs** are those that may be eliminated by not engaging in an activity or by performing it more efficiently. (e.g. free social media advertising instead of paid billboard advertising).

التكاليف المُلتزم بها (لا يمكن تجنبها)

- **Committed Costs** arise from holding property, plant, and equipment (e.g. depreciation or real taxes).



COSTS CLASSIFICATION

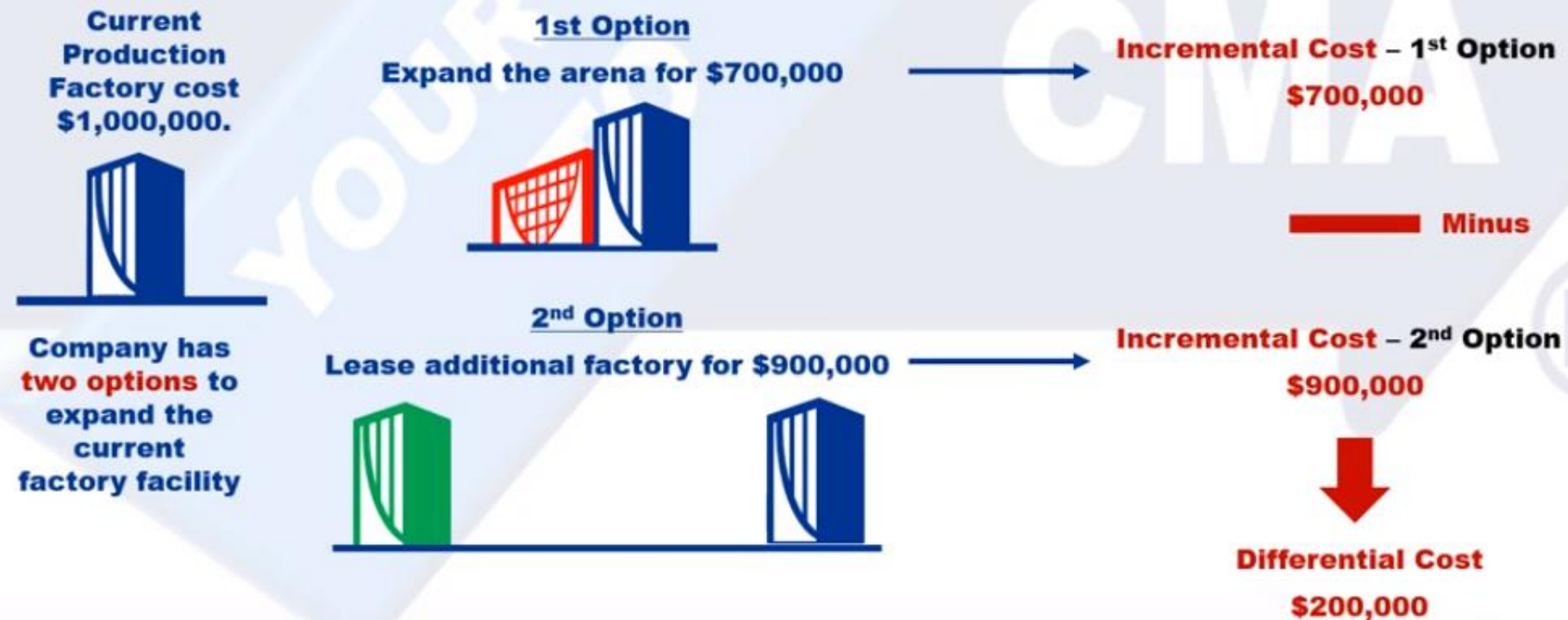
Incremental vs. Differential

التكلفة الإضافية

- **Incremental Cost** is the additional cost inherent in a given decision (e.g. additional amount of investment).

التكلفة التفاضلية

- **Differential Cost** is the difference in total cost between two decisions.



COSTS CLASSIFICATION

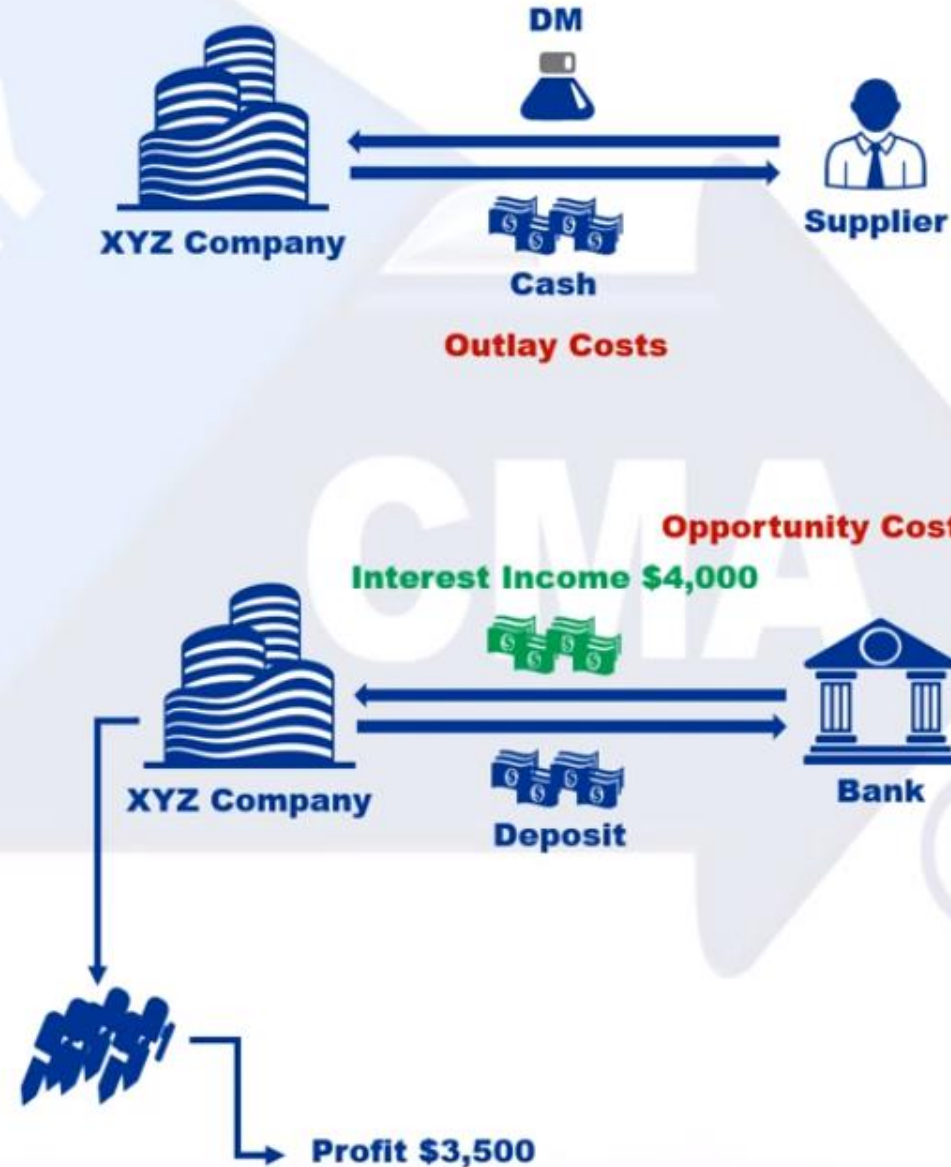
Outlay vs. Opportunity

التكلفة النقدية الظاهرة

- **Outlay Costs** require actual cash disbursements. They are also called **explicit cost**, accounting cost, or out-of-pocket costs.

تكلفة الفرصة البديلة

- **Opportunity Cost** is the maximum benefit forgone by using a scarce resource for a given purpose and not for the next-best alternative. It is also called **implicit cost**.



COSTS CLASSIFICATION

Relevant vs. Sunk

التكاليف الملائمة

- **Relevant Costs** are those future costs that will vary depending on the action taken (vary from one decision to another).

التكاليف الغارقة (لا تؤخذ بعين الاعتبار عند اتخاذ القرارات)

- **Sunk Costs** are costs either already paid or irrevocably committed to incur. They are considered unavoidable and not vary with the options chosen (irrelevant).

Sunk Costs

A Company has paid \$400,000 a rent for its current factory facility on 1 January 2017



On 15 July 2017 Company has **two options** to expand the current factory facility

1st Option

Expand the arena for \$700,000



2nd Option

Lease additional factory for \$900,000



Relevant Costs

Incremental Cost – 1st Option
\$700,000

Minus

Incremental Cost – 2nd Option
\$900,000

Differential Cost
\$200,000

