YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 9

COST CONCEPTS

PRESENTED BY:

PROF. RAMESH GUPTA

Concepts to be discuss…..

- MONEY COST- IMPLICIT & EXPLICIT
- ACCOUNTING COST & ECONOMIC COST
- FIXED, VARIABLE & TOTAL COST
- TOTAL, AVERAGE & MARGINAL COST

Money Cost– Implicit

- Implicit cost (IC) are due to the factors which the entrepreneur himself own and employs in the firm.

- The imputed value of the entrepreneur's own resources and services.

- The wage or salary for the services of the entrepreneur, interest on the money invested by him etc are known as implicit cost.

Continued.......

- If the services or factors are sold else where by the entrepreneur he would have earned an income.
- The implicit cost are the **opportunity cost** of the factors owned and used by the entrepreneur.
- Since direct cash are not made for them , these costs are called **implicit costs**.
- Implicit costs is also called **indirect cost**.
- IC = Imputed cost of resources owned by the entrepreneur = opportunity cost of resources owned by the entrepreneur = Indirect cost

Money cost – Explicit

- Explicit Cost (IC) are the contractual cash payments made by the firm for purchasing or hiring the various factors..
- The explicit cost refer to the actual expenditure of the firm to hire, rent, or purchase the inputs it requires in production i.e. wages, salaries, raw materials, fuel, light, advertisements, transportation, etc.
- Explicit money cost is the **accounting cost** because it is taken into account..
- Explicit cost also refers to **direct cost**.
- EC = Expenditure on hiring or purchasing inputs = Output pocket cost = Direct cost

ACCOUNTING COST

- Accounting cost refers only to the firm's actual expenditure or explicit costs.

- Accounting costs are important for financial reporting and for tax purposes.

- For managerial decision making purposes Economic cost is the relevant cost concept.

ECONOMIC COST

- An economist would include both explicit and implicit costs in the cost of production.
- Economic cost equals to explicit costs plus implicit costs.
- We can make a distinction between economic cost and accounting cost.

- Accounting Profit = Total Revenue – Explicit
- Economic Profit = Total Revenue – Total cost (Implicit + Explicit)

FIXED COST

- Fixed cost are those which are independent of output.
- It must be paid even if the firm produces no output.
- They will not change even if output changes.
- Fixed cost are also called “overheads costs” or “supplementary costs”
- Fixed cost include such as payments as rent, interest, insurance, depreciation charges, maintenance costs, managers salary and so on.

VARIABLE COST

- Variable cost are those which are incurred on the employment of variable factors of production.

- They increase with the rise in output and decrease with the fall in output.

- Variable cost remain zero when output is zero.

- It include payments for wages, raw materials, power, etc.

- Variable cost may not increase by the same amount for every unit increase in output.

THANK YOU

RAMESH GUPTA