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精英课程 F2

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Chapter 3

Cost classification

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1. Total product/service costs
2. Direct costs and indirect costs
3. Functional costs
4. Fixed costs and Production and non-production costs
5. Variable costs
6. Cost codes
7. Cost units, cost objects and responsibility centers

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1. Total product/service costs

(a) Materials cost

(b) Labour costs (wages and salaries)

(c) Cost of other expenses

(i) Rent and rates

(ii) Electricity and gas bills

(iii) Depreciation

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2. Direct costs and indirect costs

2.1 Direct cost

2.2 Indirect cost

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2.1 Direct cost

Can be traced in full to the product, service, or department that is being costed.

- **Direct material**

  Component parts

  Part-finished work

  Primary packing materials

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- **Direct wages**

  Are all wages paid for labour (either as basic hours or as overtime) expended on work on the product itself.

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For example

Workers engaged in fixing a product.

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QUESTION

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Classify the following labour costs as either direct or indirect.

(a) The basic pay of direct workers (cash paid, tax and other deductions)

(b) The basic pay of indirect workers

(c) Overtime premium

(d) Bonus payments

(e) Social insurance contributions

(f) Idle time of direct workers

(g) Work on installation of equipment

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- **Direct expense**

  Direct expenses are any expenses which are incurred on a specific product other than direct material cost and direct wages.

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  For example

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  The hire of tools or equipment for a particular job.

➢ Total of all direct cost is called **prime cost** (direct material, direct labour and direct expense)

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2.2 Indirect cost

- Can not be traced in full to the product, service, or department that is being costed.
- Is also called overhead
- including
  - Indirect materials
  - Indirect wages
  - Indirect expenses

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Indirect materials

Consumable stores

Indirect wages

Foremen and supervisor's salary

Indirect expenses

- Rent, rates and insurance of a factory
- Depreciation, fuel, power, maintenance of plant, machinery and buildings

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QUESTION

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Which of the following are direct expenses?

(i) The cost of special designs, drawing or layouts

(ii) The hire of tools or equipment for a particular job

(iii) Salesman's wages

(iv) Rent, rates and insurance of a factory

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A (i) and (ii)

B (i) and (iii)

C (i) and (iv)

D (iii) and (iv)

Answer: A

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