

CHAPTER 2

An Introduction to Cost Terms and Purposes

Basic Cost Terminology

- Cost—sacrificed resource to achieve a specific objective
- Actual cost—a cost that has occurred
- Budgeted cost—a predicted cost
- Cost object—anything of interest for which a cost is desired

Cost Object Examples at BMW

Cost Object	Illustration
Product	BMW X 5 sports activity vehicle
Service	Dealer-support telephone hotline
Project	R&D project on DVD system enhancement
Customer	Herb Chambers Motors, a dealer that purchases a broad range of BMW vehicles
Activity	Setting up production machines
Department	Environmental, Health and Safety

Basic Cost Terminology

- Cost accumulation—a collection of cost data in an organized manner
- Cost assignment—a general term that includes gathering accumulated costs to a cost object. This includes:
 - Tracing accumulated costs with a direct relationship to the cost object and
 - Allocating accumulated costs with an indirect relationship to a cost object

Direct and Indirect Costs

- Direct costs can be conveniently and economically traced (tracked) to a cost object.
- Indirect costs cannot be conveniently or economically traced (tracked) to a cost object. Instead of being traced, these costs are allocated to a cost object in a rational and systematic manner.

BMW: Assigning Costs to a Cost Object



Cost Examples

- Direct Costs
 - Parts
 - Assembly line wages
- Indirect Costs
 - Electricity
 - Rent
 - Property taxes

Factors Affecting Direct/Indirect Cost Classification

- Cost materiality
- Availability of information-gathering technology
- Operational design