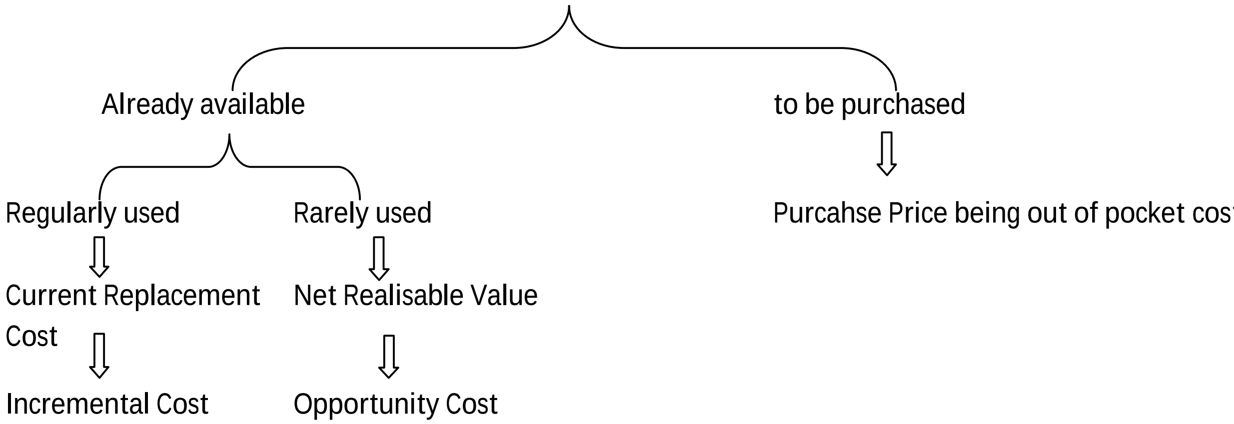
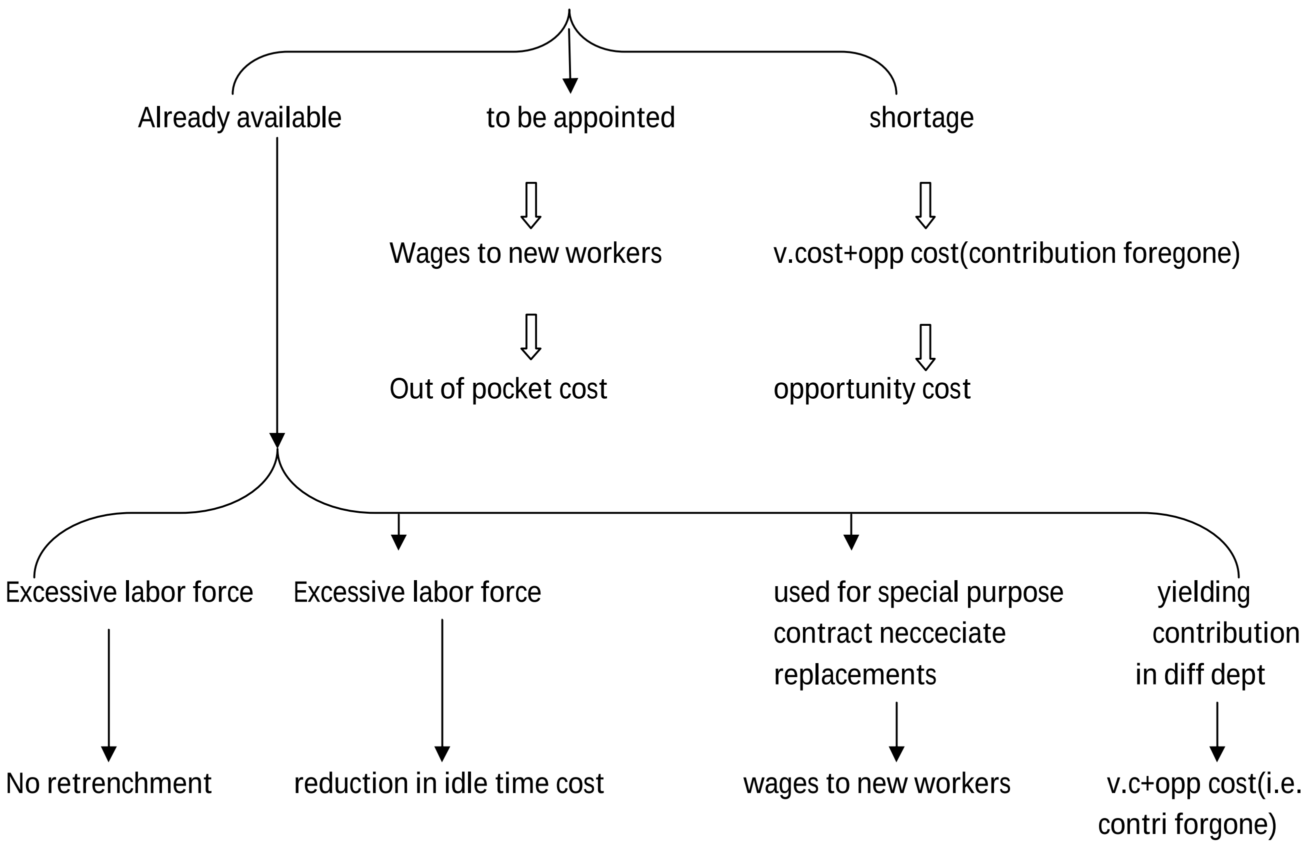
1. RELEVANT COST ANALYSIS

- Relevant Costs:
  - **Marginal cost**:
    - Total variable cost i.e. prime cost +variable overheads
    - Varies directly with production
    - Fixed cost unchanged irrespective of level of activity
    - Relevant for decision making
  - **Differential cost**:
    - Change in cost due to change un level of activity/pattern/method
    - Change in cost results in increase in cost it's called as incremental cost
    - Includes fixed cost which varies for different alternatives.
  - **Opportunity cost**:
    - Value of sacrifice made/benefit of opportunity forgone by selecting one particular alternative in presence to another alternative
    - Relevant for decision making where more than one alternatives are available
    - Doesn't entered in formal accounts & computed only for comparison
  - **Discretionary cost**:
    - Escapable/available cost
    - Avoided if particular option/product/machine is not chosen
  - **Imputed cost**: notional cost
  - **Out of pocket cost**:
    - Cost that entails current or near future cash outlays
    - Relevant in decision making as these will incur in near future
    - Can be avoided/saved
  - **Historical cost/sunk cost**:
    - These are already incurred & cannot have any impact on current/future decisions
    - Not useful for decision making

Relevance of material Cost



Relevance of labor cost



➢ **Relevance of overhead cost**

Variable

Already incurred ⇩ Irrelevant

to be incurred in future ⇩ relevant

depreciation is irrelevant costi.e.sunk/historical

fixed

Normally irrelevant but except in following cases

⇨Specifically incurred for contract

⇨ Incremental

⇨Fixed sami variable due to change in level of activity

⇨Avoidable/discremental

⇨One cost in lieu of another