# Unit → 3

## Cost and Break-even Analysis

**Cost concept →**

The Cost Concepts that are relevant to business operations and and ~~business~~ decision can be grouped on the basis of there nature and purpose under two overlaping categories:-

1. Cost Concept used for accounting purposes ~~and~~
2. Analytical cost concepts used in economic analysis of business activities.

## Types of Cost

(1) **Fixed Cost** → These are ~~the~~ fixed in volume for a certain quantity of output. It does not vary with variation in the output between zero and a certain ~~total~~ level of output.

In other words, costs that do not vary or are fixed for a certain level of output are known as fixed cost. The fixed cost include:-

1. Cost of managerial and administrative staff.
2. Depreciation of machineries, building

and other fixed assets.
(3) Maintainance of land.

(2) Variable cost → These are the cost which vary with the variation in the total output. It includes cost of the raw material running cost of fixed capital such as, fuel, repairs, routine maintainance expenditure, direct labour charges associate with the level of output are treated as variable cost.

(3) Total cost → It is the total actual cost incurred on the production of goods and services. It refers to the total outlays of money expenditure on the resources used to produce a given level of output. It includes both fixed cost and variable cost.

(4) Average cost → It is of statistical nature it is not a actual cost. It is obtained by dividing the total cost by the total output.

$$\boxed{A_C = \frac{T_C}{Q}}$$

$A_C$ = Average cost
$T_C$ = Total cost
$Q$ = Total output.

$\boxed{2+2=5}$ (Synergy)

5.) **Marginal cost** → It is define a the additional to the total cost on account of producing one additional unit of the product or Marginal Cost is the cost of the marginal unit produced.

6.) **Incremental cost** → Conceptually, It is closely related to the concept of Marginal Cost. While Marginal Cost refers to the cost of the marginal unit of output where incremental Cost refers to the total additional cost associate with the decision to the expand the output or to add a new variety of product.

(Explicit cost)

7.) **Actual Cost** → This cost are those which are ~~at~~ actually incurred by the firm ~~and~~ in payment for labour, material, plant, building, Machineries, equipments, Advertisement, etc. The total money expenses recorded in books of accounts are for all practical purposes the actual cost.