

## Elements and Classification of Cost

According to the type of expenditure

- Direct Costs

Direct Costs are directly allocated to a particular product

- Indirect Costs

Indirect Costs cannot be identified with a particular product or service. Also known as overheads.

### ➤ Direct Costs Include

#### A.) Direct Material Cost

The cost of the materials which enter into and become part of the food and beverage product. E.g. flour in bread. The cost of materials also includes Freight, insurance, transport costs, import duty etc.

#### B.) Direct Labour Cost

Wages paid to employees who are immediately concerned with the production e.g. in case of food salary to chefs and bakers.

#### C.) Direct Expenses

It includes all expenses directly identified with the product e.g. cost of tools and equipments.

## ➤ Indirect Costs/ Overheads

### A.) Production Overheads

Indirect expenses incurred in connection with production or service operation e.g.

- Wages paid to repairman
- Salaries of production supervisors, service supervisors
- Rent and rates of production and service areas
- Power and fuel
- Depreciation
- Stationary

### B.) Office and Administrative Expenses

- Rent Insurance and Lighting of office premises
- Stationary, postage related to office
- Depreciation of office equipments
- Audit fees
- Legal Charges

### C.) Selling and Administration Expenses

- Advertising Expenses
- Bad Debts
- Legal charges for recovery of debts
- Subscription to trade journals

### According to the behaviour of costs/ on the basis

#### Of Variability

1. Fixed Costs
2. Variable Costs
3. Semi Variable Costs

#### 1. Fixed Costs

Have little direct relationship to the volume of business. Also known as period Costs

- Salary
- Rent and Rates
- Repairs
- Maintenance
- Depreciation
- Employee remuneration and benefits

2. Variable Costs are directly related to the volume of business. Also known as Product Costs.

- Food and Beverage Costs (Raw Material Costs)

3. Semi Variable Costs/ Semi fixed Costs Vary with change in volume of sales but not in direct proportion

- Telephone costs-Fixed periodical rental and the number of calls made
- Heating-Permanently heated areas and room heated due to increase in occupancy

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❖ On the basis of Controllability

- Controllable costs are those that can be changed in short term- Variable costs (Portion size, varying ingredients)  
Cost of labour can be increased or decreased in the short run by hiring employees or laying off employees or increasing or decreasing wages.
- Non Controllable costs are those that cannot be changed in the short term. These are usually fixed costs e.g. Rent, Taxes etc.

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