Peer 1

M3:A1 Discussion-Cost Type

Veronica Tarleton posted Jul 1, 2018 2:44 AM

A fixed cost does not change, in total, with the change in activity.  A paint manufacturing company who pays rent on a building for its production is an example of fixed cost.  Even if they do not produce paint during the month, they still will have to pay the monthly rent.  “Total fixed cost does not change with the change in activity.  Only per unit fixed cost will change with the rise and fall in the level of acidity” (accountingformanagement.org, n.d.).

A variable cost changes in the total dollar amount in the level of activity.  An example of a variable cost is direct materials cost, such as the resins to make the paint.  The paint is considered as a direct material cost.

First, a semi-variable cost is also called a mixed cost.  It has both variable and fixed cost.  An example is the rental of an equipment that mixes the paint.  The rental charge may include the per month charge and per hour of use charge.  The per month charge is the fixed cost, and the per hour of use charge is the variable cost.

According to Blocher, Stout, Juras, & Cokins,

“Cost estimation is the development of relationship between a cost object and its cost drivers to predict costs.  These can be used in the construction industry.  Construction projects are based upon bids.  Any contractors who place bids on a project should have an accurate cost estimation method to win their share of bids and to be profitable.  They must develop detailed analyses of the materials and labor costs that are directly traceable to the project, as well as projections of the indirect cost” (09/2012)

Example of cost estimation for a construction project is to identify the different cost to be estimated and the cost drivers.  So, for instance, maintenance cost on a crane in a construction project would most likely be estimated.  The cost driver for this would be machine-hours, labor-hours to fix it, and our machine parts.

The high-low method calculates (cost curve of production) the variable cost of producing a good or service.  In order to calculate the high-low estimated cost, you would have to first calculate the variable cost using the cost of sales data of the high and low months.  Then the fixed cost using the data for the highest month.

**Formulas to calculate the high=low method**

Variable cost = (cost of high month – cost of low month) / (units of high month -  unit of low month).

Fixed cost = cost of high month-(variable cost \* units of high month)

Estimated cost = fixed cost / (variable cost \* forecasted units)

References:

<https://www.accountingformanagement.org/variable-fixed-and-mixed-costs/>

Blocher, Edward, David Stout, Paul Juras, Gary Cokins. *Cost Management: A Strategic Emphasis, 6th Edition*. McGraw-Hill Learning Solutions, 09/2012. [Argosy University].

Reply to Thread

Peer 2

M3 Assignment 1 Discussion

Cost Types

Ruby Loftin posted Jul 1, 2018 1:55 PM

Hi Mickelle,

            The difference between fixed cost, variable cost and semi-variable cost are important to know when trying to incorporate cost cutting measures. Blocher, Stout, Juras and Cokins (2012) defined fixed cost as “the portion of the total cost that does not change with a change in the quantity of output within the relevant range” (p. 73). Fixed cost can include anything from rent, insurance, salaries and more. Any cost that is constant, no matter the amount of products produced or services rendered, is a fixed cost.

            Variable costs are charges that change as production levels change. The amount of material needed for production or the labor needed would be two examples of variable cost. In other words, as more products are being produced, more material to make the products and more labor will be needed. This will increase costs.

            Semi-variable cost, also known as mixed cost, is defined as cost that is “fixed up to a certain volume, after which it becomes variable” (“Semi variable cost,” n.d., def. 1). For example, it costs $20k per week to make 50 organ pipes (this is considered the fixed cost); any amount of pipes made after the first 50 will be an additional cost that may not equal $400 per pipe (the variable cost).

            By understanding and utilizing the information on the different types of costs, you will be able to make a cost estimation. Blocher et al. (2012) defined cost estimation as “the development of a well-defined relationship between a cost object and its cost drivers for the purpose of predicting the cost”(p. 264). In other words, knowing how many pipes need to be made, how many hours of labor and material, will give you an estimation of how much a project will cost. This way, Harmony Organs can budget their money better and decide whether certain projects are worth taking on.

Have a great day,

Ruby

References

Blocher, E., Stout, D., Juras, P., & Cokins, G. (2012). *Cost management: A strategic emphasis (6th ed.)* [Argosy University]. Retrieved from <https://digitalbookshelf.argosy.edu/#/books/1259562557/>

Semi variable cost. (n.d.). In *Business Dictionary online*. Retrieved from <http://www.businessdictionary.com/definition/semi-variable-cost.html>