**Cost and Cost Behavior**

**Cost:** Accountants define **cost** as a resource sacrificed or forgone to achieve a specific objective. A cost (such as direct materials or advertising) is usually measured as the monetary amount that must be paid to acquire goods or services.

**Actual cost :** is the cost incurred (a historical or past cost).

**Budgeted Cost**: is a predicted or forecasted cost (a future cost).

**Cost Object**: is anything for which a measurement of costs is desired.

**Relevant Range:** is the band of normal activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question.

**Prime Cost:** Direct material costs+ Direct Labor costs.

**Conversion Costs:** Direct- Labor costs + Manufacturing overhead costs.

**product Cost** is the sum of the costs assigned to a product for a specific purpose. Different purposes can result in different measures of product cost.

**Period Costs** are all costs in the income statement other than cost of goods sold. Period costs, such as marketing, distribution and customer service costs, are treated as expenses of the accounting period in which they are incurred because they are expected to benefit revenues in that period and are not expected to benefit revenues in future periods. Some costs such as R&D costs are treated as period costs because, although these costs may

benefit revenues in a future period if the R&D efforts are successful, it is highly uncertain if and when these benefits will occur. Expensing period costs as they are incurred best matches expenses to revenues.