

Enterprise Theory : Costs



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- Basic cost groups consist of:
 - operating costs:
 - ❖ material consumption
 - ❖ Power or energy consumption
 - ❖ consumption and use of external works and services (production cooperation, telecommunications, consulting, repair, etc. services)
 - ❖ personal expenses (wage expenses including health and social insurance)
 - ❖ depreciation of long-term tangible and intangible assets
 - financial costs (interest, insurance premiums, taxes)
 - extraordinary costs (shortage, damage, natural disasters)

Example

Decide whether it is an operational, financial or extraordinary expense:

- car depreciation
- paper consumption in the production of magazines
- consumption of office supplies
- shortfall in the cash register
- insurance premiums against natural disasters
- internet service fee
- exchange rate loss
- social insurance

Breakdown of costs according to place of origin and responsibility (unit and overhead costs)

- Where did the costs occur and who is responsible for their occurrence?
- Classification by internal company departments:
 - Production costs:
 - ❖ technology costs:
 - unit costs (directly related to the performance unit (t, kg, piece,...), proportional dependence on production volume)
 - overheads
 - ❖ costs of service, provision and management - overhead costs
 - Non-production costs:
 - ❖ sales management
 - ❖ administrative overhead
 - ❖ supply overhead etc.

Cost breakdown (direct and indirect costs)

- what the costs were spent on (which products and services)
- very important for the business world, because it can find out:
 - profitability (profitability) of individual items of products and services provided
 - how individual products or services contribute to the creation of the economic result (profit) and thereby influence the range of products and services on offer
 - whether to operate the given service in-house or rather to buy the given service (outsourcing)
 - the minimum price for the business area
- we monitor costs depending on the method of assigning costs to cost bearers (per performance, so-called calculation unit):
 - direct costs (unit costs and overheads that are directly related to a certain product)
 - indirect costs (common to a group of products, i.e. overhead costs that cannot be assigned to a specific product)

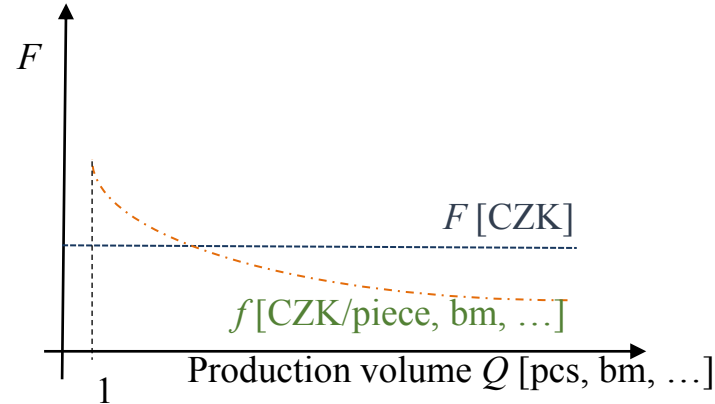
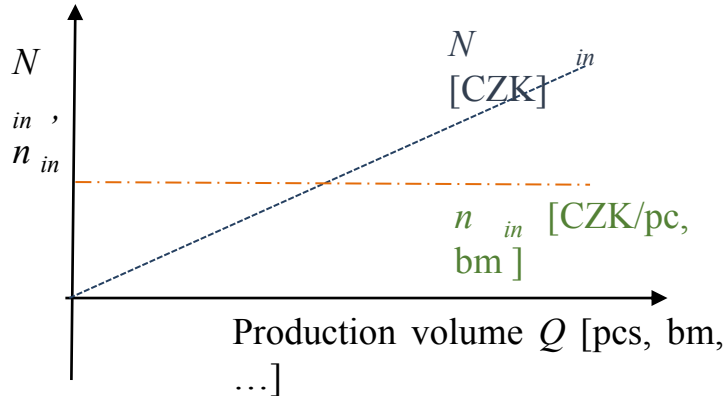
Example

Determine whether it is a direct cost or an indirect cost:

- paper consumption in book production
- company management salaries
- consumption of office paper
- brand promotion
- power consumption
- material warehouse cleaning costs
- social insurance
- water, sewage, waste disposal

Breakdown of costs depending on changes in production volume

- it makes sense when managing costs for a period of less than 1 year
- variable costs – their amount depends on the volume of production
- fixed costs – their amount is not tied to the volume of production



Example

Decide whether it is a fixed or variable cost in each of the following cases:

- monthly wages of company management
- paper consumption in book production
- gas consumption for heating the production hall
- cost of purchasing goods (store)
- brand promotion
- electricity consumption in an office building
- internet connection fee
- petrol consumption of a taxi car
- gasoline consumption in a car used for the needs of executives



COST FUNCTION

- expresses the dependence of the amount of costs C on production volume Q :
 - production volume - independent variable (explanatory, exogenous)
 - costs - dependent variable (explained, endogenous)

$$C = f(Q)$$

- types of cost functions:
 - short-run cost functions
 - long run cost functions



$$C = f(Q) = (v \times Q) + F$$

$$C = V + F$$

where

F ... total fixed costs [CZK]

v ... unit variable costs [CZK/piece, CZK/kg, CZK/l, ...]

V ... total variable costs

Q ... volume of production [pcs, kg, l, ...]



Assignment: Determine the cost function for the production of 10,000 A piece of candy.

Cost item	The amount of costs [CZK]	Variable costs [CZK]	Fixed costs [CZK]
Material consumption	66,000	60,000	6,000
Wages of pastry chefs	45,000	15,000	30,000
Administrative staff salary	20,000		20,000
Technological energy (production equipment drive)	15,000	15,000	
Non-technological energy	1000		1000
Depreciation of tangible fixed assets	20,000		20,000
TOTAL	167,000	90,000	77,000

$$C = (v \times Q) + F$$

$$V = v \times Q$$

$$v = V / Q$$



Solution:

Cost item	The amount of costs [CZK]	Variable costs [CZK]	Fixed costs [CZK]
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TOTAL	167,000	90,000	77,000

$$F = 77\,000 \text{ CZK}$$

$$v = \frac{90\,000}{10\,000} = 9$$

$$C = 9Q + 77\,000$$



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Thank you for your
attention 😊
