

Lecture 2: The Nature of Costs

ACCT 3210

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We are interested in how costs respond to business decisions?

Why? - Costs are resources. Business decisions that have costs require resources so we need to make sure we have the resources when required. - Cost, Volume, Profit analysis. Which we will talk about in the following lectures, is based on the relationship between a key decision—the volume decision (how much to produce)—and costs. - We have to know where the resources are and where they need to be in order to understand the resource bargains that need to be negotiated.

Why do we care about costs?

Profit = Revenue - Total Cost

Total Cost = Fixed Cost + \sum (Cost Per Unit \times # Units) 1

Revenue = \sum (Price Per Unit \times # Units) 1

1: Summed across all products.