

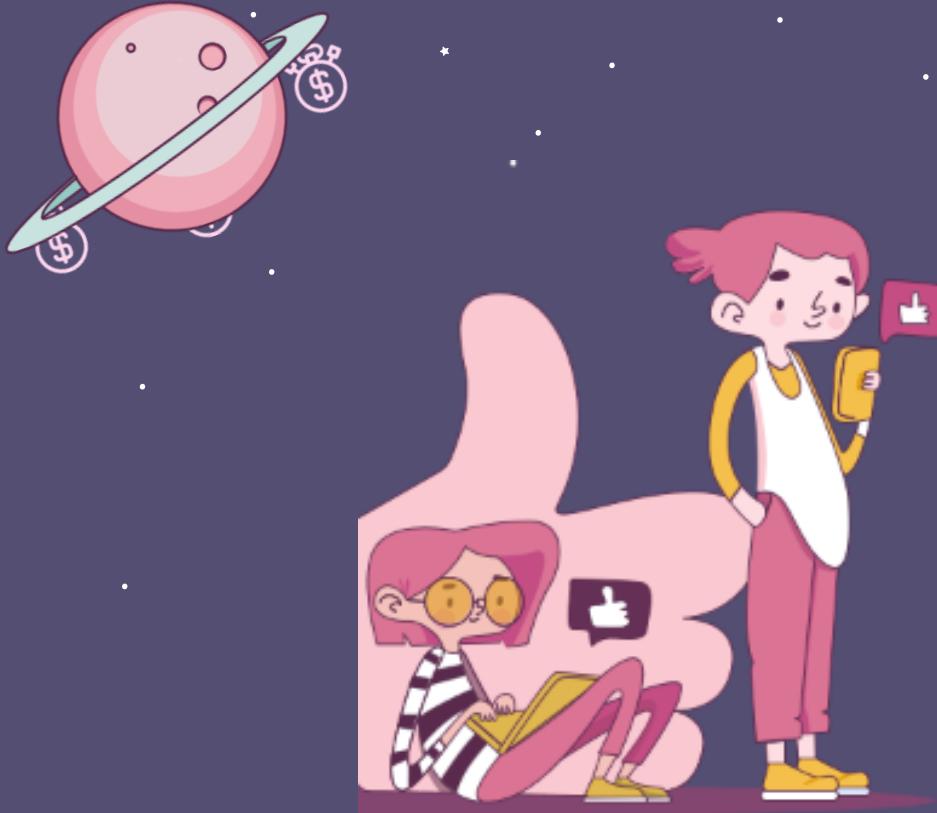
What Is Relevant Cost?





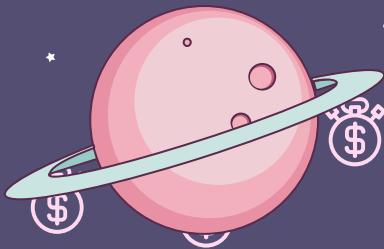
Do You Know

Relevant cost is a managerial accounting term that describes avoidable costs that are incurred only when making specific business decisions.



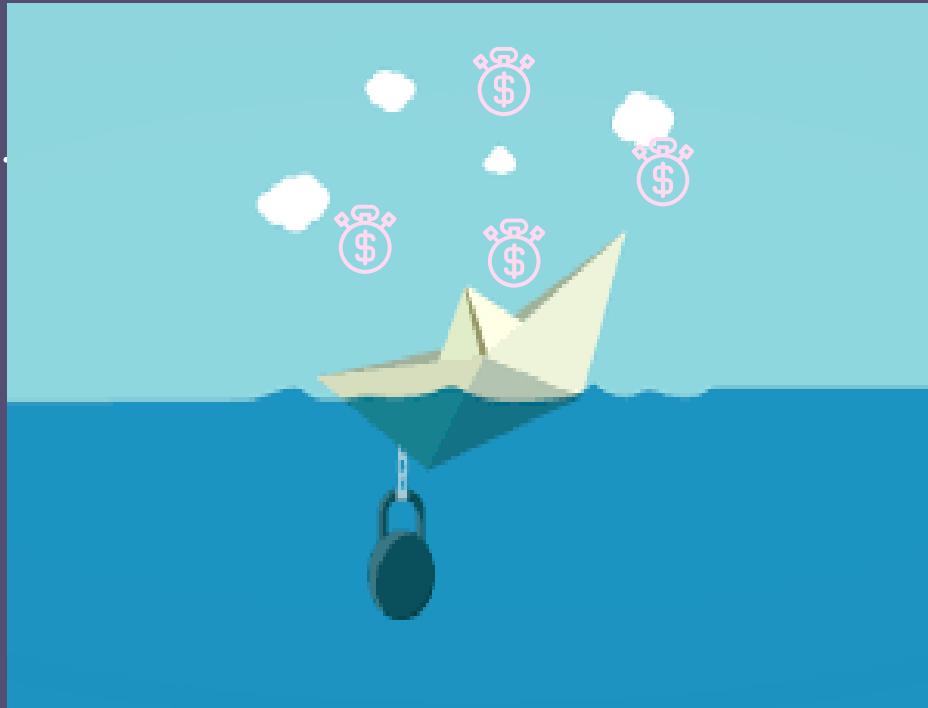
Do You Know

The concept of relevant cost
is used to eliminate
unnecessary data that could
complicate the decision-
making process.



Meanwhile

Irrelevant costs are costs that would not be affected by a management decision. Irrelevant costs, such as fixed overhead and sunk costs, are therefore ignored when that decision is made.



Do You Know ...

Thus

Sunk cost is a cost that has been already incurred and cannot be recovered.

Example of Relevant Costs

- Future cash flows:**
Cash expenses which will be incurred in the future
- Avoidable costs:**
Only the costs which can be avoided in a certain decision
- Opportunity costs:**
Cash inflow which would have to be sacrificed
- Incremental Costs:**
Only the incremental or differential costs related to the different alternatives



Example of Irrelevant Costs

Sunk costs:

Expenditures which have already been incurred



1

Committed costs:

Future costs which cannot be altered



2

Non-cash expenses:

Depreciation and amortization



3

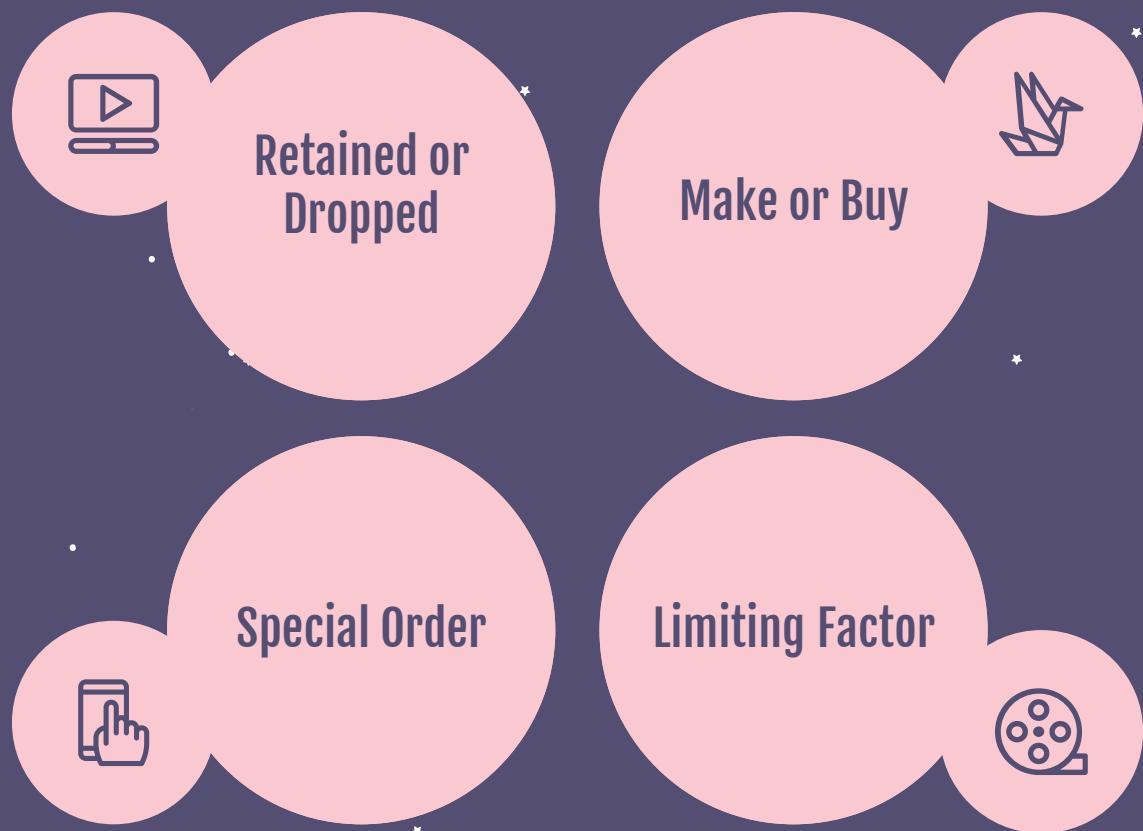
Overheads:

General and administrative overheads



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Types of Relevant Cost in Short-term Decision Making



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