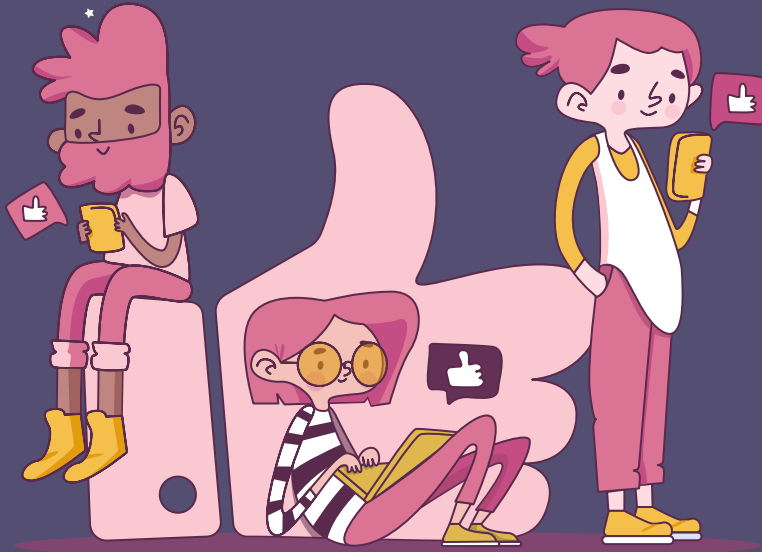


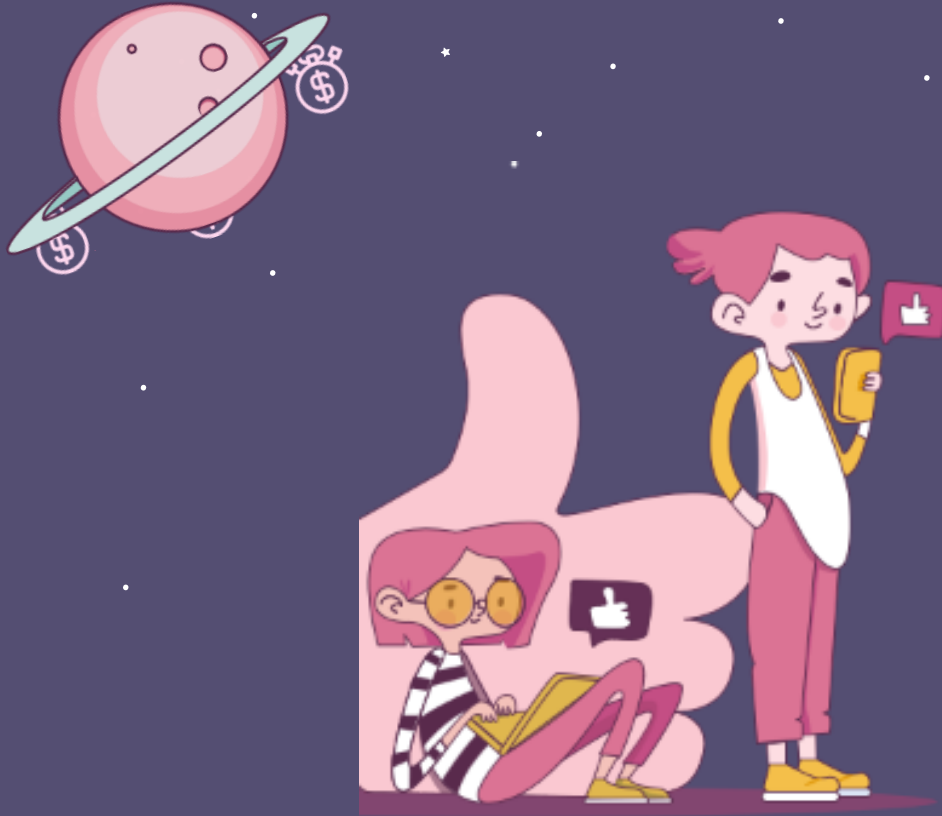
What Is Relevant Cost?





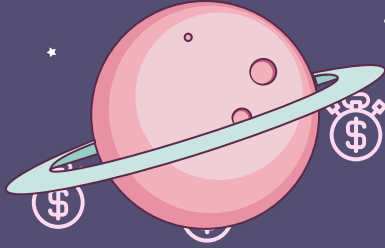
Do You Know

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



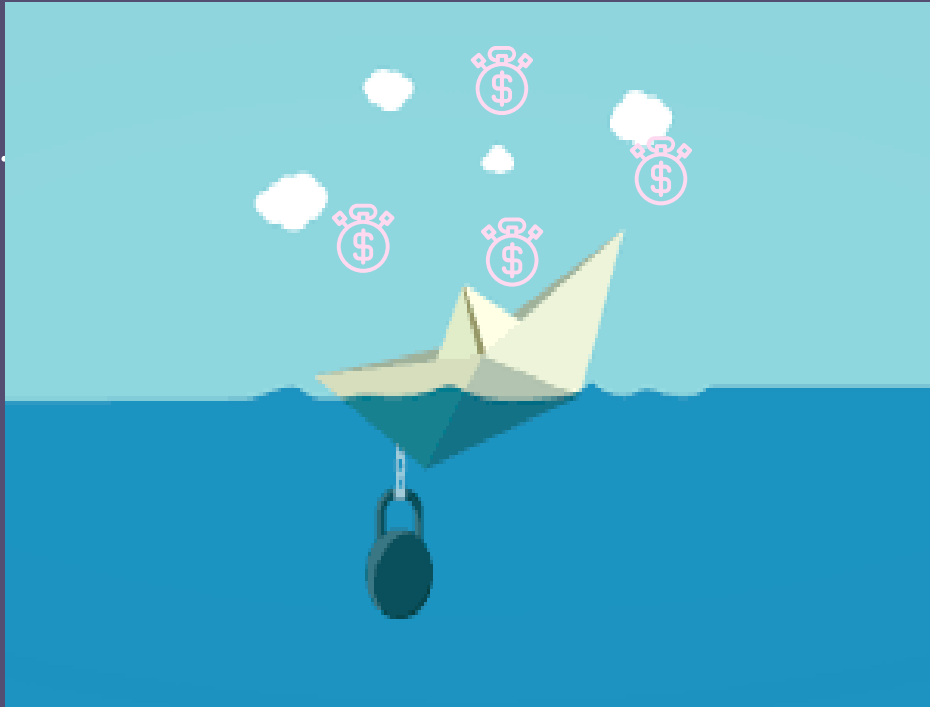
Do You Know

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.



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



1

Avoidable costs:

Only the costs which can be avoided in a certain decision



2

Opportunity costs:

Cash inflow which would have to be sacrificed



3

Incremental Costs:

Only the incremental or differential costs related to the different alternatives



4

Example of Irrelevant Costs

Sunk costs:

Expenditures which have already been incurred

Committed costs:

Future costs which cannot be altered

Non-cash expenses:

Depreciation and amortization

Overheads:

General and administrative overheads



1



2



3



4

Types of Relevant Cost in Short-term Decision Making



Retained or
Dropped



Make or Buy



Special Order



Limiting Factor

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