



[Frequently Asked Questions]

Introduction to Cost Concepts for Decision Making

Subject:	Business Economics
Course:	B. A. (Hons.), 1 st Semester, Undergraduate
Paper No. & Title:	Paper – 103 Fundamentals of Business and Accounting
Unit No. & Title:	Unit – 5 Introduction to Cost Concepts for Decision Making
Lecture No. & Title:	Lecture – 1 Introduction to Cost Concepts for Decision Making

Frequently Asked Questions

Q1. What is the cost?

A1. Cost is simply known as amount of money needed to buy, do, or make something.

Q2. Is the cost means expenses?

A2. No, An Expense is a cost that is already expired or already utilized it becomes expense and that is why expenses is shown in the profit and loss account while cost is to be shown in the balance sheet.

Q3. Can we use Imputed cost, and Opportunity cost interchangeably?

A3. Yes, it can use interchangeably.

Q4. Can we use Imputed cost, and Implicit cost interchangeably?

A4. Yes, it can use interchangeably.

Q5. Can we use Out-of-pocket cost and Explicit cost interchangeably?

A5. Explicit cost is also known as out-of-pocket cost because out-of-pocket cost is incurred in reality.

Q6. Is it necessary that all the out-of-pocket cost is variable?

A6. No, it is not necessary that all the out-of-pocket cost is variable because rent of a factory is out-of-pocket cost and it is not variable.

Q7. What is the difference between marginal cost and differential cost?

A7. Marginal cost is the differential variable cost of one unit increase or decrease in the current total output. While Differential cost is the increase or decrease in total cost under different alternative.

Q8. Which cost considers cash outflow as well as returns from cash outflow?

A8. Out-of-Pocket cost is calculated for cash outflow of the business, it also thinks about returns from cash outflow associated with the particular taken decision.

Q9. Why Opportunity cost is also important in Decision Making?

A9. Opportunity cost is the cost of selecting one alternative and thus by forgone the second best alternative. Sometime many persons are taking the decision without consideration of opportunity cost which may result into loss if second alternative is best suited for business according to circumstances.

Q10. Which type relevant cost is Flexible or avoidable cost for decision making?

A10. Discretionary Cost is flexible or avoidable cost for decision making.