1. “Cost may be classified accordingly to their nature and characteristics.” Elaborate on this statement and explain about fixed costs, variable costs and semi-variable costs with suitable examples.

Ans: is 'the technique and process of ascertaining costs. "It provides only the basis and information for ascertainment of cost. Once the information is made available, the costing can be carried out arithmetically, by means from of memorandum statements or by method of integral accounting. Cost accounting is different from costing in the sense that it is the process of accounting for costs. It includes the accounting procedures relating to recording of all income and expenditures and the preparation of periodical statements and reports will the object of ascertaining and controlling costs. It is the formal mechanism by means of which cost of products or services are ascertained and controlled.

Classification of cost
The various groups, into which costs are classified, are known as 'classes'. Costs may be classified according to different bases or characteristics, such as:
1. On the basis of production and process
2. On the basis of element or nature
3. On the basis of function
4. On the basis of behavior or variability
5. On the basis of controllability.

On the basis of production and process
In cost accounting, a factory has to bear various types of cost in the process of production. These production costs may be sub-divided into following two types.

Direct expenditure
It included all those expenditures which can be easily identified wholly with a unit of cost. It contains material expenses, labor expenses and direct expenses e.g. wood, labor are the good examples of direct expenses for a furniture manufacturer.

Indirect expenditure
Indirect expenditure are those expenditure which are incurred for the advantage of number of cost center and are not easily identified with a particular cost center e.g. paints, nail etc. on furniture.

On the basis of element or nature
On the basis element, cost can be divided into material, labor and expense. They have been mentioned in details in the following.

Materials
Materials are needed to produce or provide services. They can be classified into direct and indirect as given below:
Direct material: means the materials which form part of finished output and can be identified with the finished product easily. For example: wood, plywood, adhesive, wood polish, mails etc. in case of manufacturing cloth, cost of iron in case of manufacturing machinating cotton yarn, cost of yarn in case of manufacturing furniture, cost of iron in case of manufacturing machinery etc. the main feature of direct materials in that enter into and form part of the finished product.

Indirect material cost: refers to the material cost, which cannot be allocated but can be apportioned to or absorbed by cost centers of cost units. These are the materials, which cannot be traced as part of the product, and their costs distributed among the various cost center or cost units on some equitable basis.
Examples of indirect materials are cost and fuel for generating power, cotton waste, lubricating oil and grease used in maintaining the machinery, materials consumed for repair and maintenance work, dusters and brooms used for cleaning the factory etc.

Labor
Lab our is needed to convert the raw materials into finished products. It is also needed to supply the goods in the hand of ultimate consumer. It can further be divided into two types as given below:
Direct labor: is the workforce, which is directly involved on production. It refers to lab our cost, which can be identified with and allocate to cost centers or cost units. It includes the remuneration paid for converting the raw material into finished products or for altering the construction, composition or condition of the or ducts manufactured by an undertaking. For example, wages paid for spinning yarn in case of spinning mills, wages paid for weaving cloth in case of cloth mills, wages paid to a mason for construction of a building by a building contractor etc.

Indirect labor cost: refers to the labor cost or wages, which cannot be allocated but can be apportioned to or absorbed by cost centers or cost units. For example; salary paid to factory managers, salary paid to factory supervisor or foremen, salary paid to general manager or sales manager etc.

Other expenses
The expenses which are needed in course of production and distribution except material and labor fall into this category. They can be divided into two types as mentioned below:
Direct expenses: these costs are also called chargeable ex