

Analysis of direct costs

Business



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ANALYSIS OF DIRECT COSTS Insert The amount that can be recognized to the complete production of a particular good or service is referred as Direct Cost. It is comprised of direct labor cost and indirect material costs. Materials, labor, equipment and all related expenses to the production are considered and direct costs, whereas, administrative, overhead and related costs are considered as indirect costs. “ Direct Cost: is a cost that can be directly traced to a cost object, such as a product. Direct Materials: become a physical part of the finished product. The cost of direct material - purchase cost plus freight in - can be traced directly to the finish product. Direct Labor: is the labor or employees who convert materials into the company’s products. The cost of direct labor can be traced directly to the finished products.” (Horngren, Harrison, & Oliver, 2009). All other costs charged under the categories Overhead Costs and General and Administrative Costs are indirect costs. These include indirect labor, repair, maintenance, utilities, rent, insurance, property taxes and depreciations.

Direct material cost is the cost of significant materials that are used in the manufacturing of a product or that are used up in providing a service. Direct material costs are specifically identifiable to the contract. FAR regulations also provide provision for trade discounts, refunds, credits for scrap, salvage, and returns to vendor, to be adjusted to the direct material costs. Priced Bill of Sales, has detailed list of all materials needed to produce the required product or service is used for estimating the direct cost. To analyze estimated costs of materials, the factors in review focus are: Are the items quantities and costs of materials correct? Are making or buying decisions are appropriate? Is the material purchased efficiently and competitively? (Murphy, 2009).

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Direct labor cost is cost of labor specifically identified with a particular contract that a company is doing. Following are three types of direct labor: Labor directly associated with the work being produced, labor readily identified with a particular objective such as a contract, and labor important enough to warrant identifying and measuring so we can keep up with its cost. In general approach to analyze direct labor cost is to examine each element of proposed cost. The contracting officer should usually request analysis of cost or pricing proposals by asking requirements logistics, or other appropriate personnel to review and assess the need for the number and kinds of labor hours and labor mix. The common questions asked during analysis are: do the proposed hours agree reasonably with the technical proposal? Are the proposed skill levels in line with the work to be done; do excessive contingencies appear to be billed into the estimates? Companies do not attempt to charge for every item - no matter how small in cost, to a specific contract. Doing so is too much trouble and the administration cost keeping up with all that details would exceed the value gained doing it. (Murphy, 2009).

Main cost, direct and indirect cost of British American tobacco company In Malawi, transnational tobacco companies are using child labor projects to enhance corporate reputations and distract public attention from how they profit from low wages and cheap tobacco.

British American Tobacco co-founded the Eliminating Child Labor in Tobacco Growing Foundation (ECLT) in October 2000 and launched its pilot project in Malawi. ECLTs initial projects were budgeted at US\$2. 3 million over four years. Labor unions and leaf dealers, through ECLT funds, have undertaken modest efforts such as building schools, planting trees, and constructing <https://assignbuster.com/analysis-of-direct-costs/>

shallow wells to address the use of child labor in tobacco farming. In stark contrast, the tobacco companies receive nearly US\$40 million over four years in economic benefit through the use of unpaid child labor in Malawi during the same time. BATs efforts to combat child labor in Malawi through ECLT was developed to support the companys “ corporate social responsibility agenda” rather than accepting responsibility for taking meaningful steps to eradicate child labor in the Malawi tobacco sector. In dealing with semi-variable and price acquisition Tobacco company documents provide clear evidence on the impact of cigarette prices on cigarette smoking, describing how tax related and other price increases lead to significant reductions in smoking, particularly among young persons. This information was very important in developing the industrys pricing strategies, including the development of lower price branded generics and the pass through of cigarette excise tax increases, and in developing a variety of price related marketing efforts, including multi-pack discounts, couponing, and others.

Also in price acquisition; pricing and related promotions are among the most important marketing tools employed by Tobacco Company. The future tobacco control efforts that aim to raise prices and limit price related marketing efforts are likely to be important in achieve reduction in tobacco public health toll.

Reference

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