

Example of essay on controllership

[Business](#), [Management](#)



Describe and provide specific examples of fixed, variable, and mixed costs. Why is an understanding of cost behavior critical to financial planning and profitability? Can the nature of a specific cost change over time (i. e. from fixed to variable, variable to mixed, etc.?) If so, how?

Costs are of three types: variable, fixed and mixed. Variable costs refer to those costs which vary as the level of production varies and it is in a linear fashion. A perfect example for the variable cost is the material or resources; when the cost per product is \$5, as the number of products increase, the cost increases by \$5 each time. Fixed Cost is that cost that remains constant despite the change in the level of production. A very common example of fixed costs is rent of a facility. Mixed costs refer to that cost which does not fall under the categories of either the fixed cost or the variable costs (Edmonds, 2007). Electricity is a semi-variable or a mixed costs; in a factory setup, the fixed component of electricity is the bill for lights, air conditioners, fans and computers but the variable component is also present which includes the electricity used for the production that varies according to the units.

The concept of describing the variation in costs with the activity like the volume of production is referred to as the cost behavior. It is highly critical for the management and decision makers to understand the cost behavior; by dividing the costs into the sub-categories, management and the decision makers gauge the costs to be affected if the level of activity is changed (Horngren and Foster et al., 2010). The management makes use of the cost behavior to plan and control the costs of its organization; the patterns of cost behavior are important to plan budgets and variance reports. In addition, the

break-even point of the company is calculated through cost behavior and also for the cost-volume-profit analysis. Changing the fixed costs to variable costs is the need of businesses today like outsourcing can be a good example. It is the fixed costs that may change with time and so they are known as period costs (Edmunds and Tsay et al., 2011).

References

Edmunds, T. (2007). *Fundamental financial and managerial accounting concepts*. Boston: McGraw-Hill/Irwin.

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Horngren, C., Foster, G., Datar, S., Rajan, M., Ittner, C. and Baldwin, A. (2010). Cost accounting: a managerial emphasis. *Issues in Accounting Education*, 25 (4), pp. 789--790.