RELEVANT COSTING

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Decisions are made every day in one’s life. People decide who they are. Same with organization, decisions are made in all organizational activities and like an atom, it makes an organization. When an entity faces choices, and cannot be answered through organizational manual, this is the time that Relevant Costing becomes necessary. In decision making, it can be use in make or buy, accept, or reject proposal, sell-as-is or process further the product, drop or continue a segment and others. The question of how to decide between alternatives lies on one’s analysis of what is relevant. To be relevant, it must be differential and a future cost. Therefore, sunk cost or those that are already incurred are not part of the analysis. Like what people used to say, the past is irrelevant. If a cost is particularly related to a decision, then it may be relevant. If this cost, differs from one alternative, then that cost is differential. If the said cost is to be incurred in the future, it is a future cost. Both the future oriented and differential features must be satisfied for a cost to be relevant. For a decision to make a difference, this should be based on a relevant cost.

References:

https://www.investopedia.com/terms/r/relevantcost.asp