

# Elements of Cost

The elements of cost are those elements which constitute the cost of manufacture of a product. We can broadly divide these elements of cost into three categories. In a manufacturing organization, we convert raw materials into a finished product with the help of labor and other services. These services are Material, Labour and Expenses.

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Again, we can bifurcate these elements of cost into two categories such as Direct Material and Indirect Material, Direct Labour and Indirect Labour, Direct Expenses and Indirect Expenses. We need to add all direct material, direct labor, and direct expenses to calculate the prime [cost](#).

Likewise, we add all indirect material, indirect labor, and indirect expenses to calculate the overhead cost. Again, we can bifurcate the overheads into four categories. They are factory overhead, administrative overhead, selling overhead and distribution overhead.

### *1. Direct Material*

It represents the raw material or goods necessary to produce or manufacture a [product](#). The cost of direct material varies according to the level of output. For example, Milk is the direct material of ghee.

### *2. Indirect Material*

It refers to the material which we require to produce a product but is not directly identifiable. It does not form a part of a finished product. For example, the use of nails to make a table. The cost of indirect material does not vary in the direct proportion of product.

### *3. Direct Labour*

It refers to the amount which is paid to the workers who are directly engaged in the production of goods. It varies directly with the level of output.

### *4. Indirect Labour*

It represents the amount paid to workers who are indirectly engaged in the production of goods. It does not vary directly with the level of output.

### *5. Direct Expenses*

It refers to the expenses that are specifically incurred by the [enterprises](#) to produce a product. The production cannot take place without incurring these expenses. It varies directly with the level of production.

### *6. Indirect Expenses*

It represents the expenses that are incurred by the [organization](#) to produce a product. These expenses cannot be easily identified accurately. For example, [Power](#) expenses for the production of pens.

### *7. Overhead*

It refers to all indirect materials, indirect [labour](#), or and indirect expenses.

### *8. Factory Overhead*

Factory overhead or Production Overhead or Works Overhead refers to the expenses which a firm incurs in the production area or within factory premises.

Indirect material, rent, rates and taxes of factory, canteen expenses etc. are examples of factory overhead.

### *9. Administration Overhead*

Administrative or Office Overhead refers to the expenses which are incurred in connection with the general administration of the organizations.

Salary of administrative staff, postage, telegram and telephone, stationery etc. are examples of administration overhead.

### *10. Selling Overhead*

All expenses that a firm incurs in connection with sales are selling overheads. Salary of sales department staff, travelers' commission, advertisement etc. are examples of selling overhead.

### *11. Distribution Overhead*

It represents all expenses incurred in connection with the delivery or distribution of finished goods and services from the manufacturer to the consumer. For Delivery van [expenses](#), loading and unloading, customs duty, the salary of deliverymen are examples of distribution overhead.