**Cost Concept**

**Total Cost (TC):** Total cost of a firm is the sum total of all the **explicit and implicit** expenditures incurred for producing a given level of output. It represents the money value of the total resources required for production of goods and services.

**Average Cost (AC):** Average Cost is the cost per unit of output, that is average cost equals the total cost divided by the number of units produced (N). If TC = Tk. 500 and N = 50 then AC = Tk. 10.

**Marginal cost (MC):** Marginal cost is the extra cost of producing one additional unit. At a given level of output, one examines the additional cost being incurred in producing one extra unit and this yields the marginal cost. For example, it TC of producing 100 units is Tk. 10,000 and the TC of producing 101 units is Tk. 10,050, then MC at N = 101 equals Tk. 50. Marginal cost refers to the change in total cost associated with a one-unit change in output.

**Fixed cost (FC):** Fixed cost are that part of the total cost of the firm which does not change with output. Expenditures on depreciation, rent of land and buildings, property taxes, and interest on bonds are example of fixed costs. Given a capacity, fixed cost remains the same irrespective of actual output.

**Variable cost (VC):** Variable cost on the other hand, change with changes in output. Examples of variable costs are wages and expenses on raw material.

**Actual Costs:** Actual costs are those costs, which a firm incurs while producing or acquiring a goods or services like raw materials, labor, rent, etc. Suppose, we pay Tk. 400 per day to a worker whom we employ for 10 days, then the cost of labor is Tk. 4000

**Explicit Cost:** An explicit cost is a cost that occurs, is easily identified, and is accounted for in business documents or financial statements.  It represents clear, obvious cash outflows that reduce a business's bottom-line profitability.  Examples of explicit costs would be items such as wage expenses, rent, or lease costs; it is easy to identify the sources of those cash outflows and the business activities to which the expenses are attributed.

**Implicit Cost:** An implicit cost is any cost that has already occurred but is not necessarily shown or reported as a separate expense. It represents an opportunity cost that arises when a company allocates internal resources toward a project without any explicit compensation for the utilization of resources. This means that when a company allocates its resources, it always forgoes the ability to earn money off the use of the resources elsewhere.

**Opportunity Cost:** Opportunity cost is defined as the value of a resource in its next best use. For example, Mr. Rahim is currently working with a firm and earning TK 5 lakhs per year. He decides to quit his job and start his own small business. Although, the accounting cost of Mr. Rahim’s labor to his own business is 0, the opportunity cost is TK. 5 lakhs per year Therefore, the opportunity cost is the earnings he foregoes by working for his own firm.

**Accounting Cost and Economics Cost:**

Accountants always have been concerned with firm’s financial statements. Accountants tend to take a retrospective look at firms finances because they keep trace of assets and liabilities and evaluate past performance. The accounting costs are useful for managing taxation needs as well as to calculate profit or loss of the firm. On the other hand, economists take forward-looking view of the firm. They are concerned with what cost is expected to be in the future and how the firm might be able to rearrange its resources to lower its costs and improve its profitability. They must therefore be concerned with opportunity cost. Since the only cost that matters for business decisions are the future costs, it is the economic costs that are used for decision-making. Accountants and economists both include explicit costs in their calculations.