

Direct costs are expenses that a company can easily connect to a specific "cost object," which may be a product, department or project. This can include software, equipment and raw materials. It can also include labor, assuming the labor is specific to the product, department or project. Labor and direct materials constitute the majority of direct costs. For example, to create its product, an appliance maker requires steel, electronic components and other raw materials. Two popular ways of tracking these costs, depending on when your company uses materials in production, include last-in, first-out (LIFO) or first-in, first-out (FIFO). This can be helpful if the costs of your materials fluctuate in the course of production.