

The Elements of Cost are the three types of product costs (labor, materials and overhead) and period costs. Indirect materials either cannot be traced to products or it is not cost effective to do so. For example, a company producing artisan crafts may consider wood to be a direct material, as the company can easily quantify how much wood goes into each craft. Common overhead costs include depreciation on factory equipment, manufacturing rents, supplies costs, insurance costs and licensing fees. However, factory maintenance workers, plant supervisors and quality control engineers would be considered indirect labor. In these cases, small-business owners should be careful to recognize that just because overhead costs are not easily traceable to products doesn't mean that effective cost management is any less important. Indirect labor costs are any other wages and salaries related to production, but are not traceable back to units of product. For example, wages for materials handlers and line workers are usually considered to be direct labor costs. This includes all indirect labor and materials costs, as well as any other untraceable costs. Materials Materials costs are the tangible goods used in producing the product. Direct materials are the quantifiable and traceable costs of materials used in production. In that case, these items would be considered indirect materials. Labor Wages and salaries paid to employees involved in manufacturing are known as labor costs. Overhead Overhead costs are related to production, but are not classified as direct labor or direct materials. For some small businesses, overhead costs make up the majority of production costs. However, glue and other fasteners may not be cost effective to track in this manner. These costs can be direct or indirect. These costs can be broken down into direct and indirect labor. Direct labor costs include the wages that are paid to employees that physically handle the product. For this reason, direct labor is also referred to as touch labor.