Ajuntament de Barcelona

Cost Management and Assessment Services Directorate
Budgets and Tax Policy Directorate
Manager's Office of Economy, Enterprise and Employment

Costing Report

SUPPORTING DOCUMENT

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PRESENTATION

In a continued effort to remain as a leading organisation in public management methods, the Barcelona City Council has made the decision to develop a **cost calculation system** included within the Integral Management System: for optimum quality and continuous improvement of activities.

This decision aims to respond to the evolution of the Corporation's culture, moving from an administrative regime based on expenses and budget settlement, to one which is more consistent with the current and future economic climate, which is crucial for cost analysis and focuses on **productivity, efficiency and quality in the provision of goods and services**. Consequently, this is not about exhausting the spending budget; rather it is about achieving the objectives proposed within reasonable budgets and within the established time frame and standards of quality.

Until now, cost calculations were included in the City Council's general account settlement for the most important services provided by each Area or Sector and the data was provided for each of these based on the budgetary criteria. With this new model, **the calculation of costs will be standardised for the whole organisation** using a common methodology both for the central City Council and for the various independent Institutes, enterprises and organisations that make up the municipal group. Taking into consideration that knowledge of the cost of goods and services, provided by the administration, is a key piece of information for setting rates and public-sector charges, among other uses.

The new management model (**ABC** model, or **Activity Based Costing**) is based on the end-activities that we perform, providing more information with greater detail of a higher quality, and presents a series of **key objectives** for the Government of the organisation:

- **Improved management**, supplying relevant information for decision-making and determining which activities and services hold more importance in terms of provision.
- Fulfilment of the **legislative requirements**, as mentioned in the Constitution, in article 31, where it speaks of the equitable allocation of public resources and of the criteria for efficiency and economy. Also, in the **Municipal Charter** approved on 22/12/2005, in article 59, where it speaks of analytical accounting as one of the elements of the municipal accounts system. Not forgetting also, the **Regulatory Law on Local Taxes** regarding tax calculations, special contributions and public-sector charges (article 25, 31 and 44 of the

aforementioned law) and the new **Law on Rationality and Sustainability of Local Public Administrations** (LRSAP) regarding effective cost calculation, among other things.

- It is absolutely necessary for **the administration to make all of the information available** regarding how the public budget is managed; not only how much money it uses but how it is used and what it is spent on, in a social environment in which access to information is virtually instantaneous for citizens who are increasingly aware of their rights.

The results obtained in this way, once validated by the Managers of the different activity areas, will be published on the **Strategy and Finance website** so that city residents can find out first-hand what the resources available to the Barcelona City Council are used for.

WHAT ARE THE COSTS?

Costing is an accounting concept which refers to the **value of the consumption of resources needed to produce** goods or deliver services. Cost estimates are usually made using data relative to a period which has already ended. In other words, products and services are valued using **historical or current costs**.

It is also possible to make calculations using **budgeted costs** based on forecasts for future periods. The concept of **cost** belongs to **financial accounting** and refers to the purchase or acquisition of goods and services for consumption, both during the production process and for third parties, and is related to the activity carried out by the organisation. Cost is a term related to accounting law, and cannot be included as an expense if the legislation does not allow for it.

Costs do not usually coincide with expenses because there are concepts of costs that are not considered expenses, such as opportunity costs, and there are expenses that are not considered costs, such as corporate tax or extraordinary expenses. Here are a few examples of costs that are not expenses: depreciation of fixed assets, which is what is used for estimating costs. Depreciation reflects the loss in value or deterioration of investments made in fixed assets (facilities, furniture, computers, etc.) and, therefore, it does not have to match the depreciation quantified by financial accounting because it does not consider the actual use or deterioration of fixed assets.

DIFFERENT METHODOLOGIES USED TO CALCULATE COSTS

Costing systems are methods that can be used to understand the costs of different **cost objectives** (sections, end services and activities) and can be used to determine the **result of the period**.

The costing system chosen by an organisation depends on different **variables**, including:

- characteristics of each service (type of activity, space occupied, number of employees, etc.);
- objectives to be achieved with the system;
- information requirements;
- information available;
- price that an organisation is willing to pay to have a costing system available.

If we classify cost calculation systems in terms of the cost they attribute to cost objectives, we have:

PARTIAL COSTING SYSTEMS

This category refers to systems that **only apportion part of the costs of the organisation to the services provided**. In this way, in terms of the costs included, the partial costing system can include direct partial costs or variable partial costs.

The direct partial costing system, explained in this guide, only **apportions direct costs to the products or services**. The remaining costs, **the indirect costs, are directly deducted in the profit and loss statement**, since they are considered as costs for the period. According to this system, it is possible to obtain the profit and loss statement for each service, which is very useful to be able to analyse the contribution margin generated by each of them. This cost system is widely used in enterprises or institutions with a **cost structure characterised by having direct costs which have considerable weight**.

FULL COSTING SYSTEMS

These systems take into account **all of the costs incurred** in the manufacture of a product or provision of a service. It is advisable to use this type of costing system in **institutions that have elevated indirect costs.** They are very useful to be able to determine more precisely which costs should be charged for each service. Implementing these systems is more costly than partial costing systems, since **they require more information to be able to apportion the indirect costs**. Therefore, before using them, the cost of using this type of system should be compared with the benefits that can obtained from it. There are different variants of these systems, including:

- **By rate**: direct costs are apportioned immediately to the cost objective and indirect costs are allocated according to an allocation rate.
- **By sections**: direct costs are apportioned immediately to the cost objective and indirect costs are assigned to the sections to later be assigned to the cost objective.
- **Activity based** (Activity Based Costing or ABC): this system is based on the principle that **the activity is the cause that determines the costs incurred**, and that products and services require activities. This system is **more complex** and needs more information about the costs attributed to the different activities of each section, but provides greater detail of the costs associated with each activity undertaken by the organisation. This system is also more useful **when setting rates and public-sector charges** for services provided to citizens because it provides a more accurate total cost of each end service.

ABC: ACTIVITY BASED COSTING

The ABC costing system emerged during the eighties in response to a series of changes in the business and institutional world:

- increases in direct costs (especially regarding costs which are not linked to the production process or provision of services)
- reduction in the weight of the workforce (allocation criteria mainly used to allocate indirect costs)

This costing system is based on the premise that **the products or services** do not use up the costs allocated to departments; rather, they **consume activities** carried out to produce them, which, therefore, makes the activities the cost consumers. In addition, it is not only products or

services that consume activities, as customers and users in the organisation can also consume activities.

In the ABC costing system, like other costing systems aimed at calculating the cost, direct costs are allocated directly to products or services, whereas **indirect costs follow various steps**:

- First of all, these **indirect costs are located in the sections** or departments.
- Then **activities carried out by the departments** are defined.
- Then the **cost of each activity** is determined.
- Then the **cost drivers** are defined (what creates the cost or variability factors for the costs).
- Then the **cost for each driver** is calculated.
- Lastly, the **cost of each activity is assigned** to the products or services based on the name of the drivers of each product or service for the cost per driver.

Some of the **advantages** brought about by the ABC costing system are as follows:

- it makes it possible to make a **more precise calculation** of the costs (based on a more rigorous application of indirect costs);
- it gives the organisation the ability to **better understand the costs** of its activities;
- it helps to **reduce indirect costs** (through the elimination or redesign of activities that are not benefiting from the resources available);
- it helps to **set rates or public-sector charges** for the services that the city council provides to its citizens.

The main disadvantages of the ABC costing system are as follows:

- if many activities are being carried out, the cost calculation becomes very expensive;
- it is an expensive system to use (time and resources);
- it tends to eliminate activities that may be of interest in the medium-term but that are wasting resources in the short-term.

DESCRIPTION OF AN ABC COSTING MODEL FOR BARCELONA CITY COUNCIL

Until now, the Barcelona City Council, like other administrative bodies, has worked on the basis of a **"spending culture"** based on the execution of an annual budget for its programmes, which serves as a guide for the various management levels in the administration. Therefore, depending on the economic allocation that each Manager's Office receives, it is possible to dedicate more or less resources to the same activities.

The introduction of a costing model has been designed to be **integrated into the current budgetary system** and will thus result in a more rational and efficient executive budget where decision-making can be carried out using **more accurate information about the products or services provided**.

In this respect, the ABC model was specifically selected because it identifies the key elements of a service, and determines **the real cost of activities** whether they are direct or indirect. This methodology is very suitable for the organisational structure of our City Council, which includes the realisation of a **large number of activities with a significant volume of indirect costs and the multi-functional** nature of the different activity areas, as a result of the wide variety of products and services offered to citizens.

The most distinguishable **characteristics** of the city council's costing system are as follows:

- **Cross-departmental**: the allocation of the different resources used to provide a service is independent from the budget structure. A service or activity may involve various sectors and the costing system can apportion costs, regardless of who manages the budget. This includes, for example, staffing costs.
- **Annuity cost**: the costs for the full year being studied are applied, regardless of the budget allocation.
- **Map of activities and services**: activities are classified into large areas of municipal action (process). Within each process, using a tree diagram, the activities and services (mandatory and non-mandatory) carried out by the City Council are displayed.
- **Indirect costs**: these are the costs related to services which are not directly applicable. Therefore, they require allocation criteria to allocate them to the services provided. In Barcelona's costing system some indirect costs are applied according to the ABC system

costs (cost drivers) and others following traditional criteria (unit cost). As an example, this includes the costs of information technology, municipal structure, branches, and more.

By using this methodology, we aim to meet the following **objectives of the costing system**:

- Provide a **sustainable management tool**; it is not worth making a sophisticated cost model that cannot later be managed by the City Council by itself.
- A**llows us to understand**, in the most precise way possible, **the cost of the services and activities** that are undertaken.
- Is **flexible** and allows us to **incorporate any possible changes** to the organisation and to the different services provided.

In general, we could say that the result obtained will be the product of incorporating the direct costs of the different end activities and the related indirect costs. Therefore, firstly, we must initially **devise a map of activities** which describes the services that the City Council offers to its city residents in their entirety. In this sense, the costing structure for the City Council is defined independently from the organisational structure already in place, with the aim of ordering costs based on the **larger areas of activity**.

The sectors are defined in their own organisation chart, and the budgets are classified using **13 distinctive activity areas**: Urban Planning, Environment, Social Rights, Sports, Mobility, Guàrdia Urbana city police, FPERS (Fire Prevention, Extinction and Rescue Service), Education, Culture, Economic Promotion, Districts (10 districts), Infrastructure and Urban Coordination, Housing.

These areas represent the processes available and are **divided into sub-processes, activities and tasks**, to form the ABC costing model's individual hierarchy. Therefore, this terminology allows us to classify the **cost of a service less or more specifically** (in other words, entire end processes to specific tasks). In this way, the cost of a specific process will be the sum of the sub-processes that form it and, at the same time, those will be made up of activities and tasks.

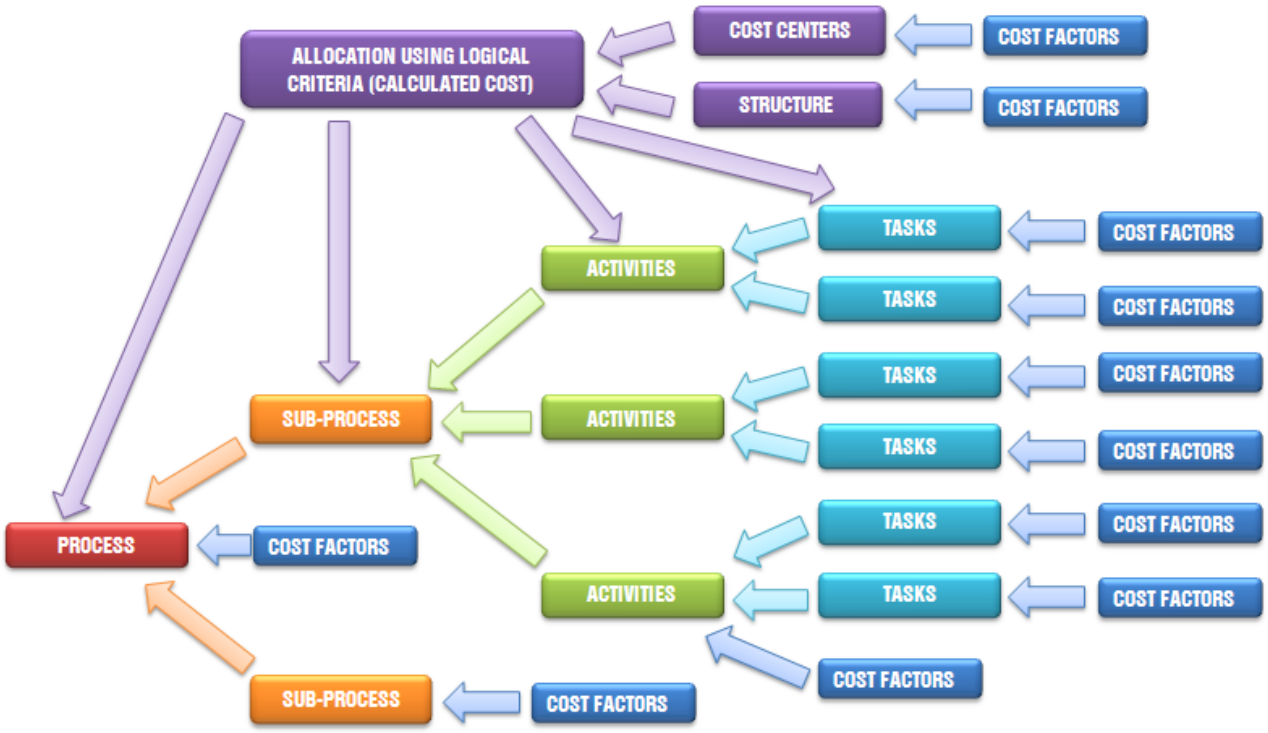
In addition, it is also necessary to define two additional concepts, which include the cost centre and the cost factor:

- **Cost centre**: a physical unit where costs are tracked, which will later be apportioned according to the tasks needed or resources used from this cost centre. Costs for building

maintenance, cleaning, gas and electricity consumption, water and phone line, as well as depreciations and rents, will accumulate in the cost centre.

- **Cost factor**: this parameter is used to distinguish the nature of the cost (consumption, rents, fuel, maintenance, salary payments, social security and more).

The connection between the different aforementioned concepts is outlined below. This shows how the cost factors total the various tasks, and are added to activities and later to sub-processes and processes.



Cost allocation diagram according to the ABC method

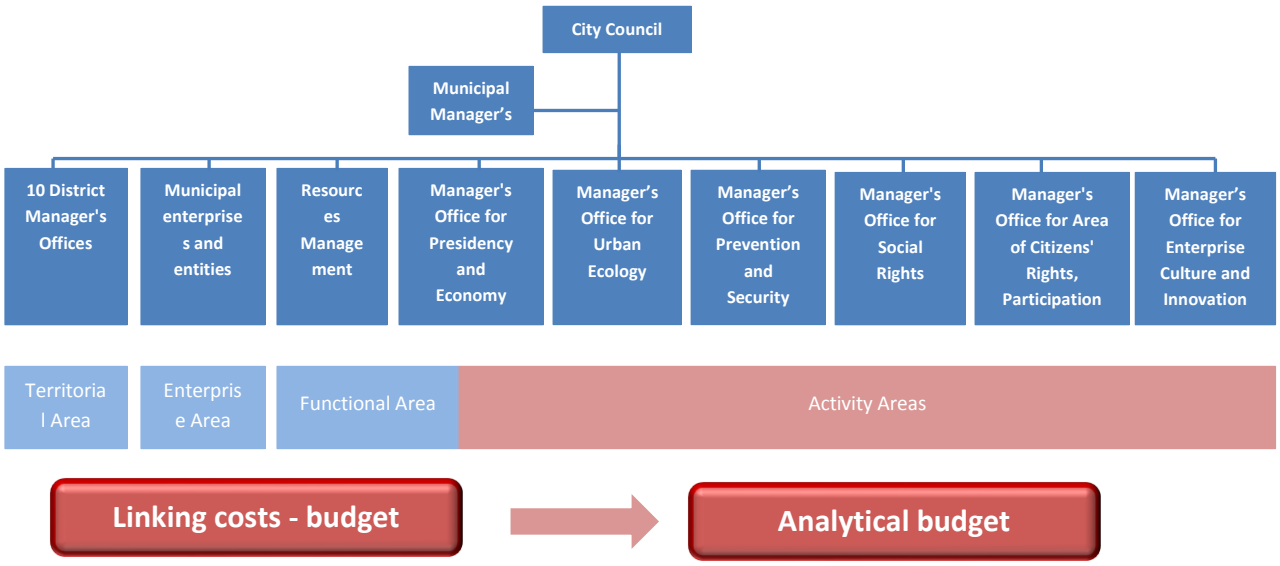
Meanwhile, it is also possible to see how **certain cost factors have not been apportioned** to each specific task, activity, sub-process or process and, therefore, are **grouped together in cost centres or cost structures**. In this respect, reasonable criteria have been defined to allow these costs to be allocated within the activity map. These criteria will never be indisputable, since, at the moment, there is still no regulation that standardises the calculation of public service costs.

To further clarify these concepts, we will **look at a case example** from the City Council.

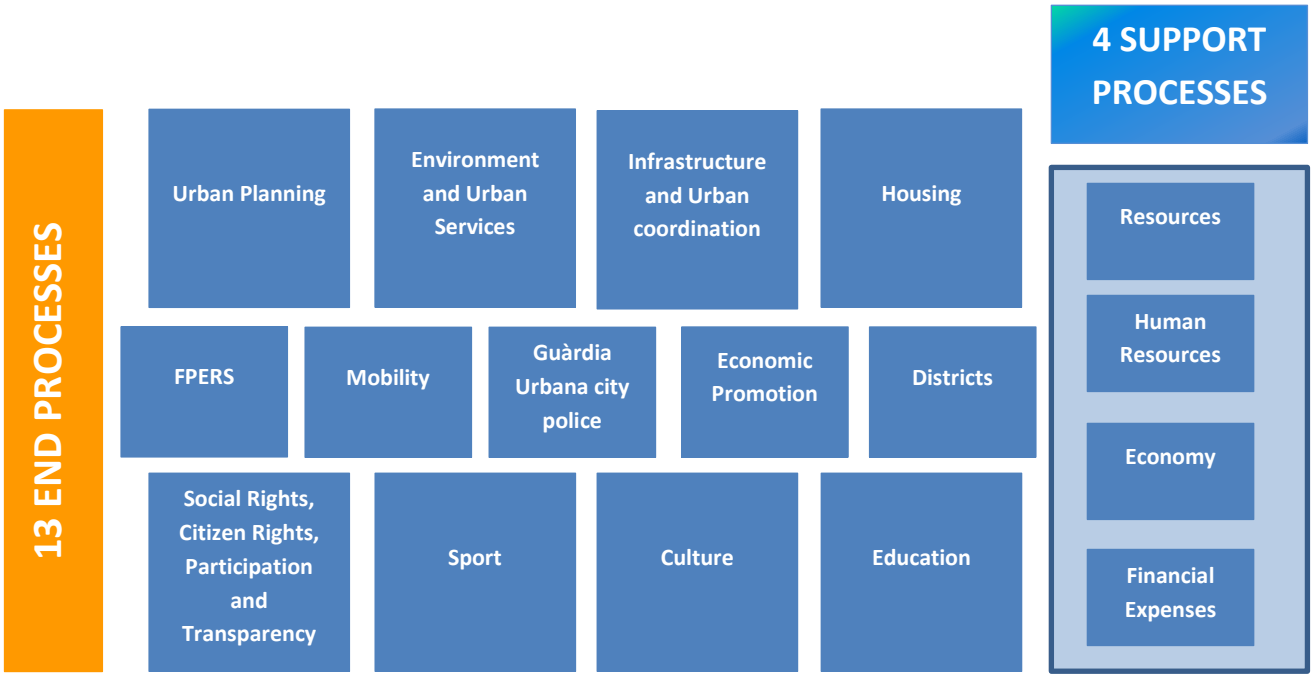
- **Process**: Barcelona City Council's major areas of activity (defined above). Given that all costs need to be recorded, costs can be defined by 2 types of process; end-processes and support processes.

  - **End-processes** are those that include the activities and services provided directly to citizens, in the case of the Barcelona City Council, there are 13.
  - On the other hand, **support processes** are those that are not directly related to the provision of services, but which form part of the City Council's internal structure and are later charged as indirect costs.
- **Sub-process**: a sub-classification of the process. For example, in the "Education" process, the sub-processes include: "Municipal Education Centres", "Promoting Education" and "Education Consortium".
- **Activity**: sub-processes are broken down into more detail at this level. For example, in the "Municipal Education Centres" sub-process, the activities include "Primary Education" and "Musical Education".
- **Task**: here, the activity is broken down further to include more detail. Following the current example, the "Musical Education" activity includes the following tasks: "Municipal Conservatory of Music" and "Music Schools".

Therefore, we are moving from an economic framework based primarily on a budget, to a new **management tool based on the actual activities**, which is presented in the following figure. It shows the functional organisation chart of the Barcelona City Council, headed by the Municipal Manager's Office and **divided into activity areas** (which provide services to citizens) and the functional areas (which offer support to activity areas). As you can see, the Manager's Office of Economy, Enterprise and Employment has a significant role in the activities and also in supporting these activities. Furthermore, both the business and territorial scope have been addressed.



From the budget organisation chart, it goes on to a **map of 13 end-processes**, which **provide services** to citizens and **4 support processes**. The latter four processes limit the structural costs of the City Council and, therefore, their cost ends up being charged to the end-processes by means of certain **allocation criteria** (described below). Taking into account the costs associated with these support processes is a central issue as not considering them can result in costs which do not reflect the reality, given that a large part of the organisation's costs are not directly associated with the end activities.



With the aim of being able to deliver results which are closely linked to the structure of the organisation and its activities, the model has been re-encoded according to the criteria of:

- **Organisation**: by coding the entire organisation chart of the Corporation, it allows us to discover the costs for different units (sections of the organisation) on four levels: management office's, directorates, sub-directorates and departments.
- **Activity**: this allows us to discover the cost of a specific activity or task regardless of the section of the organisation in which it is carried out. The main interest here lies in resolving the treatment of "shared activities"; those that occur in different parts of the organisation. Until now these appeared in different processes, but to find out the cost of the task the corresponding amounts had to be added to each section of the organisation where it occurs. This report resolves the case study.

BUILDING BLOCKS USED IN THE MODEL

SERVICE COSTS AND PERFORMANCE

Service costs and performance are demonstrated through a **map of activities** and **detail of the process cost factors**. This map is the result of creating definitions during multiple meetings between different Directorates, which is useful for the internal users who initially have to interpret it while adjusting to the methodology of the ABC costing model implemented. At the same time, the cost factors that were to be charged to each of the defined activities and tasks were requested.

Another purpose of the current model is to make a reasonable effort to **attribute the revenue** from rates and public-sector charges paid by citizens for the products and services received, **to the different activities and tasks**, whenever possible. This, in turn, allows us to obtain a calculation of the coverage rate of the different services.

MANDATORY AND NON-MANDATORY SERVICES

The **obligatory services** are **determined by the legislation**; in this regard, it is considered obligatory if it is included in the provisions of the Law 7/1985 Regulating the Bases of Local Regime, modified by Law 27/2013 of Rationalisation and Sustainability of the Local Government and by Order HAP/2075/2014 from the Treasury and Public Administration; in addition to items determined by the Barcelona Municipal Charter, its Special Regime Law and sector-specific legislation.

COSTS BY NATURE

Given that the budgetary accounting only distinguishes the nature of the cost according to the chapters, the concept of **cost factor** has been developed. It serves to enable **distinctions to be made regarding the nature of the cost** of each of the tasks and, therefore, of each process and/or of the City Council in general.

FUNDING

Funding is related to the cost of tasks carried out with the corresponding contributions, assigning them the maximum level of detail possible (task, activity, sub-process and process). The aim is to

show **how tasks are financed in terms of contributions** from the service users (including private companies in receipt of activities) or from the Authorities and private sponsorship; in this way, the **specific funding appears as a difference calculated between the cost of the task and the external contributions**, as long as the sum of these is not equal or superior to the value of the costs. In this case, the cost coverage would be considered void.

INDICATORS

Together with the analysis of all of the activities carried out, a series of **indicators related to the cost of activities** has been devised so that the way in which the costs of services delivered by the City Council evolve throughout the year can be monitored. These indicators form the basic pillar of information that the costing model provides because they allow us to determine the unitary costs of tasks, whether that be per citizen or per unit of service provision.

COST TRACEABILITY

The **cost traceability for each of the tasks** refers to which part corresponds to direct costs and which part corresponds to indirect cost, the type of which will be itemised. It is important to point out that structural costs include those related to buildings.

ALLOCATION OF INDIRECT COSTS

As previously mentioned, in addition to the 13 end-processes, the City Council also carried out other **processes which support the end-processes**. 4 processes have been identified and are outlined as follows:

- **Resources**: this includes all the activities needed to ensure the local government functions correctly, such as: The Mayor's Office, Municipal Manager's Office and Business Coordination, the treasury, interventions, communications, legal services, heritage, international relations, and more.
- **Human Resources**: this includes all of the activities needed to manage the City Council staff, meaning: staffing processes, financial management, labour risk management, legal advice, and more.
- **Economy**: within the scope of Presidency and Economy there are two main distinctive areas:
  - End-processes regarding **commerce**, tourism and enterprise, whereby services are provided to city residents and the Time and Care Economics Programmes.
  - The **economic** process itself, whereby tasks involving planning, budgeting, accounting and so on are carried out, which in turn, supports the end-processes.
- **Financial Expenses**: this is not considered a process in which activities are carried out, but, rather, it refers to the amount of interest that makes up chapter 3 of the municipal budget and which is, therefore, a cost that affects all the end-processes.

Therefore, the costs of all of these processes are considered indirect costs and **are ultimately charged to the final cost of the activities and tasks** carried out in order to deliver services to citizens. Once the indirect costs have been distributed to the end-processes, **these are apportioned to activities based on their direct costs.** Below, the defined allocation criteria for the initial allocation of costs to different end processes is illustrated.

ALLOCATION OF RESOURCE COSTS

This allocation accumulates related **human resources** costs, the current expenditure (including rental and depreciation costs of buildings and rolling stock) and the **external transfers** of chapter 4. The cost of resources **is distributed proportionally among different end-tasks** at the value of each one of them over the total cost of all end-tasks. The formula used in the human resources division is as follows:

$$\textbf{Allocation Cost of Resources} = \frac{\text{Total Direct Cost of Process}}{\text{Total Direct Cost of Processes}} \times \frac{\text{Direct Cost of Task}}{\text{Total Direct Cost of Process}} \times \text{Cost of Resources}$$

Once the costs of end-activities have been distributed, these can be grouped by sub-process to see which indirect costs for resources falls on each end-process.

ALLOCATION OF HUMAN RESOURCES COSTS

The criteria used to allocate the cost of Human Resources in relation to City Council staff **was the number of workers assigned to each end-task.** The contracted workers (whether civil servants, employees, etc.) are added in such a way that the cost unit with more staff will support a higher indirect cost of human resources. It is also necessary to take into consideration employees of independent bodies, institutes and public companies, which are classified within the identified processes.

The costs that need to be allocated for Human Resources will include its own costs, the current expenditure, external transfers and depreciation. It is important to highlight that the costs of the City Council's human resources are allocated to end-processes, **minus the costs associated with economic and resource processes**, since these are allocated later according to the process which corresponds to each end-process.

$$\textbf{Allocation HR Cost} = \frac{\text{Workers included in the Process}}{\text{Workers included in the Processes}} \times \frac{\text{Direct Cost of Task}}{\text{Total Direct Cost of Process}} \times \text{HR Cost}$$

Once the structural costs of Human Resources have been identified for each end-process, these are allocated proportionally among the tasks and activities that correspond to each process, at the value of each one.

ALLOCATION OF ECONOMIC COSTS

The costs of the non-end services of the Manager's Office of Economy, Enterprise and Employment will be distributed among the end-processes based on the **economic cost for each euro of the budget obligations** of chapters 2, 4, 6 and 7 of each Area. In addition to all of the human resources costs and chapter 2 expenses, the economic costs include office rents and depreciation. This is calculated as follows

$$\textbf{Allocation Economic Cost} = \frac{\text{Total Direct Cost of Process}}{\text{Total Direct Cost of Processes}} \times \frac{\text{Direct Cost of Task}}{\text{Total Direct Cost of Process}} \times \text{Economic Cost}$$

Once the structural Economic cost for each end-process has been determined, these are distributed proportionally among the tasks and activities which correspond to each activity at the current value of each of them.

ALLOCATION OF FINANCIAL EXPENSES

It is important to mention that the costs associated with this support process are not allocated to public companies (PMH, BSM {including companies in the portfolio}, BASA, TERSA, BIMSA, BAGURSA) as these are independently financed. The formula used in the system for this calculation is as follows:

$$\textbf{Allocation Financial Expenses} = \frac{\text{Total Direct Cost of Process}}{\text{Total Direct Cost of Processes}} \times \frac{\text{Direct Cost of Task}}{\text{Total Direct Cost of Process}} \times \text{Financial Expenses}$$

Therefore, **the indirect costs associated with the 4 support processes appear as indirect costs in the City Council structure for each end-process**, according to the allocation criteria

defined for each of them. Later, these indirect costs are assigned to each activity based on the cost of each one (prior allocation of indirect costs) over the cost of all activities.

ALLOCATION OF COST CENTRES TO ACTIVITIES

A very important part of the indirect costs is that they are treated explicitly as cost centres. The most common and widespread example in the current project is the case of a **building** which accumulates different costs; rental costs and depreciation, utility supplies, office materials, cleaning, phone line, etc.

In order to avoid duplicating costs, firstly the costs are **allocated to the cost centres**, both to the **end structure** (end-tasks) and **non-end structure** (4 support processes and the end-processes for manager's offices and directorates). Later, the costs of this non-end structure are allocated to different end-tasks. Below, the different cost centres are outlined.

BUILDINGS AND SUPPLIES

A proposal has been made to distribute the building costs **between all of the end-tasks**, as well as the **managers' offices and directorate of each area**. These cost centres usually accumulate costs related to rents or the depreciation of the property, consumed supplies, cleaning, office supplies and landline phones.

The distribution of the cost of the buildings towards the tasks is done by means of the **number of workers that are dedicated to each task within a particular building.** Therefore, the more people dedicated to an activity provided within a building, the higher the cost that will be assigned.

MUNICIPAL INSTITUTE OF INFORMATION TECHNOLOGY (IMI)

The IMI facilitates the budgetary distribution of its costs to different areas of the City Council. This distribution will be adapted in the current project for the implementation of ABC costing as follows: once the first budgetary distribution has been made, **it will be necessary to apportion IT costs to the different tasks using consistent criteria, the number of computers**. For operational and efficiency purposes, computers will not be assigned to each task, but a list will be obtained from the IMI which enables us to quantify the **number of computers at different management levels**. This is how the distribution of computer costs will be based on the number of computers in each directorate. Subsequently, these indirect costs of the directorates **will be apportioned to different tasks** (see section INDIRECT MANAGEMENT COSTS), so that the cost of IT is charged to each of them.

ROLLING STOCK (only in the case of processes 6 and 7)

The rolling stock that the City Council has available is **managed directly by the areas**, and vehicles may be **owned** or **hired**. In both cases, a proposal has been made to distribute the cost of depreciation or rental based on **the number of vehicles used by each activity**. It must be highlighted that the most important rolling stock includes that of the Guàrdia Urbana city police, and the Fire Prevention, Extinction and Rescues Service (FPERS)

GLOSSARY

ABC (*Activity Based Costing*). Cost calculation system based on activities.

Assets. A group of assets that are owned by the organisation or rights that it has in its favour. They must be owned by the organisation or be controlled by it, i.e. that future economic benefits produced by the assets belong to the organization. Furthermore, they must be capable of generating future profits, either through their use or sale.

Activity. A set of actions that generate costs. These actions are orientated towards obtaining a product or service in order to give the organization added value.

Depreciation. The recognition of depreciation or loss of value suffered by the tangible and intangible fixed assets due to their use and / or passage of time.

Cost Centre. A part of the organisation which is allocated certain costs, the management of which is the direct responsibility of the cost centre manager. Also called responsibility centre or section.

Analytical Accounting One of the parts of management accounting, which focuses on calculating the cost of services or products offered by the organisation. Also called cost accounting.

Cost accounting. *See* Analytical Accounting.

Management accounting. Accounting that aims to provide relevant information, historical and forecast, monetary and non-monetary, segmented and global, about the internal distribution of the organisation for decision-making processes.

External accounting. The main objective of this type of accounting is to obtain historical information about the organisation's relationship with external entities. Also known as financial accounting.

Financial accounting. *See* External accounting.

Internal accounting. *See* Management accounting.

Profit and loss statement. An accounting status that reflects the results obtained by the organisation in a given period.

Cost. The value of consumption of resources needed to produce goods or deliver services. It is a concept of internal accounting itself.

Full cost. A costing system whereby all costs are allocated directly or indirectly to products sold by the organisation.

Cost of the service. A cost which is incorporated in the cost of services sold. This includes the raw materials, direct labour and other direct costs as well as indirect costs charged by allocation criteria.

Direct cost. A cost that can be attributed directly and unequivocally to the cost objective. It is controlled individually and drives the very existence of the cost object.

Fixed cost. A cost that does not change even when the volume of activity of the organisation increases.

Indirect cost. A cost that cannot be directly accountable to a cost object and therefore must use a specific allocation criteria for its allocation.

Cost nature. The classification of costs according to the General Accounting Plan.

Budgeted cost. Estimated costs that the organization will face in the future.

Variable cost. A cost which is based on the level of activity.

Allocation criteria. Procedures used to allocate indirect costs.

Expenditure. A concept related to financial or external accounting. The expenses of the period are deducted from income to calculate the external result.

Inventories Bulk assets made up of materials and products that the organisation processes and/or sells.

Fixed Assets Fixed assets that remain in the organisation for more than a year. These can be financial, material or immaterial.

Cost allocation. The allocation of direct and indirect costs to products and services.

Investment. Part of the expenditure which is not used during the financial year.

Cost driver. This element drives the cost of the activities.

Profitability threshold. *See* Break-even point.

Gross margin. The difference between the sales and direct costs that are attributable.

Contribution margin. The difference between the sales and direct costs that are assignable.

Unit margin. The margin per unit of product, understood as the difference between income margin and costs.

Cost object. The objective of the cost analysis. These are usually products or services that the organisation produces, although they can also include activities and cost centres.

Cost objective. *See* Cost object.

Payment. Money leaving the treasury.

Liabilities A group of liabilities that are outstanding debts that the company has, as well as partners' contributions and benefits that have been obtained and which have not been distributed. They have enabled the organisation to obtain external assets or services and are outstanding. Also known as the financial structure of the organisation.

Accruals. Allocation of income and costs in the period in which they actually occur.

Budget. A management tool used to plan the future of the short-term organisation and also to coordinate, inform, monitor, encourage and take the necessary corrective measures to ensure that the objectives are achieved.

Break-even point. Also known as the BEP. The point at which the sales figures cover all the costs of the organisation.

Costing system. The method used to find out the costs of the different cost objectives and determine the result of the period.

Full costing system. The system for calculating costs that imputes the costs of the entire organisation to the products and services.

Full costing system by sections. Complete costing system, in which costs are imputed to cost objectives across the sections.

Full costing system by rate. A system to calculate the full immediate cost that direct costs impute on cost objectives, and that indirect costs impute using allocation rates.

Partial costing system. A system for calculating costs which only imputes part of the organisational costs on the products.

Outsourcing To move part of a value generation process from within the organisation by making an external organisation responsible for it.