

- **costs** N-PLURAL

A company's **costs** are the total amount of money involved in operating the business.

- **direct costs** N-PLURAL

Direct costs are product costs that can be directly traced to a product or cost unit. They are usually made up of direct materials (which can be charged directly to the product by means of materials requisitions), direct labour (charged by means of time sheets, time cards, or computer direct data entries), and direct expenses (which are subcontract costs charged by means of an invoice from the subcontractor).

- **indirect costs** N-PLURAL

Indirect costs cannot be traced direct to a product or cost unit and are therefore overheads.

- **fixed costs** N-PLURAL

Fixed costs are items of expenditure that remain unchanged, in total, irrespective of changes in the levels of production or sales, for example, business rates, rent and some salaries.

- **variable costs** N-PLURAL

Variable costs are items of expenditure that, in total, vary directly with the level of activity achieved. For example, direct materials cost will tend to double if output doubles, a characteristic being that it is incurred as a constant rate per unit.

Costs have been cut by 30 to 50 per cent.

The company admits its costs are still too high.

Fixed costs have been reduced and work practices are changing to meet the demands of a much more competitive publishing environment.

As a firm reaches full capacity, variable costs may start to increase at a faster rate than output.

Revised working practices need to be implemented as a way to improve the quality of care and reduce direct and indirect costs.

Common collocations

to cut costs to reduce costs
to incur costs to rising costs

- **cost structure** (cost structures) N-COUNT

An organization's **cost structure** is all its different costs and the way these costs relate to and affect each other.

The commission will look closely at the local cost structure to see whether we suffer from unnecessary costs which may mean tourists choose other overseas destinations.

I agree in principle with the minimum wage, but the government fails to understand that businesses like mine need to change their entire cost structure to cope.

- **economies of scale** N-PLURAL

Economies of scale are the financial advantages that a company gains when it produces large quantities of products.

Car firms are desperate to achieve economies of scale.

Most centres have been created by individual companies, which means that manufacturers cannot benefit from economies of scale.

During the period when the Model T Ford dominated the US motor industry the only real difference between it and the Chevrolet was the low price ford could charge because of his massive economies of scale.

- **unit cost** (unit costs) N-COUNT

Unit cost is the amount of money that it costs a company to produce one article.

They aim to reduce unit costs through extra sales.

- **overheads** N-PLURAL

The **overheads** of a business are its regular and essential expenses, such as salaries, rent, electricity, and telephone bills. **Overheads** can be fixed or variable.

We are having to cut our costs to reduce overheads and remain competitive.

With lower overheads, small toy shops are in a better position to lower prices.

- **profit margin** (profit margins) N-COUNT

A **profit margin** is the difference between the selling price of a product and the cost of producing and marketing it.

The group had a net profit margin of 30% last year.

Are there ways to use technology to increase profit margins by lowering operating costs?

- **expenses** N-PLURAL

expenditure (expenditures) N-COUNT

planned expenditure N-UNCOUNT

Expenses are amounts of money that you spend while doing something in the course of your work, which will be paid back to you afterwards. **Expenditure** is the spending of money on something, or the money that is spent on something. A company's or organization's **planned expenditure** is the amount of money it expects to spend over a particular period of time.

As a member of the International Olympic committee her fares and hotel expenses were paid by the IOC.

Can you claim this back on expenses?

Policies of tax reduction must lead to reduced public expenditure.

An expenditure for clothing will qualify as a trade or business expense.

... a £5 million reduction in planned expenditure.

This 2.4 percent planned expenditure for capital may be too high.

Common collocations

to increase expenditure to reduce expenditure
to cut expenditure to control expenditure

PRACTISE YOUR VOCABULARY

1. Use the terms in the box to complete the paragraph.

cost structures fixed costs indirect costs overheads costs direct costs

A business's _____ are the money that it spends in order to produce goods or services. Businesses of different kinds have different _____ and define, calculate and refer to their costs in different ways. _____ do not vary in relation to output, whereas variable costs do. _____ are directly related to the things produced, e.g. raw materials and wages. _____ may include things like social security charges on top of wages. Overhead costs, or _____, usually cover the non-production costs of running a business, such as telephone bills, and can be extended to cover R&D activities, for example.

2. Which of the following refer to the cost of producing goods, and which refer to non-production costs?

- a. direct costs b. indirect costs c. overheads d. variable costs

3. Which of the above terms refers to costs that change according to the level of output?

4. Match each word/phrase on the left with a definition from the right?

- | | |
|-----------------------|--|
| a. variable costs | i. costs that are not related directly to production |
| b. overheads | ii. spending by buyers on products and services |
| c. fixed costs | iii. the difference between the production cost and the selling price of a commodity |
| d. expenditure | iv. costs which do not change when the level of production changes |
| e. economies of scale | v. costs which change with changes in the level of production |
| f. profit margin | vi. savings made by the fact that costs reduce as production increases |

5. Look at FD&E Ltd's planned expenditure for the year and answer the questions.

FD&E Lts Annual Cost Breakdown	
	£
Factory heating	15,000
Insurance	50,000
Equipment	12,000
Wages/labour costs	500,000
Rent of premises	50,000
Raw materials	400,000
Staff canteen	10,000
Miscellaneous expenses	13,000

How much does the company expect to spend on each of the following?

- a. fixed costs?
- b. variable costs?

6. Are these statements true/false?

- | | True | False |
|--|--------------------------|--------------------------|
| a. If the production costs fall and the selling price remains the same, the profit margin will increase. | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If the production costs fall and the selling price increases, the profit margin will increase. | <input type="checkbox"/> | <input type="checkbox"/> |
| c. If the production costs rise and the selling price remains the same, the profit margin will increase. | <input type="checkbox"/> | <input type="checkbox"/> |
| d. To achieve economies of scale it is necessary to increase production. | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Economies of scale are achieved because unit costs fall as production increases. | <input type="checkbox"/> | <input type="checkbox"/> |