# THEORY OF COST

## 1. TOTAL COST (T.C )

This is the cost incurred in of his business production of a given output **Tc= Fc+Vc**

## 2. VARIABLE COST (V.C)

This includes the cost of buying raw materials and the cost of labour. It changes with output. That is, as output rises, the variable cost also rise Vc=Tc-Fc

## 3. Average Cost (A.C)

This is the total cost of producing a commodity by a firm divided by the number of units of output. Ac= Tc/Qty

## 4. Marginal Cost ( M.C)

This is the change in the total cost of production brought about by a unit change in the quantity of output. It is the extra cost of increasing output by one unit

**MC= $\Delta$TC/ $\Delta$Q**

## 5. Fixed cost ( FC)

This the cost that does not change with output for example cost of machine and building **Fc=Tc-Vc**

## 6. Average Fixed Cost ( AFC)

This is the fixed cost divided by the output since Fc is constant and AFC gives a steady falling value as output increases.

## DIFFERENCE BETWEEN ACCOUNTANT VIEW AND ECONOMIST VIEW OF COST THEORY

The accountant sees cost as money cost that is they see cost as actual amount of money paid for particular item while the economist see cost as alternative forgone in order to satisfy the need for a particular item

## REVENUE COST

There are three types of revenue namely

1. **TOTAL REVENUE ( T.R)**

This is the total amount of money which a firm realizes from the sale of their products that is TR= price × output

Note that total revenue rises with output and decreases as the output decreases

2. **AVERAGE REVENUE (A.R)**

It entails there revenue divided by the total number of output sold. It is calculated by dividing total revenue by the output sold. AR=TR/Q

## 3. MARGINAL REVENUE

This is change in total revenue brought about by a unit change in the total output sold over a given period of time