



Accounting, Business & Financial History >

Volume 15, 2005 - [Issue 1](#)

1,017

Views

0

CrossRef citations to date

Altmetric

Miscellany

Direct versus absorption costing: A reply

David Dugdale † & T. Colwyn Jones

Pages 93-95 | Published online: 01 Feb 2007

🗨️ Cite this article <https://doi.org/10.1080/09585200500033188>

Sample our
Economics, Finance,
Business & Industry Journals

>> [Sign in here](#) to start your access
to the latest two volumes for 14 days



 Full Article

 Figures & data

 References

🗨️ Citations

 Metrics

 Reprints & Permissions

Read this article

🔗 Share

Direct Versus Absorption Costing: A Reply

DAVID DUGDALE* AND T. COLWYN JONES**

*Department of Accounting and Finance, University of Bristol, UK. **School of Sociology, University of the West of England, Bristol, UK

We are pleased that a reader of *Accounting Business and Financial History* was sufficiently stimulated to supply some further thoughts on the subject of direct versus absorption costing. We are also pleased that the editors of the journal have invited us to reply.

The central issue¹ raised is the contributor's view that: 'If a combatant had been made to spell out his case fully, he would have seen that he was right in certain circumstances but not in others'. Apparently, clear-headed debate could have resolved the issues raised during the 'costing war'. Our response is that much of the debate *was* clear headed; but it did not lead to agreement, it led to conflict.

The contributor reaches his/her² conclusion following an economic analysis of the arguments for and against the two systems of costing. Direct costs are seen as simpler and consistent with economists' teaching on marginal analysis. However, for practical reasons, direct costs may be incomplete and, even if complete, may 'lure him into an unfortunately low quotation'. Absorption costing was 'more helpful' in providing a guide to prices that covered overhead. However, absorption costs will always be, to some extent, arbitrary because of the treatment of joint costs. A critic will hold that: 'absorption cost can be defended only on the grounds that it works well in practice; it is sadly at odds with principle'.

The contributor's analysis presumes a debate couched entirely in economic terms; but this misses a key issue in our paper: that the costing 'war' *cannot* be understood by simply examining economically rational arguments. A large number of actors, representing different organizations and institutions, were involved in the direct versus absorption costing debate and, to understand their arguments, it is necessary to analyse their objectives and values.

In some cases this is reasonably straightforward. Accounting standard setters explicitly stated their objective of ensuring consistency in financial reporting and the Inland Revenue seemed to be driven by desire to maximize short-run tax revenue. However, in other cases, the analysis is not so simple. We argue that even those who appear to have a common

Correspondence Address: David Dugdale, Department of Accounting and Finance, University of Bristol, 8 Woodland Road, Bristol, BS8 1TN, UK. Email: david.dugdale@bristol.ac.uk

0958-5206 Print/1466-4275 Online/05/010093-03 © 2005 Taylor & Francis Group Ltd
 DOI: 10.1080/09585200500033188

Notes

There are a number of other issues where we diverge from points made by the contributor but which are not central to our argument here. For example, in relation to

the comments concerning the development of absorption costing, it is not clear that the rise of absorption costing in the nineteenth century was driven by the increasing proportion of overhead in total costs. Overhead became (even) more important in the twentieth century but this did not prevent the rise of direct costing. We would also see little evidence to support the assertion that '...absorption costing has become more and more complex'. A key element in the 'relevance lost' debate of the 1980s was the finding, especially in the US, that many manufacturing companies had oversimplified by employing only labour hours or cost as an overhead recovery base and sometimes used a single 'blanket' overhead rate.

At the time of writing the contributor remains anonymous to us.

Related research

People also read

Recommended articles

Cited by
2

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa