Taylor & Francis Online

Log in | Register Cart

Home ▶ All Journals ▶ Accounting, Business & Financial History ▶ List of Issues ▶ Volume 15, Issue 1 ▶ Direct versus absorption costing: A comm ....

Accounting, Business & Financial History ›
Volume 15, 2005 - Issue 1

884 Views | 3 CrossRef citations to date | 0 Altmetric

Pages 89-91 | Published online: 01 Feb 2007
Miscellany

Direct versus absorption costing: A comment

Will T. Baxter *

Cite this article https://doi.org/10.1080/09585200500033139

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 | Citations | Metrics | Reprints & Permissions

Read this article

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Click to increase image size

Accounting, Business & Financial History
Vol. 15, No. 1, 89–91, March 2005

Direct Versus Absorption Costing: A Comment

WILL T. BAXTER

London School of Economics and Political Science, UK

In November 2003, *Accounting, Business and Financial History* published a notable article on 'Battles in the costing war' by David Dugdale and T. Colwyn Jones. The 'war' was between supporters of direct costing and of absorption costing. Their disputes broke out from time to time in the nineteenth and twentieth centuries, and filled many pages in journals such as *The Cost Accountant* (as it was then). The 'war' was sometimes fierce: the article quotes with relish words such as 'horror', 'passion', 'distress', and 'rising blood pressure'.

The article suggests that neither side has been a clear winner in this war: some firms use direct figures, but absorption costing is probably the most common. Since the topic is important for accountants, some extension of the article's analysis may be useful.

The Roles of 'Cost'

The 'cost' in question is that of a firm's unit of product or activity (here a 'job'). This figure may serve as a measure of value, for example, in financial reporting. And it acts as a handy guide to many decisions. Thus, it can be compared with a product's sale price; if cost of a unit is less than price, the product may be worth making.

A cost not only points to outflow of cash or other assets, but also warns of a job's claims on the firm's productive capacity – and consequent loss of revenue from alternative work.

Direct Costing

The advocates of direct cost hold that cost can be found only by looking at figures that can be traced home to the job – notably those of materials and labour. Figures that the job does not change, no matter how alluring, should be ignored. Thus overhead is here irrelevant.

Advocates of direct costing have long cited its usefulness in practice. But lately it has found intellectual backing in the economists' teaching on marginal analysis, stressing that

Correspondence Address: Will T. Baxter, Department of Accounting & Finance, London School of Economics

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Log i

Log in to Taylor & Francis Online

Log in

Restore content access

Restore content access for purchases made as guest

Purchase options *

Save for later

PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed

USD 53.00

Add to cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

USD 497.00

Add to cart

* Local tax will be added as applicable

Related Research

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions Accessibility

Taylor & Francis Group an informa business

Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings