**Costs**

**Costs are categorised according to the following criteria:**

When reporting company performance in the **Trading and P&L Account**, costs are recorded according to whether they are **directly** or **indirectly** caused by the production of the good/service the company provides.

1. **Direct or Indirect?**

**Wages of staff making the products**/ **Advertising expenses** / **Accountants fees / Electricity used in the factory**

|  |  |
| --- | --- |
| **Direct costs include:** | **Indirect costs include:** |
|  |  |
| **Direct costs are recorded in which account?** | **Indirect costs are recorded in which account?****Indirect costs are also known as?** |

1. **Fixed or Variable? How do costs change with output?**

**Fixed Costs** are **not** affected by changes in output levels

**Variable Costs are affected** by changes in output levels