

cost accounting

2007-01-10

Full cost accounting (FCA) generally refers to the process of collecting and presenting information (costs as well as advantages) for each proposed alternative when a decision is necessary. A synonym, **true cost accounting** (TCA) is also often used. Experts consider both terms problematic as definitions of "true" and "full" are inherently subjective. *See green economics for more on these problems*

Concepts

Full cost accounting embodies several key concepts that distinguish it from standard accounting techniques. The following list highlights the basic tenets of FCA.

1. Accounting for costs rather than outlays
2. Accounting for hidden costs and externalities
3. Accounting for overhead and indirect costs
4. Accounting for past and future outlays
5. Accounting for costs according to lifecycle of the product

Costs rather not outlays

An outlay is an expenditure of cash to acquire or use a resource. A cost is the cash value of the resource as it is used. For example, an outlay is made when a vehicle is purchased, but the cost of the vehicle is incurred over its active life (e.g., 10 years). The cost of the vehicle must be allocated over a period

of time because every year of its use contributes to the depreciation of the vehicle's value.

Hidden costs

With FCA, the value of goods and services is reflected as a cost even if no cash outlay is involved. One community might receive a grant from a state, for example, to purchase equipment. This equipment has value, even though the community did not pay for it in cash. The equipment, therefore, should be valued in an FCA analysis.

Overhead and indirect costs

FCA accounts for all overhead and indirect costs, including those that are shared with other public agencies. Overhead and indirect costs might include legal services, administrative support, data processing, billing, and purchasing.

Past and future outlays

Past and future cash outlays often do not appear on annual budgets under cash accounting systems. Past (or upfront) costs are initial investments necessary to implement services such as the acquisition of vehicles, equipment, or facilities. Future (or back-end) outlays are costs incurred to complete operations such as facility closure and postclosure care, equipment retirement, and post-employment health and retirement benefits.

Examples of full-cost accounting

Waste management

For example the State of Florida uses the term full cost accounting for its solid waste management. In this acceptance, FCA is a systematic approach for identifying, summing, and reporting the actual costs of solid waste management. It takes into account past and future outlays, overhead (oversight and support services) costs, and operating costs.^{[1][2]}

Integrated solid waste management systems consist of a variety of municipal solid waste (MSW) activities and paths. Activities are the building blocks of the system, which may include waste collection, operation of transfer stations, transport to waste management facilities, waste processing and disposal, and sale of byproducts. Paths are the directions that MSW follows in the course of integrated solid waste management (i.e., the point of generation through processing and ultimate disposition) and include recycling, composting, waste-to-energy, and landfill disposal. The cost of some activities is shared between paths. Understanding the costs of MSW activities is often necessary for compiling the costs of the entire solid waste system, and helps municipalities evaluate whether to provide a service itself or contract out for it. However, in considering changes that affect how much MSW ends up being recycled, composted, converted to energy, or landfilled, the analyst should focus the costs of the different paths. Understanding the full costs of each MSW path is an essential first step in discussing whether to shift the flows of MSW one way or another.