

## Analysis of Direct Costs

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### **Introduction**

DroTech and VectorCal are both operating in drone navigation system industry. Both DroTech and VectorCal are proficient organizations, equipped with adequate resources to enhance the value of services which are offered in relevance to drone technology, ranging from, leisure travel expeditions, construction zoning, and requirements for military applications. This paper discusses the main production costs which incur in production of VectorCal's drone navigation system, the direct and indirect costs which both companies incur, controlling factor in cost, and comparison of cost structures followed in both companies.

### **Main Costs**

The main cost of production drone navigation system in VectorCal's is divided into labor cost, material cost and overhead cost.

#### **Labor Cost**

It is a variable cost which varies with the number of units of navigation system produced. This will include the labor which will work to produce the navigation system such as factory workers, supervisors, managers, production heads, etc.

#### **Material Cost**

It is also a type of variable cost which varies with the number of units of navigation system produced. This will include all the raw material which will be used in production of drone navigation system such as steel.

#### **Overhead Cost**

This is cost which can be either fixed or variable but does not directly contribute in production of drone navigation system such as factory overheads, rent, utility bills, etc.

### **Direct & Indirect Costs**

In VectorCal and DroTech, direct costs are costs which can be easily traced to the drone navigation system such as, the labor which is working on production facility, or the raw material which is consumed in the production of drone navigation system (Ellis, 2010). For instance the salary of production manager in both DroTech and VectorCal's production facility will be included in direct cost. Majority of direct are variable costs which vary with the number of units produced. Moreover indirect costs affect the whole company and are not linked to the product only. These can be accounting services, general supplies, depreciation, advertising, etc. They are termed as overheads and can be either variable or fixed. DroTech and VectorCal can control its direct cost to reduce the production expenses by increasing efficiency of labor and material used. Controlling indirect cost is not easy job because it does not vary with volume. However if DroTech and VectorCal train their employees to increase their productivity, reduce wastage, keep just-in-time inventory approach, improve quality of raw material and reduce errors, than direct costs can be managed.

### **Comparison**

In DroTech and VectorCal navigation system the semi-variable cost will not be affected by increasing volume up to a certain point and rational forecasts of semi-variable costs are necessary in DroTech to project the overall budget and cost structure (Briciu, Căpușneanu & Topor, 2012). The estimate of semi-variable cost will depend on the projected sales figure and variable cost per unit. Allocated costs are the assigned to different departments, so on basis of the projected budget, costs will be distributed among the production, research & development, marketing and finance department of DroTech and VectorCal (Bragg, 2014). Lastly, indirect costs are for the overheads which will incur in the operations of DroTech and VectorCal and they will be determined on some basis for instance

labor hours, etc. DroTech is investing more in research and Development as compared to VectorCal due to which it has higher overhead costs.

### **Conclusion**

The cost structures followed in DroTech and VectorCal are quite similar because both companies belong to similar industry and are involved in producing similar products. The point of differential is that DroTech is investing a lot in Research and development as compared to VectorCal, due to which its overhead costs are very high.

## References

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