Relevant Costs for Decisions

Accounting & Finance

Which costs belong in a decision, and which must be ignored.

Relevant against irrelevant.

Relevant

Future cash flows that differ by option	Opportunity cost of the next best use
Incremental fixed costs	Avoidable costs

Irrelevant

Sunk costs already committed	Depreciation, a non-cash allocation
Absorbed fixed overhead	Historical purchase price of held stock

Held material is valued at replacement cost if it will be replaced, or at scrap or alternative-use value if it will not.