

APPENDIX 4A

Cost Concepts

Accounting Cost

The simplest concept or measure of cost is what has sometimes been labeled accounting cost, or even more simply as money cost. These are the so-called bookkeeping costs of a company and include all cash outlays of the firm. This particular concept of cost is not difficult to grasp. The most difficult problem with accounting costs is their allocation among the various products or services of a company.

If the owner of a motor carrier, for example, was interested in determining the cost associated with moving a particular truckload of traffic, all the cost of fuel, oil, and the driver's wages associated with the movement could be quickly determined. It might also be possible to determine how much wear and tear would occur on the vehicle during the trip. However, the portion of the president's salary, the terminal expenses, and the advertising expense should be included in the price. These costs should be included in part, but how much should be included is frequently a perplexing question. The computation becomes even more complex when a small shipment is combined with other small shipments in one truckload.

Some allocation would then be necessary for the fuel expense and the driver's wages.

Economic Cost

A second concept of cost is economic cost, which is different from accounting cost. The economic definition of cost is associated with the alternative cost doctrine or the opportunity cost doctrine. Costs of production, as defined by economists, are futuristic and are the values of the alternative products that could have been produced with the resources used in production.

Therefore, the costs of resources are their values in their best alternative uses. To secure the service or use of resources, such as labor or capital, a company must pay an amount at least equal to what the resource could obtain in its best alternative use. Implicit in this definition of cost is the principle that if a resource has no alternative use, then its cost in economic terms is zero.

The futuristic aspect of economic costs has special relevance in transportation because, once investment has been made, one should not be concerned with recovering what are sometimes referred to as **sunk costs**.¹ Resources in some industries are so durable that they can be regarded as virtually everlasting. Therefore, if no replacement is anticipated, and there is no alternative use, then the use of the resource is costless in an economic sense. This is of special importance in the railroad industry.

Railroads have long been regarded as having durable and therefore costless resources. That is, some of the resources of railroads, such as concrete ties, some signaling equipment, and even some rolling stock, are so durable and so highly specialized that they have no alternative production or use potential. So the use of such resources, apart from maintenance, is costless in an economic sense. Consequently, in a competitive pricing situation, such resources could be excluded from the calculation of