

he cost modeling process usually begins by listing down the expenses. Once the expenses are listed down, they are categorized. In financial accounting, expenses are categorized based on the format provided by the regulatory bodies. However, on the other hand, during the cost modeling exercise, expenses are grouped together if they have similar drivers. For instance, electricity expenses are directly related to the amount of square footage controlled by the company. Other things being equal, the electricity bill will only increase or decrease if the area under the control of the company changes. Cleaning and facility management expenses are also heavily dependent on square footage. Hence, these two can be placed in a similar group. However, advertising expenses are totally different. They have no relation to square footage. Instead, advertising expenses depend upon the sales which the company intends to generate. Hence, advertising expenses must be placed in a separate group.

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Last update: **2024/06/07 02:49**

