

# RELEVANT COSTS & BENEFITS

## WHY IT IS IMPORTANT TO IDENTIFYING RELEVANT COSTS AND BENEFITS?

When management faces a situation where they have to decide between two alternatives, careful consideration must be made to ensure the most optimal decision is made. Thus, costs and benefits analysis is usually performed to aid the decision-making process. In doing so, it is important to have only relevant costs and benefits information for the analysis.

Information generation is a costly process. The relevant data must be gathered and this process requires time and effort. By focusing on only the relevant information, the management can simplify the data-gathering process, shortening the time needed to gather the information.

Ensuring only relevant information is included helps to reduce information overload. In general, people can only take or effectively use a limited amount of information. If the information is too large, people may get overwhelmed and experience information overload. Consequently, this affects their decision-making effectiveness. Thus, having information about relevant costs and benefits helps the management to make better decisions.

## CRITERIA OF RELEVANT COSTS & BENEFITS

### Bearing on the Future

Relevant cost or benefit information must involve a future event. Gathering these information requires making predictions, using estimates of cost behaviour based on historical data.

### Different under Competing Alternatives

Relevant information must involve costs or benefits that are different between the alternatives. Costs or benefits that are the same in all alternatives have no influence on the decision.