

## Topic Page: [Cost benefit analysis](#)

Definition: **cost-benefit analysis** from *Dictionary of Accounting*

The process of comparing the costs and benefits of various possible ways of using available resources. Also called benefit-cost analysis

### Summary Article: **Cost-Benefit Analysis**

From *Encyclopedia of Governance*

Cost-benefit analysis is an analytical decision support tool for defining and comparing costs and benefits. Cost-benefit analysis shapes a framework for decisions. It requires a formal reporting process and several evaluation techniques. Cost-benefit analysis, sometimes called benefit-cost analysis, is the process of weighing the total expected costs versus the total expected benefits of one or more products, actions, or programs in order to choose the most profitable option. Often, this process involves monetary calculations of initial expense versus expected return.

A cost-benefit analysis finds, quantifies, and adds all the positive factors. These are the benefits. Then it identifies, quantifies, and subtracts all the negative factors, the costs. The difference between the two indicates whether the planned action is advisable. In a cost-benefit analysis, all the costs and all the benefits need to be included and properly quantified. For example, a product manager may compare expenses to projected sales for a proposed product, and only decide to produce it if the expected revenues will eventually recoup the costs.

Cost-benefit analysis may be viewed as a way to calculate society's "return on investment" from an activity or program perspectives. These analyses attempt to calculate the actual costs of delivering services and the monetary value of improving particular outcomes for society, and to measure whether the benefits exceed the costs, for example. Cost-benefit analysis is often used at a macrolevel to compare programs that achieve different outcomes (for example, deciding whether to fund a HIV/AIDS prevention program or a program to reduce youth violence) or to measure the value of a particular program's outcomes.

To do a cost-benefit analysis, programs must first accurately calculate their costs. Programs also must establish a causal relationship between the program and particular outcomes (benefits) through an outcome evaluation. Cost-benefit analyses then attach dollar values to those benefits. The program's costs can then be compared to its benefits. If benefits exceed costs, the program has established an economic justification for continuing these services.

The term *cost-benefit analysis* is widely used for planning, decision support, program evaluation, proposal evaluation, and other purposes in organizations of all kinds. A cost-benefit analysis will, on the one hand, attempt to quantify every benefit and cost for inclusion in the financial analysis, even the so-called intangible costs and benefits. On the other hand, it will not omit discussion of important nonquantified benefits and costs. Cost-benefit analyses usually represent incremental costs and benefits. This is because cost-benefit analysis is usually undertaken for decision support purposes. The objective, after all, is to understand the net effect of a decision.

*See also*

### Further Readings and References

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#### **APA**

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## Chicago

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## Harvard

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## MLA

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