



VARZA SCHOOL · THE FOUNDATIONAL 100

What Does a Service Really Cost? Time, Skill, Capacity, Travel, and Support

Chapter 63 · Track 7 — Cost, Pricing, Planning, and Management Decisions

THE QUESTION IT ANSWERS

How can a service business measure cost when its primary inventory is time, expertise, availability, and customer-specific effort?

CONCEPTS DEFINED

Service cost · Billable time · Capacity · Travel cost · Support cost · Labor burden · Utilization · Realization rate

Edition 2026.1 · Reviewed through 2026-08-31

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track converts cost information into management choices. It separates cost behavior, traces resources to products and services, tests plans against actual performance, and shows how price and capacity decisions shape contribution and profit.

Central question: How can a service business measure cost when its primary inventory is time, expertise, availability, and customer-specific effort?

Service cost includes productive labor, paid non-delivery time, skill mix, travel, technology, support, rework, and unused capacity. A quoted hourly rate can be profitable at one utilization level and loss-making at another.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish service cost in plain and professional language.
- Define and distinguish billable time in plain and professional language.
- Define and distinguish capacity in plain and professional language.
- Define and distinguish travel cost in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Service cost

Working definition. Service cost is the resources consumed to perform and support a service for a customer, contract, case, or service unit.

Include direct time and relevant non-labor resources, travel, technology, supervision, rework, and support. Unused capacity requires separate visibility. The concept should be measured at the smallest level that still supports a real action.

Simple example. The cost of a field visit includes technician time, travel, parts, scheduling, and support.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Billable time

Working definition. Billable time is time contractually chargeable or attributable to customer work under defined billing rules.

Billable does not automatically mean productive, collected, or profitable. Validate against scope, rate, cap, approval, and write-off. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. Six recorded hours are billable, but one hour is written off because it exceeded the agreed cap.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Capacity

Working definition. Capacity is the maximum or practical volume of work a resource system can deliver over a period under stated constraints.

Capacity is multidimensional: time, skill, equipment, space, supply, and coordination can each become the binding constraint. This is where operational activity and financial reporting meet.

Simple example. A clinic has doctor capacity for 160 appointments but room capacity for only 140.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Travel cost

Working definition. Travel cost is the monetary and time resources consumed to move people or equipment for service or project delivery.

Separate reimbursable, billable, absorbed, avoidable, and non-productive travel. Geography can change true customer profitability. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A remote installation adds airfare, accommodation, local transport, and two non-billable travel days.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Support cost

Working definition. Support cost is resources used to enable or maintain delivery but not directly identified with one primary output.

Support may be essential yet hidden. Measure drivers and service levels before allocating it broadly. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Customer support, scheduling, billing, and quality review enable consulting delivery.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Labor burden

Working definition. Labor burden is the employer costs associated with labor beyond direct wage or salary, such as taxes, benefits, leave, insurance, facilities, and support under a stated model.

Use the right burden for the decision and avoid double counting overhead. Some costs vary with hours while others are fixed or step-based. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A CU 30 hourly wage may have a fully burdened cost of CU 45 under the selected model.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Utilization

Working definition. Utilization is the proportion of available working capacity used for defined productive or billable activity.

State numerator and denominator. High utilization can damage quality, learning, sales, and resilience if all non-billable time is treated as waste. The concept should be measured at the smallest level that still supports a real action.

Simple example. 1,200 billable hours divided by 1,600 available hours gives 75% billable utilization.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Realization rate

Working definition. Realization rate is the proportion of potential or standard billable value that is actually invoiced or collected under a stated definition.

Separate rate discount, write-off, non-billable work, billing delay, and collection loss. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. CU 90,000 invoiced against CU 100,000 standard time value gives 90% billing realization.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Service cost, Billable time, Capacity, Travel cost, Support cost, Labor burden, Utilization, and Realization rate describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Practical hourly cost

Practical hourly cost = Total relevant annual labor and support cost ÷ Practical service capacity hours

The denominator reflects hours realistically available for the defined service.

Boundary: Do not assume 100% utilization; specify which support and overhead are included.

Service contribution

Service contribution = Billed or earned revenue – Direct delivery and defined variable support cost

The measure supports service and customer decisions.

Boundary: It is not full profit unless all relevant fixed and shared costs are considered.

Worked case — A CU 100 hourly rate is not a CU 70 margin

A consultant earns CU 72,000 salary and carries CU 28,000 benefits, payroll, software, and support. Of 2,080 paid annual hours, practical billable capacity is 1,250 hours. The standard billing rate is CU 100.

Item	Amount or observation
Annual relevant cost	CU 100,000
Practical capacity	1,250 hours
Practical cost per hour	CU 80
Billing rate	CU 100
Gross hourly remainder	CU 20 before acquisition, bad debt, travel, and profit requirement

Calculation and reasoning

1. Practical hourly cost is $\text{CU } 100,000 \div 1,250 = \text{CU } 80$.
2. At CU 100 rate, the apparent remainder is only CU 20 per billed hour, not CU 65 based on salary divided by all paid hours.
3. If actual billed utilization is below 1,250 hours, unused capacity increases effective cost of delivered hours.
4. Review price, service design, support efficiency, utilization, and value rather than pressuring every hour to become billable.

What the result means

Service economics are created by the whole capacity system. Paid time, essential non-billable work, and support do not disappear because the invoice shows an hourly rate.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Define service unit, scope, quality, and acceptance.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Calculate available capacity after leave, training, administration, and practical constraints.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Trace delivery time and direct non-labor cost and assign relevant support.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Compare billable, invoiced, collected, and fully burdened economics by service and customer.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes service, employee, skill, available_time, billable_time, timesheet, travel, support_pool, service_case, service_margin. These names are not merely interface labels. Each entity should have a stable

identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.
- Turn information into a decision, a control, or a question; otherwise it is only decoration.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Timesheet approval by project or service owner.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Utilization targets balanced with quality, learning, sales, and resilience.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Travel and rework reason codes.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Rate cards reconciled to current labor burden and capacity.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested

often enough to detect failure before the consequence becomes irreversible.

6. Traceability from every material total to evidence, calculation, owner, and change history. The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

7. Access and approval rights aligned with responsibility and the possible consequence of error or misuse. The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Dividing salary by paid hours and calling the result billable cost

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Treating all non-billable time as waste

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Ignoring unbilled scope growth and write-offs

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Pricing remote and local work identically while travel economics differ

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain service cost in plain language and in professional terms?
- ☐ Can I explain billable time in plain language and in professional terms?
- ☐ Can I explain capacity in plain language and in professional terms?
- ☐ Can I explain travel cost in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Service cost to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Billable time. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Capacity could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Capacity: the maximum or practical volume of work a resource system can deliver over a period under stated constraints.",
    "Travel cost: the monetary and time resources consumed to move people or equipment for service or project delivery.",
    "Support cost: resources used to enable or maintain delivery but not directly identified with one primary output.",
    "Labor burden: the employer costs associated with labor beyond direct wage or salary, such as taxes, benefits, leave, insurance, facilities, and support under a stated model.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S206 — AICPA and CIMA, *Global Management Accounting Principles, second edition*.** 2026-03-30. Modern management accounting, value, analysis and sustainable decision support. Source: <https://www.aicpa-cima.com/resources/download/gmap-global-accounting-principles>
- **S207 — Institute of Management Accountants, *Expanded Management Accounting Competency Framework*.** 2025. Current finance and accounting competency domains. Source: https://prodcn.imanet.org/-/media/IMA/Files/Home/Career-Resources/Competency-Framework/2025Nov17CompetencyFrameworkWhitePaper_LP_Final_PDF.ashx
- **S106 — IFRS Foundation, *IAS 19 Employee Benefits*.** 2026 standards set. Recognition of employee-benefit obligations and expense. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-19-employee-benefits/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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