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Basics on costs



Let's we start...



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What Do We Mean By a Cost?

A cost is....



What Do We Mean By a Cost?

**A cost
is the measure of
resources given
up to achieve a
particular purpose.**



Q1. Direct and indirect cost

A direct cost is a cost that can be easily traced to the particular cost object under consideration.

TRUE **OR** **FALSE?**



Q1. Direct and indirect cost

A direct cost is a cost that can be easily traced to the particular cost object under consideration.

True



False



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Q2. Direct and indirect cost

A factory supervisor's salary would be classified as an indirect cost with respect to a unit of product.

TRUE OR **FALSE?**



Q2. Direct and indirect cost

A factory supervisor's salary would be classified as an indirect cost with respect to a unit of product.

True



False



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Q3. Direct and indirect cost

A cost can be direct or indirect. The classification can change if the cost object changes.

TRUE **OR** **FALSE?**



Q3. Direct and indirect cost

A cost can be direct or indirect. The classification can change if the cost object changes.

True



False



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Q4. Direct and indirect cost

Wages paid to production supervisors would be classified as manufacturing overhead.

TRUE **OR** **FALSE?**



Q4. Direct and indirect cost

Wages paid to production supervisors would be classified as manufacturing overhead.

True



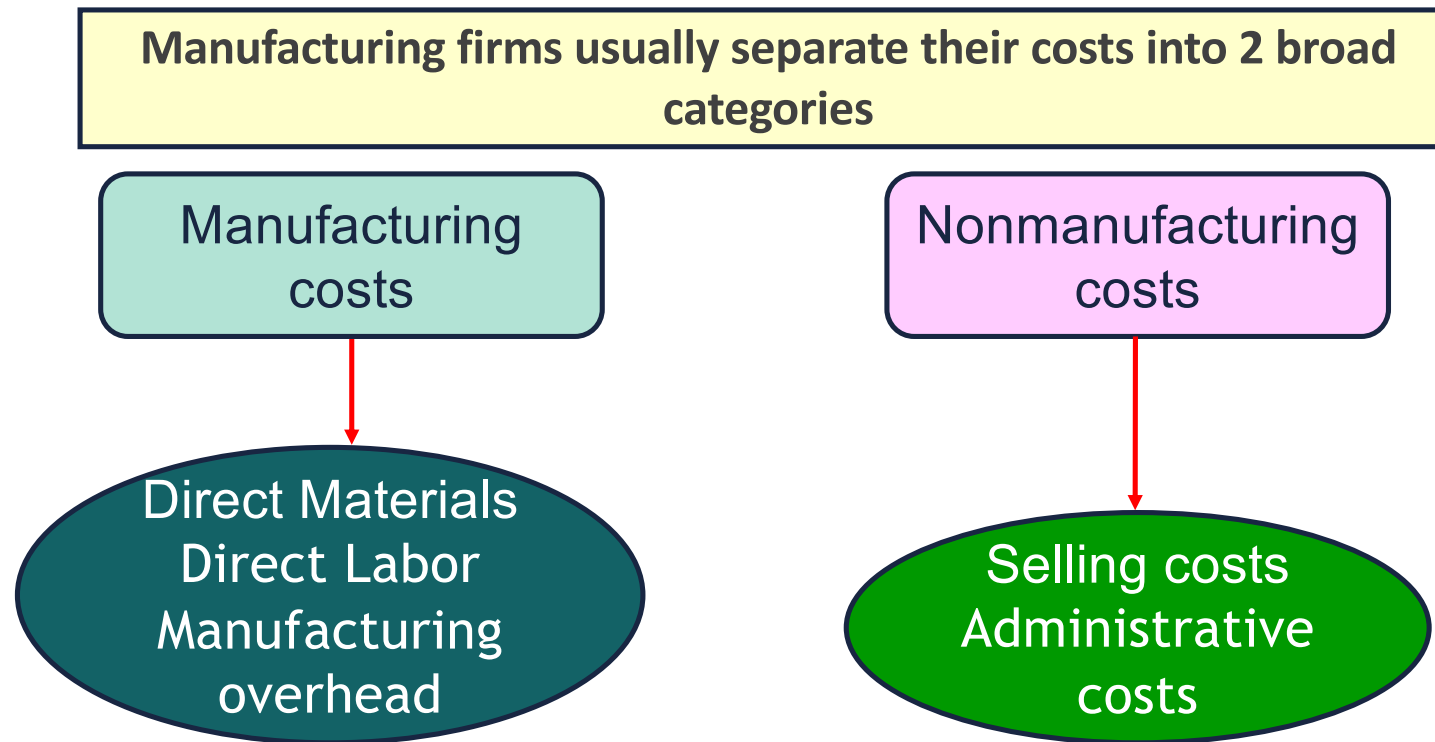
False



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Manufacturing vs non manufacturing costs



Q5. Basic manufacturing cost categories

Selling costs are usually indirect costs.

TRUE **OR** **FALSE?**



Q5. Basic manufacturing cost categories

Selling costs are usually indirect costs.

It depends ... what's about the cost object?



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Q6. Basic manufacturing cost categories

The sum of all manufacturing costs except for direct materials and direct labor is called manufacturing overhead.

TRUE **OR** **FALSE?**



Q6. Basic manufacturing cost categories

The sum of all manufacturing costs except for direct materials and direct labor is called manufacturing overhead.

True



False



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Q7. Cost behaviour

Indirect costs, such as manufacturing overhead, are variable costs.

TRUE OR **FALSE** ?



Q7. Cost behaviour

Indirect costs, such as manufacturing overhead, are variable costs.



Q8. Cost behaviour

The relative proportion of variable, fixed, and mixed costs in a company is known as the company's:

- a) contribution margin
- b) cost structure
- c) product mix
- d) relevant range



Q8. Cost behaviour

The relative proportion of variable, fixed, and mixed costs in a company is known as the company's:

a) contribution margin

b) cost structure

c) product mix

d) relevant range



Q9. Cost behaviour

In account analysis, an account is classified as either variable or fixed based on an analyst's prior knowledge of how the cost in the account behaves.

TRUE **OR** **FALSE?**



Q9. Cost behaviour

In account analysis, an account is classified as either variable or fixed based on an analyst's prior knowledge of how the cost in the account behaves.

True



False



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Q10. Cost behaviour

If the activity level increases, then one would expect the fixed cost per unit to increase as well.

TRUE **OR** **FALSE?**



Q10. Cost behaviour

If the activity level increases, then one would expect the fixed cost per unit to increase as well.



Q11. Cost behaviour

A fixed cost is a cost whose cost per unit varies as the activity level rises and falls.

TRUE **OR** **FALSE?**



Q11. Cost behaviour

A fixed cost is a cost whose cost per unit varies as the activity level rises and falls.

True



False



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Q12. Cost behaviour

A decrease in production will ordinarily result in a decrease in fixed production costs per unit.

TRUE **OR** **FALSE?**



Q12. Cost behaviour

A decrease in production will ordinarily result in a decrease in fixed production costs per unit.



Q13. Cost behaviour

The variable cost per unit depends on how many units are produced.

TRUE **OR** **FALSE?**



Q13. Cost behaviour

The variable cost per unit depends on how many units are produced.



Q14. Cost behaviour

For the past 8 months, Jinan Corporation has experienced a steady increase in its cost per unit even though total costs have remained stable. This cost per unit increase may be due to _____ costs if the level of activity at Jinan is _____.

- a) fixed, decreasing
- b) fixed, increasing
- c) variable, decreasing
- d) variable, increasing



Q14. Cost behaviour

For the past 8 months, Jinan Corporation has experienced a steady increase in its cost per unit even though total costs have remained stable. This cost per unit increase may be due to _____ costs if the level of activity at Jinan is _____.

- a) **fixed, decreasing**
- b) fixed, increasing
- c) variable, decreasing
- d) variable, increasing



Q15. Cost behaviour

The following cost data pertain to the operations of Quinonez Department Stores, Incorporated, for the month of September.

The Northridge Store is just one of many stores owned and operated by the company. The Cosmetics Department is one of many departments at the Northridge Store. The central warehouse serves all of the company's stores.

Corporate headquarters building lease	\$ 77,000
Cosmetics Department sales commissions-Northridge Store	\$ 4,000
Corporate legal office salaries	\$ 59,000
Store manager's salary-Northridge Store	\$ 11,000
Heating-Northridge Store	\$ 10,000
Cosmetics Department cost of sales-Northridge Store	\$ 37,000
Central warehouse lease cost	\$ 16,000
Store security-Northridge Store	\$ 12,000
Cosmetics Department manager's salary-Northridge Store	\$ 4,000



Q15. Cost behaviour

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Store security-Northridge Store	\$ 12,000
Cosmetics Department manager's salary-Northridge Store	\$ 4,000

What is the total amount of the costs listed above that are NOT direct costs of the Northridge Store?

- a) \$152,000
- b) \$33,000
- c) \$45,000
- d) \$77,000



Q15. Cost behaviour

Corporate headquarters building lease	\$ 77,000
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What is the total amount of the costs listed above that are NOT direct costs of the Northridge Store?

- a) **\$152,000**
- b) \$33,000
- c) \$45,000
- d) \$77,000

Costs that are not direct costs of the Northridge Store =

Corporate headquarters building lease +

Corporate legal office salaries +

Central warehouse lease cost =

$\$77,000 + \$59,000 + \$16,000 = \$152,000$



Q16. Cost behaviour

Rhome Corporation's relevant range of activity is 2,000 units to 6,000 units. When it produces and sells 4,000 units, its average costs per unit are as follows:

Average Cost per Unit	
Direct materials	\$ 5.40
Direct labor	\$ 3.55
Variable manufacturing overhead	\$ 1.70
Fixed manufacturing overhead	\$ 3.00
Fixed selling expense	\$ 0.60
Fixed administrative expense	\$ 0.40
Sales commissions	\$ 1.00
Variable administrative expense	\$ 0.40



Q16. Cost behaviour

If 5,000 units are produced, the average fixed manufacturing cost per unit produced is closest to:

- a) \$3.75
- b) \$2.40
- c) \$2.70
- d) \$3.00



Q16. Cost behaviour

If 5,000 units are produced, the average fixed manufacturing cost per unit produced is closest to:

- a) \$3.75
- b) \$2.40**
- c) \$2.70
- d) \$3.00

- The average fixed manufacturing overhead cost per unit was determined by dividing the total fixed manufacturing overhead cost by 4,000 units.
- Units produced = 5,000

Total fixed manufacturing overhead cost (\$3.00 per unit × 4,000 units*) (a)	\$ 12,000
Number of units produced (b)	<u>5,000</u>
Average fixed manufacturing cost per unit produced (a) ÷ (b)	<u>\$ 2.40</u>



Q17. Cost behaviour

Timchak Corporation reports that at an activity level of 9,900 units, its total variable cost is \$919,116 and its total fixed cost is \$259,974.

What would be the total cost, both fixed and variable, at an activity level of 10,100 units? Assume that this level of activity is within the relevant range.

(Round intermediate calculations to 2 decimal places.)

- a) \$1,197,658
- b) \$1,191,000
- c) \$1,179,090
- d) \$1,202,910



Q17. Cost behaviour

Timchak Corporation reports that at an activity level of 9,900 units, its total variable cost is \$919,116 and its total fixed cost is \$259,974.

What would be the total cost, both fixed and variable, at an activity level of 10,100 units? Assume that this level of activity is within the relevant range.

(Round intermediate calculations to 2 decimal places.)

a) **\$1,197,658**

b) \$1,191,000

c) \$1,179,090

d) \$1,202,910

Variable cost per unit = $\$919,116 / 9,900 \text{ units} = \$92.84 \text{ per unit}$

Total cost = Total fixed cost + Total variable cost
= $\$259,974 + (\$92.84 \text{ per unit} * 10,100 \text{ units})$
= $\$259,974 + \$937,684$
= $\$1,197,658$



Q18. Financial Statement

What are the main reports provided by FINANCIAL STATEMENT (one answer or more than one could be right)?

- a) The cash flow statement
- b) The strategic plan
- c) The plan of human resources
- d) The income statement
- e) The balance sheet



Q18. Financial Statement

What are the main reports provided by FINANCIAL STATEMENTS?

- a) The cash flow statement
- b) The strategic plan
- c) The plan of human resources
- d) The income statement
- e) The balance sheet



Q19. Financial Statement

What is the main value identified in the income statement?

- a) Net income realized during the financial year, as the difference between revenues and costs
- b) Net income realized during the financial year, as the difference between assets and liabilities
- c) Equity available at the end of the financial year, as the difference between assets and liabilities
- d) Equity realized during the financial year, as the difference between assets and liabilities



Q19. Financial Statement

What is the main value identified in the income statement?

- a) Net income realized during the financial year, as the difference between revenues and costs
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- c) Equity available at the end of the financial year, as the difference between assets and liabilities
- d) Equity realized during the financial year, as the difference between assets and liabilities



Q20. Financial Statement

What is the main value identified in the balance sheet?

- a) Net income realized during the financial year, as the difference between revenues and costs
- b) Net income realized during the financial year, as the difference between assets and liabilities
- c) Equity available at the end of the financial year, as the difference between assets and liabilities
- d) Equity realized during the financial year, as the difference between assets and liabilities



Q20. Financial Statement

What is the main value identified in the balance sheet?

- a) Net income realized during the financial year, as the difference between revenues and costs
- b) Net income realized during the financial year, as the difference between assets and liabilities
- c) Equity available at the end of the financial year, as the difference between assets and liabilities
- d) Equity realized during the financial year, as the difference between assets and liabilities



Q21. Financial ratios

A high price-earnings ratio means that investors are willing to pay a premium for the company's stock.

TRUE **OR** **FALSE?**



Q21. Financial ratios

A high price-earnings ratio means that investors are willing to pay a premium for the company's stock.

$$\text{P/E Ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

True



False



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Q22. Financial ratios

The formula for the return on equity (ROE) is:

Return on equity = Net income / Average total stockholders' equity.

TRUE **OR** **FALSE?**



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Q22. Financial ratios

The formula for the return on equity (ROE) is:

Return on equity =

Net income / Average total stockholders

True



False



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Q23. Income statement

What is the Operating Income?

- a) The difference between revenues and taxes
- b) The difference between revenues and operating costs
- c) The difference between revenues and costs of bank loans
- d) The difference between revenues and accounts receivable



Q23. Income statement

What is the Operating Income?

- a) The difference between revenues and taxes
- b) The difference between revenues and operating costs
- c) The difference between revenues and costs of bank loans
- d) The difference between revenues and accounts receivable



Q24. Financial ratios

Liquidity refers to how quickly an asset can be converted into cash.

TRUE **OR** **FALSE?**



Q24. Financial ratios

Liquidity refers to how quickly an asset can be converted into cash.

True



False



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