

DEFINITIONS AND CONCEPTS

**** CONCEPTS AND DEFINITIONS IN THIS MODULE APPEAR IN VARIOUS CHAPTERS ****

Key Topics to Know

- **Cost object:**
 - Direct Cost
 - Indirect cost
- **Product costs (inventory costs or manufacturing costs):**
 - Direct materials
 - Direct labor
 - Manufacturing overhead
- **Period costs (nonmanufacturing costs):**
 - Selling & Administrative Expenses
- **Prime cost (direct materials and direct labor)**
- **Conversion Cost (direct labor and manufacturing overhead)**
- **Cost behavior:**
 - Variable Cost
 - Fixed cost
 - Mixed cost
 - Relevant Range
- **Cost Classifications used in decision-making**
 - Differential cost and differential revenue
 - Opportunity cost
 - Sunk cost
- **Variable costs**
 - Effect of a change in volume of total and per unit variable costs
 - Relationship between variable cost and the activity base.
 - True variable costs versus step variable costs.
 - Effect of the relevant range on the behavior of variable costs.
- **Fixed costs**
 - Effect of a change in volume of total and per unit fixed costs
 - Effect of the relevant range on the behavior of fixed costs.
 - Committed versus discretionary fixed costs.

- **Mixed costs**

- Have properties of both variable and fixed costs.
- Effect of a change in volume of total and per unit mixed costs
- Analysis of mixed costs high-low method and scattergraph (quick-and-dirty) methods

Multiple Choice Questions

1. Which of the following is not a characteristic of managerial accounting?
 - a) Information is used by internal parties
 - b) Information is subjective, relevant, future-oriented
 - c) Reports are prepared as needed
 - d) Reports are prepared according to GAAP

2. Which of the following is the definition of "cost"?
 - a) Cash paid for something.
 - b) The value of what is given up in exchange for something else.
 - c) The foregone benefit of the path not taken.
 - d) The choice between one alternative and another.

3. A direct cost is one which
 - a) involves an actual outlay of cash for a specific cost object.
 - b) can be traced to a specific cost object.
 - c) cannot be traced to a specific cost object.
 - d) is not worth the effort of tracing to a specific cost object.

4. Indirect costs are
 - a) Costs that are not worth the effort to trace to a specific cost object.
 - b) Costs that change, in total, in direct proportion to changes in activity levels.
 - c) Always irrelevant.
 - d) Costs that remain constant no matter the activity level.

5. What determines the difference between a variable and a fixed cost?
 - a) Whether it changes when activity levels change.
 - b) Whether it is relevant to a particular decision.
 - c) Whether it can be traced to a specific cost object.
 - d) Whether it is related to manufacturing or nonmanufacturing activities.

6. Fixed costs are
 - a) Costs that are not worth the effort to trace to a specific cost object.
 - b) Costs that change, in total, in direct proportion to changes in activity levels.
 - c) Always irrelevant.
 - d) Costs that remain constant, in total, no matter the activity level.

7. A cost that has already been incurred is called a(n)

- a) Indirect cost.
- b) Sunk cost.
- c) Relevant cost.
- d) Opportunity cost.

8. M Company has the following balances for the current month:

Direct materials used	15,000
Direct labor	23,000
Sales salaries	12,000
Indirect labor	3,000
Production manager's salary	6,000
Marketing costs	9,000
Factory lease	4,000

What are M Company's conversion costs?

- a) \$36,000
 - b) \$32,000
 - c) \$47,000
 - d) \$41,000
9. What determines the difference between a product and period cost?
- a) Whether it changes when activity levels change.
 - b) Whether it is relevant to a particular decision.
 - c) Whether it can be traced to a specific cost object.
 - d) When the cost will be matched against revenue.
10. Product costs are reported
- a) only on the balance sheet.
 - b) only on the income statement.
 - c) on the balance sheet before goods are sold, and on the income statement after goods are sold.
 - d) on the income statement before goods are sold, and on the balance sheet after goods are sold.
11. The cost of direct materials cost is classified as a:
- a) Period and product cost
 - b) Neither period nor product cost
 - c) Period cost only
 - d) Product cost only

12. Data for Cost A and Cost B appear below:

<u>Units Produced</u>	<u>Cost per Unit</u>	<u>Total Cost</u>
Cost A		
1	?	\$10
10	?	\$100
100	?	\$1,000
1,000	?	\$10,000
Cost B		
1	\$5,000	?
10	\$500	?
100	\$50	?
1,000	\$5	?

Which of the above best describes the behavior of Costs A and B?

- a) Cost A is fixed; Cost B is variable
 - b) Cost A is variable; Cost B is fixed
 - c) Cost A is variable; Cost B is variable
 - d) Cost A is fixed; Cost B is fixed
13. S Company requires one full-time worker for every 500 packages loaded daily. If only one worker is required, his wages would be:
- a) Variable
 - b) Mixed
 - c) Fixed
 - d) Curvilinear
14. Which of the following is an example of a cost that is variable with respect to the number of units produced?
- a) Rent on the administrative office building
 - b) Rent on the factory building
 - c) Direct labor cost
 - d) Salaries of top marketing executives

15. The following cost data pertain to the operations of B Company for the month of May.

Corporate legal office salaries	\$68,000
Shoe Department cost of sales-Salem Store	\$29,000
Corporate headquarters building lease	\$86,000
Store manager's salary-Salem Store	\$12,000
Shoe Department sales commissions-Salem Store	\$5,000
Store utilities-Brentwood Store	\$10,000
Shoe Department manager's salary-Salem Store	\$4,000
Central warehouse lease cost	\$7,000
Janitorial costs-Salem Store	\$10,000

The Salem Store is just one of many stores owned and operated by the B Company. The Shoe Department is one of many departments at the store. The central warehouse serves all of the company's stores. What are the total direct costs of the Shoe Department?

- a) \$38,000
 b) \$29,000
 c) \$70,000
 d) \$34,000
16. K Company's manufacturing costs last year consisted of \$150,000 of direct materials, \$200,000 of direct labor, \$40,000 of variable manufacturing overhead, and \$25,000 of fixed manufacturing overhead. Conversion cost was:
- a) \$350,000
 b) \$200,000
 c) \$265,000
 d) \$415,000

The next 2 questions refer to the following information.

During the month of April, direct labor cost totaled \$15,000 and direct labor cost was 30% of prime cost. Total manufacturing costs were \$79,000.

17. The direct materials cost was:
- a) \$35,000
 b) \$29,000
 c) \$50,000
 d) \$129,000

18. The manufacturing overhead was:

- a) \$35,000
- b) \$29,000
- c) \$50,000
- d) \$129,000

The next 2 questions refer to the following information.

A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is \$2,400 and is paid at the beginning of the first year. Seventy percent of the premium applies to manufacturing operations and thirty percent applies to selling and administrative activities.

19. Product costs for the first year would be:

- a) \$800
- b) \$0
- c) \$560
- d) \$240

20. Period costs for the first year would be:

- a) \$0
- b) \$800
- c) \$240
- d) \$560

Solutions to Multiple Choice Questions

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|-----|---|
| 1. | D |
| 2. | B |
| 3. | B |
| 4. | A |
| 5. | A |
| 6. | D |
| 7. | B |
| 8. | A |
| 9. | D |
| 10. | C |
| 11. | D |
| 12. | B |
| 13. | C |
| 14. | C |
| 15. | A |
| 16. | C |
| 17. | A |
| 18. | B |
| 19. | C |
| 20. | C |