

Exercise 1

For each of the following, indicate whether it is identified primarily with managerial accounting (MA) or financial accounting (FA).

1	Draws heavily from other disciplines such as economics and statistics	
2	Prepares financial statements	
3	Provides financial information to internal managers	
4	Emphasizes the past rather than the future	
5	Focuses on relevant and flexible data	
6	Is not mandatory	
7	Focuses on the segments as well as the entire organization	
8	Is not subject to generally accepted accounting principles	
9	Is built around the fundamental accounting equation of debits equal credits	
10	Draws heavily from other business disciplines	

Exercise 2

Classify the following costs as direct (D) or indirect (ID) costs.

1	The foreman's salary	
2	Supplies	
3	Depreciation of factory equipment	
4	Leather used in the manufacture of shoes	
5	Lubricants for machines	
6	Fringe benefits	
7	Wood in making furniture	
8	Glue in tube making	
9	FICA tax	
10	Janitorial supplies	

Exercise 3

Classify the following costs as variable (V), fixed (F), or semi-variable (S) in terms of their behaviour with respect to volume of level of activity.

1	Property taxes	
2	Maintenance and repair	
3	Utilities	
4	Sales agent's salary	
5	Direct materials	
6	Insurance	
7	Depreciation by straight-line	
8	Sales agent's commission	
9	Depreciation by mileage - automobile	
10	Rent	

Exercise 4

Classify the following costs as product costs (PC) or period expenses (PE).

1	Pears in a fruit cocktail	
2	Overtime premium	
3	Legal fees	
4	Insurance on office equipment	
5	Advertising expenses	
6	Fringe benefits – general office	
7	Workers' compensation	
8	Social Security taxes – direct labour	
9	Travel expenses	
10	Rework on defective products	

Exercise 5

Calculate the standard material cost per unit of production.

Items	per pound
Purchase price	\$3.00
Freight	0.12
Receiving and handling	0.02
Purchase discount	0.04

Items	in pounds
Per bill of materials in pounds	1.2
Allowance for waste and spoilage in pounds	0.1
Allowance for rejects in pounds	0.1

Exercise 6

Consider the two alternatives A and B, whose costs are as follows:

	A	B	Incremental Costs
Direct materials	\$10,000	\$10,000	?
Direct labour	10,000	15,000	?

Determine the incremental costs A and B.

Exercise 7

Suppose you acquired an asset for \$50,000 three years ago which is now listed at a book value of \$20,000.

Determine the amount of sunk cost.

Exercise 8

Suppose a company has a choice of using its capacity to produce an extra 10,000 units or renting in out for \$20,000.

Determine the opportunity cost.

Exercise 9

Ron Weber is considering replacing an old machine, which he purchased for \$15,000 three years ago, with some labour-saving equipment. The old machine is being depreciated at \$1,500 a year. The following alternative equipment options are available for consideration.

Machine A: The purchase price of machine A is \$25,000, and yearly cash operating costs are \$5,000.

Machine B: The purchase price of machine A is \$28,000, and yearly cash operating costs are \$4,500.

1. What are the incremental costs, if any, in this alternative-choice situation?
2. What are the sunk costs, if any, in this situation?

Exercise 10

John Jay is a full-time student at a local university. He wants to decide whether he should attend a four-week summer school session, where tuition is \$250, or take a break and work full time at a local delicatessen, where he could make as much as \$150 a week.

1. How much would going to the summer school cost him from decision-making standpoint (total school or economic cost)?
2. What is the opportunity cost?

Exercise 11

The Ellis Machine Tool Company is considering production for a special order for 10,000 pieces at \$0.65 a piece, which is below the regular price. The current operating level, which is below full capacity of 70,000 pieces, shows the operating results as contained in the following report.

The regular production during the year was 50,000 pieces.

Sales			\$50,000
Direct material		\$20,000	

Direct labour		10,000	
Factory overhead:			
• supervision	\$3,500		
• depreciation	1,500		
• insurance	100		
• rental	400	5,500	35,500
			\$14,500

Factory overhead costs will continue regardless of the decision.

1. What are the incremental costs, if any, in this decision problem? Prepare a schedule showing the incremental cost.
2. Which costs, if any, represent sunk costs?
3. What would be the opportunity cost, if any, associated with the special order?

Exercise 12

Some selected sales and cost data for job order 515 are given below.

Direct material used	\$100,000
Direct labour	150,000
Factory overhead (all indirect, 40 % variable)	75,000
Selling and administrative expenses (50 % direct, 60 % variable)	120,000

Compute the following:

1. prime cost
2. conversion cost
3. direct cost
4. indirect cost
5. product cost
6. period expense
7. variable cost
8. fixed cost

Exercise 13

Selected data concerning the past fiscal year's operations (000 omitted) of the Televans Manufacturing Company are presented below.

	Inventories	
	Beginning	Ending
Direct materials	\$75	\$85
Work-in-process	80	30
Finished goods	90	110
Other data:		
• Direct materials used		326
• Total manufacturing costs charged to production during the year (includes direct materials, direct labour, and factory overhead applied at a rate of 60 % of direct labour cost)		686
• Cost of goods available for sale		826
• Selling and general expenses		25

1. The cost of direct materials purchased during the year amounted to:
 - a) \$411
 - b) \$360
 - c) \$316
 - d) \$336
 - e) Some amount other than those shown above

2. Direct labour costs charged to production during the year amounted to:
 - a) \$135
 - b) \$225
 - c) \$360
 - d) \$216
 - e) Some amount other than those shown above

3. The cost of goods manufactured during the year was:
 - a) \$636
 - b) \$766
 - c) \$736
 - d) \$716
 - e) Some amount other than those shown above

4. The cost of goods sold during the year was:
 - a) \$736
 - b) \$716
 - c) \$691
 - d) \$805
 - e) Some amount other than those shown above