

Chapter 1 (1 question- 1 conceptual)

- Managerial accounting: for internal users (managers), oriented, & non-GAAP
- Financial accounting: for external users (investors) & complies with GAAP

Chapter 2 (3 questions- 1 conceptual)

-Cost Behavior:

- Variable costs: varies in total as the cost driver changes, but stays constant per unit
 - o Ex: fabric cost for store, coffee beans for Starbucks, hard drives for computer store
- Fixed costs: fixed in total as the cost driver changes but varies per unit
 - o Ex: rent, depreciation, manager's salary, advertising costs
- Step costs: remains constant for small range of activity but changes abruptly once outside that range
 - o Ex: costs of packages consisting of 100 cups (must buy an entire pack even for 1 more cup)
 - o Can be variable (graph with small steps) or fixed (graph with long steps)
- Mixed costs: has both a fixed and variable component
 - o Ex: phone bill has a flat rate plus 10 cents per minute

-Cost Estimations/Functions:

$$Y = M X + B$$

Total Cost

VC per unit

of units

Total Fixed Costs

- Scatter graph (visual fit) method: eyeballing where a line would fit best using points on a graph
- High-Low method: use highest and lowest data points **based on activity**
 - o Slope (m)= change in cost ÷ change in activity
 - o Plug in either the high or low point to find B (total fixed costs)
 - o Plug in estimated # of units for X to find Y (total costs)
- Regression analysis: uses statistical software to derive a cost function from all the historical data available
- *Most precise to least precise: regression analysis, scattergraph, high-low method

-Income Statement Formats:

<u>Contribution Margin Format</u>	<u>GAAP Format</u>
Sales revenue	Sales revenue
- Variable Costs	- Costs of Goods Sold
Contribution Margin	Gross Margin
- Fixed Costs	- Sales & Administrative Expenses
Operating Income	Operating Income

Chapter 3 (4 questions- 1 conceptual)

-Cost-Volume Profit Analysis

- Break-even point: when revenues equal expenses and income is equal to zero
 - o Equation Method: $\text{Sales} - \text{Variable Costs} - \text{Fixed Costs} = 0$
 - $\text{Sales}(\$)X - \text{VC per unit}(\$)X - \text{FC} = 0$ (X= units needed to break even)
 - $\text{Units} \times \text{sales price per unit} = \text{total sales needed to break even}$
 - o Contribution Margin Technique:
 - $\text{Fixed Costs} \div \text{CM per unit} = \text{Break-even point in units}$
 - $\text{Fixed Costs} \div \text{CM}\% = \text{Break-even point in dollars}$
- Margin of Safety: how much money we can drop before starting to lose money
 - o $\text{Current Sales} - \text{Break Even Sales} = \text{Margin of Safety}$
- Target operating income:
 - o $\text{Sales} - \text{VC} - \text{FC} = \text{Target OI}$
 - o $\text{FC} + \text{Target OI} \div \text{CM per unit} = \text{units that must be sold to earn target OI}$
 - o $\text{FC} + \text{Target OI} \div \text{CM}\% = \text{sales in dollars needed to earn target OI}$
- Target net income:
 - o $\text{Operating income} = \text{Net Income} \div (1 - \text{tax rate})$
- What if analysis:
 - o If VC per unit decreases, CM increases, and break-even point decreases

- o If VC per unit increases, CM decreases, and break-even point increases
- o If SP (sales price) per unit decreases, CM decreases, and break-even point increases
- o If SP per unit increases, CM increases, and break-even point decreases
- o If FC increases, break-even point increases
- Multiproduct CVP analysis:
 - o $(\text{CM for Product 1})X + (\text{CM for Product 2})X + (\text{CM for Product 3})X - \text{FC} = \text{OI}$

Chapter 4 (3 questions- 1 conceptual)

- Direct costs: can be easily traced to product (VC)
 - o Direct material: leather for car company, food in microwavable dinners, foam for sofa
 - o Direct labor: factory workers' wages
- Indirect costs: not easily traced back to product (VC & FC)
 - o Manufacturing overhead: cleaning crew for factory, utilities costs, depreciation, factory property tax
- Product costs: **don't show up on income statement until product is sold and becomes a period cost** (VC & FC)
 - o Prime costs (DM + DL) + Conversion costs (DL + M.OH)
- Period costs: associated with selling of the product and administration of business (VC & FC)
 - o S & A costs: advertising, shipping, commission, wages of security at store
- Product cost flows:
 - o Raw materials inventory → Work in process → Finished goods inventory → CGS (on inc. statement)

