

Accounting213 Study Guide: EXAM 1

LECTURE 1

Cost Classifications...

<i>Purpose of classification</i>	<i>Cost classifications</i>
Preparing an income statement and balance sheet	<ul style="list-style-type: none"> • Product costs <ul style="list-style-type: none"> • Direct materials • Direct labor • Manufacturing overhead • Period costs (nonmanufacturing costs) <ul style="list-style-type: none"> • Selling costs • Administrative costs
Predicting changes in cost due to changes in activity	<ul style="list-style-type: none"> • Variable costs • Fixed costs • Mixed costs
Assigning costs	<ul style="list-style-type: none"> • Direct costs • Indirect costs
Making decisions	<ul style="list-style-type: none"> • Differential costs • Sunk costs • Opportunity costs

Cost Object: anything for which cost data are desired. Ex. Products, customers, departments, jobs

Direct Cost: a cost that can be easily and conveniently traced to a particular cost object

Indirect Cost: a cost that cannot be easily and conveniently traced to a particular cost object. Ex. Manufacturing O/H and general hospital admin costs.

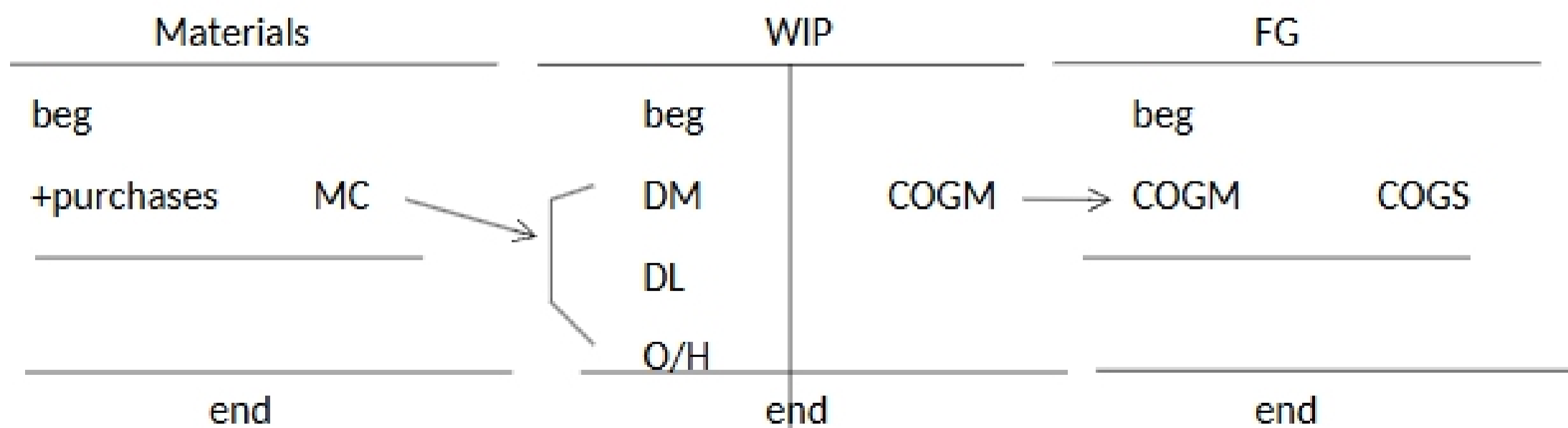
Manufacturing Cost = Direct Materials + Direct Labor + Manufacturing Overhead

Prime Cost = Direct Materials cost + Direct Labor Cost

Conversion Cost = Direct Labor Cost + Manufacturing Overhead

Nonmanufacturing Costs = Selling costs + administrative costs

Net Income = (Sales - COGS) - SG&A



LECTURE 2

Variable Cost: Varies in direct proportion to changes in the level of activity.

Activity Base: a measure of whatever causes the incurrence of a variable cost.

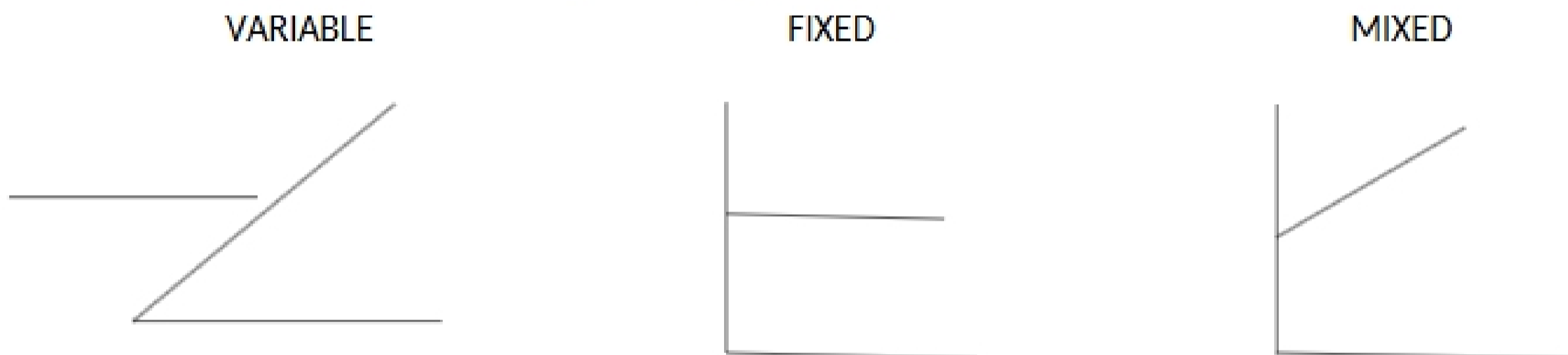
Variable Cost Behavior: In Total → Total variable cost increases and decreases in proportion to changes in activity.
Per Unit → Variable cost per unit is constant

Fixed Cost: a cost that remains constant, in total, regardless of changes in the level of activity

Fixed cost behavior: In Total → Total fixed cost is not affected by changes in activity (remain constant).
Per Unit → fixed cost per unit decreases as the activity level rises and increase as the activity level falls.

Committed fixed costs: relate to investment in plant, equipment, and basic administrative structure. It is difficult to reduce these fixed costs in the short-term. Ex. Equipment depreciation, real estate taxes, salaries of key operating personnel.

Discretionary fixed costs: arise from annual decisions by management to spend in certain areas. These costs can often be reduced in the short-term. Ex. Advertising (public relations), research (management development programs).



Relevant range: the range of activity within which the assumptions that have been made about variable and fixed costs are valid

Mixed (or semi-variable) cost: contains elements of both variable and fixed costs.

High/Low Method for Cost Estimation...

- 1) Determine High activity and Low activity
- 2) Difference between High and Low
$$\frac{\text{Cost @ High Activity} - \text{Cost @ Low Activity}}{\text{Activity @ High} - \text{Activity @ Low}} = \text{VC slope}$$
- 3) Total Cost- Variable Costs = Fixed Costs

Least-squares regression method: uses all of the data to separate a mixed cost into its fixed and variable components. A *regression line* of the form $y=a+bX$ is fitted to the data.

Lecture 3

Costing Systems: Two major types of costing systems are used in manufacturing and many service firms: process costing and job-order costing.

Process Costing: used where a single, homogenous product or service is produced. In this, total manufacturing costs are divided by total number of units produced during a given period. The unit cost that results is a broad, average figure. Traces the costs to the process. Ex. cement, flour, brick, etc.

Job-Order Costing: is used when different types of products, jobs, or batches are produced, typically over a rather short period of time. In this, DM cost and DL costs are usually "traced" directly to jobs. O/H is applied to jobs using a predetermined rate. Actual O/H costs are not "traced" to jobs. Ex. Order printing, shipbuilding, construction, hospitals, etc.

Manufacturing Overhead: includes all of those costs incurred in the manufacturing process which are not "traced" to a particular job. Usually consists of all manufacturing costs other than direct materials and direct labor

-Manufacturing overhead control account: temporary control account

<u>WIP</u>	<u>FG</u>	<u>COGS</u>
Jobs not complete	Jobs complete not sold	Jobs Sold

Determining Under/over applied overhead... by the ending balance in manufacturing O/H

Underapplied: results when more overhead cost is actually incurred than is applied to the work in process account. COGS needs to increase

Overapplied: results from applying more overhead to work in process than is actually incurred. COGS needs to decrease

Estimating O/H

- 1) Determine $O/H \text{ rate} = \frac{\text{Est. Total O/H}}{\text{Est. Activity}}$
- 2) Est. O/H = Rate * Actual Activity
- 3) Adjust for Actual = est. O/H - actual = over/under applied O/H

Lecture 4