**Part A: Structure Questions**

1) Distinguish between direct and indirect cost. Give one example.

**Part B: Practical exercises**

1. Sunshine Ltd specializes in manufacturing motorcycle helmets. The company has 10,000 orders per month which incurred monthly manufacturing costs & other expenses data are as follows:

|  | RM |
|---|---|
| Factory manager's salary | 5,700 |
| Advertising | 14,000 |
| Sales commissions | 7,000 |
| Depreciation on factory building | 1,500 |
| Rent on factory equipment | 7,000 |
| Insurance on factory building | 1,500 |
| Raw materials | 75,000 |
| Utility costs for factory | 900 |
| Supplies for general office | 300 |
| Wages for assembly line workers | 43,000 |
| Depreciation – Office equipment | 800 |
| Miscellaneous materials | 1,100 |
| Property taxes on factory building | 400 |

a) Prepare an answer sheet with the following column headings (included cost item & amount).

|  | **Product Costs** | | | |
|---|---|---|---|---|
| Cost Item | Direct Materials | Direct Labor | Manufacturing Overhead | Period Costs |
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b) Compute unit production cost of motorcycle helmet.

2. a. Classify each of the following costs based on, product cost or period cost that were incurred in the production & sale of lawn mowers.

|  | Product cost | Period cost |
|---|---|---|
| a. Attorney fees for drafting a new lease for headquarters office. |  |  |
| b. Property taxes on the factory building and equipment. |  |  |
| c. Hourly wages of operators of robotic machinery used in production. |  |  |
| d. Salary of vice president of marketing. |  |  |
| e. Gasoline engines used for lawn mowers. |  |  |
| f. Factory cafeteria cashier's wages. |  |  |
| g. Electricity used to run the robotic machinery. |  |  |

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|---|---|---|
| h. Salary of factory supervisor. | | |
| i. Steel used in producing the lawn mowers. | | |
| j. Premiums on insurance policy for factory buildings. | | |
| k. Cost of advertising in a national magazine. | | |
| l. Payroll taxes on hourly assembly line employees. | | |
| m. Telephone charges for company controller's office. | | |
| n. Cost of boxes used in packaging lawn mowers. | | |
| o. Salary of quality control supervisor who inspects each lawn mower | | |

b. Identify each of the following costs based on direct material (DM), direct labor (DL) or manufacturing overhead (MO).

| | Direct material | D. labour cost | Manu. OH |
|---|---|---|---|
| a. Attorney fees for drafting a new lease for headquarters office. | | | |
| b. Property taxes on the factory building and equipment. | | | |
| c. Hourly wages of operators of robotic machinery used in production. | | | |
| d. Salary of vice president of marketing. | | | |
| e. Gasoline engines used for lawn mowers. | | | |
| f. Factory cafeteria cashier's wages. | | | |

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|---|---|---|---|
| g. Electricity used to run the robotic machinery. | | | |
| h. Salary of factory supervisor. | | | |
| i. Steel used in producing the lawn mowers. | | | |
| j. Premiums on insurance policy for factory buildings. | | | |
| k. Cost of advertising in a national magazine. | | | |
| l. Payroll taxes on hourly assembly line employees. | | | |
| m. Telephone charges for company controller's office. | | | |
| n. Cost of boxes used in packaging lawn mowers. | | | |
| o. Salary of quality control supervisor who inspects each lawn mower | | | |

3. Jimmy Company manufactures and retails clothing which is given the following costs:

   a) Lubricant for sewing machines
   b) Maintenance contract for general office photocopying machine
   c) Telephone bill
   d) Interest on bank overdraft
   e) Wages of security guards for factory
   f) Salesman salary
   g) Cost of advertising products on television
   h) Water & electricity
   i) Accounting & audit fees
   j) Straight line depreciation on factory equipment
   k) Hourly wages for production workers
   l) Fire insurance on factory

   State the costs in the above as variable, fixed, or mixed.

| Variable cost | Fixed cost | Mixed cost |
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4. Viewnet Sdn Bhd has recorded the following output & costs during five months:

| | Output volume (units) | Total cost (RM) |
| --- | --- | --- |
| January | 65,000 | 145,000 |
| February | 80,000 | 162,000 |
| March | 90,000 | 170,000 |
| April | 60,000 | 140,000 |
| May | 75,000 | 160,000 |

Calculate the total costs that should be expected in June if output is 85,000 units. [Hint: Used the appropriate cost estimation method