

CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

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:

	<u>RM</u>
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	
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CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

Cost Item	Direct Materials	Direct Labor	Manufacturing Overhead	Period Costs

- 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.		

CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

f. Factory cafeteria cashier's wages.		
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		

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.			

CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

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.			
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

CHAPTER 3: Introduction to Cost Accounting & Elements of Cost-Material Cost and Inventory Valuations

- 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

4. Viewnet Sdn Bhd has recorded the following output & costs during five months:

	<u>Output volume (units)</u>	<u>Total cost (RM)</u>
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]

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