

Ans. to Ques. No. 1

Cost behavior is how cost changes in relation to a company's activity level.

There are 3 types:

- ① fixed costs: These costs remain the same regardless of level of production or sales activity within a relevant range. Ex: Rent, Salaries, Insurance.
- ② variable costs: These costs are vary directly with the level of production or sales activity. Examples: Raw material used in production, Direct labor costs, utilities used in production.
- ③ Mixed Costs: These costs have characteristics of both fixed and variable costs. Examples:
Utilities,
telephone bills,
Maintenance costs.

Ans. to Ques. No. 2

Managerial accountants classify costs in several ways to gain a deeper understanding of company's financial health and operations.

Example of Direct costs:

- ① Direct materials
- ② Direct Labor

Example of Indirect costs:

- ① Manufacturing overhead
- ② factory administration
- ③ Indirect materials
- ④ Office expenses

Ans. to Ques. No. 34

I don't agree with that. There are a key difference.

Merchandisers purchase finished goods from suppliers. ~~COGS~~ Manufacturers transform raw materials into finished goods through a production process.

Example:

Merchandiser buy pre-made from a supplier and simply assemble them for sale. Their COGS would just be the cost.

Manufacturer buy raw wood, screws, glue, and other materials. They also incur costs of factory labor, operating the machinery and factory overhead. Their COGS would include all.

Ans. to Ques. No. 5

Manufacturing Overhead: These are indirect costs associated with running the factory that cannot be directly traced to a specific product unit.

Prime Cost: This is the sum of two directly identifiable costs associated with producing a good.

- ① Direct Materials.
- ② Direct Labor.

Conversion Cost: This includes all the costs required to convert raw materials into finished products.

$$\text{Conversion cost} = \text{Prime cost} + \text{Manu. overhead.}$$

Product costs vs period costs:

Product Costs: These are costs directly associated with producing or acquiring goods for sale.

period costs: these are indirect costs
not directly tied to production.
they are expensed in period they
are incurred.