

22 The cost of direct materials is increasing.

What is the effect if a business uses first-in-first-out (FIFO) instead of average cost (AVCO) for inventory valuation in this situation?

| | cost of sales | profit for the year | closing inventory value |
|----------|---------------|---------------------|-------------------------|
| A | increases | decreases | increases |
| B | increases | decreases | decreases |
| C | decreases | increases | decreases |
| D | decreases | increases | increases |

23 Q Limited employs machine operators and supervisors.

Each machine operator produces 100 units per week.

One supervisor can supervise up to 10 machine operators and is paid \$550 per week.

Production is 7700 units per week.

Which type of cost is the supervisors' pay and how much is their total pay per week?

| | type of cost | total pay per week \$ |
|----------|--------------|--------------------------|
| A | stepped | 4235 |
| B | stepped | 4400 |
| C | variable | 4235 |
| D | variable | 4400 |

24 What is a limitation of absorption costing?

- A** It does **not** comply with accounting principles.
- B** It does **not** take into account all costs of production.
- C** It is **not** accepted for preparing published financial statements.
- D** It is **not** useful for improving the organisation's performance.