

# **Managerial Accounting**

## **Workbook**

### **(Version 4.0)**

**Tony Bell**

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# Module 1: Introduction to Managerial Accounting: Cost Concepts and the Schedule of Cost of Goods Manufactured

**Module Intro Video:**

Free Video: <https://www.youtube.com/watch?v=eLYxHd7V67o>

Members Video (Ad Free): <https://www.youtube.com/watch?v=3-yJnknM4eU>

### **1-1A – Financial vs Managerial Accounting**

Each of the following activities is mainly related to Financial or Managerial Accounting. For each item note if it is more closely related to Managerial Accounting “MA” or Financial Accounting “FA”.

- a.) Preparing a staffing budget.
- b.) Preparing a cash flow statement.
- c.) Preparing year end adjusting journal entries.
- d.) Preparing a bid on a future contract.
- e.) Preparing the management discussion and analysis section of the annual report.

**Free Video:** <https://www.youtube.com/watch?v=huapaKwRrH0>

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=Nk\\_t9GY7hi8](https://www.youtube.com/watch?v=Nk_t9GY7hi8)

### **1-1B – Financial vs Managerial Accounting**

Each of the following activities is mainly related to Financial or Managerial Accounting. For each item note if it is more closely related to Managerial Accounting “MA” or Financial Accounting “FA”.

- a.) Preparing a bank reconciliation.
- b.) Preparing a cash budget.
- c.) Preparing a cost over-run report comparing budget data to actual results.
- d.) Preparing a cost analysis of a planned building renovation.
- e.) Preparing journal entries related to the purchase of a car.

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=pnKJ\\_QbxOsY](https://www.youtube.com/watch?v=pnKJ_QbxOsY)

### 1-2A – Cost Classification

The following are costs of Big Rig Trucks, a manufacturer of large diesel vehicles.

- 1.) Aluminum used in manufacturing each truck's body.
- 2.) Factory supervisor's salary.
- 3.) Company president's salary.
- 4.) Cleaning supplies used for daily cleanup.
- 5.) Wages of workers who build the engines.
- 6.) Patent lawyer's costs.
- 7.) Accounting fees.
- 8.) Shipping paid on deliveries to customers.

**Required:** For each cost above, identify whether it is Variable or Fixed, and which category of product or period cost it belongs to – DM/DL/MOH/Selling/Admin/R&D.

	Variable/Fixed?		Product			Period		
	V	F	DM	DL	MOH	Selling	Admin	R&D
#1								
#2								
#3								
#4								
#5								
#6								
#7								
#8								

**Free Video:** [https://www.youtube.com/watch?v=ET6\\_sCE54u0](https://www.youtube.com/watch?v=ET6_sCE54u0)

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=XzV1rQI-Fws>

## 1-2B – Cost Classification

The following are costs of Betty's Burger Truck – a food truck operating in downtown Seattle.

- 1.) Cooks' wages.
- 2.) Propane costs to heat the grill.
- 3.) Gasoline costs to travel to special events.
- 4.) Painting company logo on the side of the truck.
- 5.) Business license.
- 6.) Depreciation on the cooking equipment.
- 7.) Costs of improving the recipe for new bison burger.
- 8.) Burger meat.

**Required:** For each cost above, identify whether it is Variable or Fixed, and which category of product or period cost it belongs to – DM/DL/MOH/Selling/Admin/R&D.

	Variable/Fixed?		Product			Period		
	V	F	DM	DL	MOH	Selling	Admin	R&D
#1								
#2								
#3								
#4								
#5								
#6								
#7								
#8								

Members Video (Ad Free): <https://www.youtube.com/watch?v=IGGpM7ZeCJ4>

### **1-3A – Schedule of COGM, Schedule of COGS and Income Statement**

Outdoor Supplies manufactures gear for hunting and camping. The company shows the following data related to its December 31 fiscal year end:

Raw materials inventory, January 1	\$14,000
Raw materials inventory, December 31	17,000
Work in process inventory, January 1	31,000
Work in process inventory, December 31	20,000
Finished goods inventory, January 1	84,000
Finished goods inventory, December 31	68,000
Direct labour	275,000
Factory supervisor's wages	64,000
Company president's salary	120,000
Purchases of raw materials	425,000
Depreciation (60% factory, 40% office)	240,000
Property taxes (80% factory, 20% office)	20,000
Sales commissions	98,000
Repairs and maintenance (100% relate to the factory)	15,000
Utilities expense (90% factory, 10% office)	30,000
Sales revenue	2,050,000
Advertising	215,000

***Required:***

Based on the information above:

- a.) Prepare a schedule of cost of goods manufactured.
- b.) Prepare a schedule of cost of goods sold.
- c.) Prepare an income statement (assuming a tax rate of 20%).

**Free Videos:**

Part 1: <https://www.youtube.com/watch?v=zZuaHS9MFIg>

Part 2: <https://www.youtube.com/watch?v=NanFvCScnng>

Part 3: [https://www.youtube.com/watch?v=f1N6\\_bAbtJY](https://www.youtube.com/watch?v=f1N6_bAbtJY)

**Members Video (Ad Free):**

Part 1: <https://www.youtube.com/watch?v=AI-FGw378NE>

Part 2: <https://www.youtube.com/watch?v=Y21yqP1wSEg>

Part 3: <https://www.youtube.com/watch?v=T5U3XtwjdXY>

### **1-3B – Schedule of COGM, Schedule of COGS and Income Statement**

HiSing manufactures beverages for the Taiwanese market. The following data relate to its December 31 fiscal year end:

Raw materials inventory, January 1	\$185,000
Raw materials inventory, December 31	140,000
Work in process inventory, January 1	25,000
Work in process inventory, December 31	35,000
Finished goods inventory, January 1	375,000
Finished goods inventory, December 31	390,000
Direct labour	1,200,000
Sales commissions	400,000
Factory supervisors' wages	240,000
Company president's salary	250,000
Purchases of raw materials	3,250,000
Property taxes (75% factory, 25% office)	100,000
Depreciation (90% factory, 10% office)	1,700,000
Repairs and maintenance (95% factory, 5% office)	200,000
Utilities expense (90% factory, 10% office)	600,000
Sales revenue	10,300,000
Advertising	2,000,000

***Required:***

Based on the information above:

- a.) Prepare a schedule of cost of goods manufactured.
- b.) Prepare a schedule of cost of goods sold.
- c.) Prepare an income statement (assuming a tax rate of 25%).

**Members Video (Ad Free):**

Part 1: <https://www.youtube.com/watch?v=dYYFxmUtWb4>

Part 2: <https://www.youtube.com/watch?v=TqrGtCSKgbU>

### **1-4A – Schedule of Cost of Goods Manufactured**

Kelowna Plumbing Supplies shows the following data related to its December 31 fiscal year:

Raw materials inventory, January 1	\$5,000
Raw materials inventory, December 31	8,000
Work in process inventory, January 1	23,000
Work in process inventory, December 31	21,000
Finished goods inventory, January 1	16,000
Finished goods inventory, December 31	10,000
Advertising	56,000
Factory supervisor's salary	42,000
Company president's salary	85,000
Property taxes - factory	25,000
Depreciation - factory	35,000
Factory maintenance	7,000
Sales commissions	32,000
Sales revenue	900,000
Depreciation - office	2,000
Utilities expense - factory	23,000
Utilities expense - office	11,000
Purchases of raw materials	148,000
Direct labour	160,000

***Required:***

Based on the information above:

- a.) Prepare a schedule of cost of goods manufactured.
- b.) Calculate cost of goods sold
- c.) Calculate Net income (assume a 20% tax rate)

**Members Video (Ad Free): <https://www.youtube.com/watch?v=PvROU2bftIk>**

### **1-4B – Schedule of Cost of Goods Manufactured**

Vernon Bakery shows the following data related to its December 31 fiscal year:

Raw materials inventory, January 1	\$2,000
Raw materials inventory, December 31	1,000
Work in process inventory, January 1	500
Work in process inventory, December 31	2,500
Finished goods inventory, January 1	5,000
Finished goods inventory, December 31	1,000
Rent on the commercial kitchen	12,000
Depreciation of delivery vehicle	4,000
Salary paid to head baker	42,000
Purchases of raw materials	58,000
Delivery costs	3,000
Utilities expense - office	1,000
Depreciation - kitchen equipment	5,000
Sales revenue	400,000
Dividends paid to shareholders	10,000
Utilities expense - kitchen	12,000
Marketing	13,000
Wages paid to kitchen cleaning staff	16,000
Wages paid to assistant bakers	65,000

***Required:***

Based on the information above:

- a.) Prepare a schedule of cost of goods manufactured.
- b.) Calculate cost of goods sold
- c.) Calculate Net income (assume a 20% tax rate)

**Members Video (Ad Free): <https://www.youtube.com/watch?v=lmjArFELSNQ>**

# Module 2: Job-Order Costing

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=RguZh26OFws>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=JU5Vy0nBnKA>

## **2-1A – Job Order Costing vs Process Costing**

For each of the companies listed below, note which costing method would be more appropriate:  
Job Order Costing (J), or Process Costing (P):

- a.) A company that does car repair
- b.) A company that does architectural design
- c.) A company that makes yoga mats
- d.) A company that gives immigration consulting advice
- e.) A company that refines oil into gasoline
- f.) An accounting firm
- g.) A company that manufactures crayons
- h.) A company that makes designer handbags

**Free Video:** <https://www.youtube.com/watch?v=KMXRtVzDeuA>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=SScjBzzWXag>

## **2-1B – Job Order Costing vs Process Costing**

For each of the companies listed below, note which costing method would be more appropriate:  
Job Order Costing (J), or Process Costing (P):

- a.) A company that produces cutlery
- b.) An engineering company
- c.) A home renovation contractor
- d.) A fire extinguisher manufacturer
- e.) A custom cabinet manufacturer
- f.) A pop songwriter
- g.) A cellphone maker
- h.) A cellphone repair shop

**Members Video (Ad Free): <https://www.youtube.com/watch?v=ZTQfwuSUG7c>**

## **2-2A – Predetermined overhead rate: Journal entries of an individual job**

Tony's Tables makes high-end, custom boardroom tables. The company applies overhead costs to jobs on the basis of direct labour hours. Before the year, the company estimated its manufacturing overhead to be \$240,000, and budgeted its direct labour workforce to work for 20,000 hours during the year.

The company has the following transactions that require journal entries (dates are not needed, label each entry with a letter):

- a.) Purchased raw materials on account - \$10,000.
- b.) Requisitioned raw materials for Job #1843 (a custom walnut table) - \$9,500.
- c.) Front-line employees worked a total of 180 hours on Job #1843 at a payrate of \$20 per hour. The wages have not yet been paid (payday is next week).
- d.) Applied overhead cost to Job #1843.
- e.) Job #1843 was completed and transferred to finished goods inventory.
- f.) Job #1843 was sold for \$25,000 on account.

***Required:***

- a.) Record all journal entries.
- b.) What was the Gross Profit on Job #1843?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=M-nVr8viHEo>**

## **2-2B – Predetermined overhead rate: Journal entries of an individual job**

Ready Brakes specializes in brake repair in automobiles. The company applies overhead costs to jobs on the basis of direct labour hours. For the current year, total manufacturing overhead was expected to cost \$400,000. The total expected direct labour hours were anticipated to be 25,000.

The company has the following transactions that require journal entries (dates are not needed, label each entry with a letter):

- a.) Purchased raw materials on account - \$7,500 (50 sets of brake pads).
- b.) Requisitioned raw materials for Job #36 - \$150.
- c.) Front-line employees worked a total of 2 hours on Job #36 at a payrate of \$24 per hour.  
The wages have not yet been paid (payday is next week).
- d.) Applied overhead cost to Job #36.
- e.) Job #36 was completed and transferred to finished goods inventory.
- f.) Job #36 was sold for \$500 on account.

***Required:***

- a.) Record all journal entries.
- b.) What was the Gross Profit on Job #36?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=KKSrYBQIEhc>**

## **2-3A – Predetermined Overhead Rate, Overapplied and Underapplied Overhead**

Cabinets4U makes and installs custom cabinets for home renovations. The company applies overhead on the basis of direct labour hours. Before the year, the company estimated its annual overhead to be \$150,000 and it expects employees to work 10,000 hours. During the year, employees actually worked 11,000 hours and the actual amount spent on overhead was \$130,000.

**Required:**

- a.) Compute the predetermined overhead rate.
- b.) How much overhead would be applied to jobs during the year?
- c.) By how much was overhead overapplied or underapplied for the year?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=j0L1BQD0QRc>**

## **2-3B – Predetermined Overhead Rate, Overapplied and Underapplied Overhead**

Jake's Autobody is a car repair shop. The company uses direct labour cost as a basis for applying manufacturing overhead costs to jobs. The company estimates its annual overhead to be \$140,000 and it expects employees to work 20,000 hours at an average wage rate of \$14 per hour. During the year, employees actually worked 18,000 hours (at a wage rate of \$17 per hour) and the actual amount spent on overhead was \$150,000.

**Required:**

- a.) Compute the predetermined overhead rate.
- b.) How much overhead would be applied to jobs during the year?
- c.) By how much was overhead overapplied or underapplied for the year?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=abGxFqusZ3A>**

## **2-4A – Predetermined Overhead Rate, Overapplied and Underapplied Overhead**

Smith and Smith is an architectural firm. The company uses a job order costing system to apply overhead costs to its jobs on the basis of direct labour hours. Before the period, the company estimated its manufacturing overhead would be \$20,000 and that its direct-labour workforce would work a total of 500 hours.

At the start of the period, the company had no jobs in progress. The company began work on two jobs – information related to the jobs is below:

	<b>Jones (Job 23)</b>	<b>Brady (Job 24)</b>
Direct materials	\$8,000	\$2,000
Labour costs	\$15,000	\$3,000
Labour hours	300	60

The Jones job was fully completed, and the company billed and collected \$75,000. The Brady job had not been completed by the end of the period, and the client had not been billed.

Actual overhead costs for the period were tabulated (months later) to be: \$17,000.

**Required:**

- a.) Compute the predetermined overhead rate.
- b.) Compute the total cost of each job.
- c.) Calculate the Gross Profit on the Jones job.
- d.) By how much was overhead overapplied or underapplied for the period?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=UXtvU4CE6sw>**

## **2-4B – Predetermined Overhead Rate, Overapplied and Underapplied Overhead**

Jones and Associates is an accounting firm. The company uses a job order costing system to apply overhead costs to its jobs on the basis of direct labour hours. The company estimated its manufacturing overhead would be \$5,000 and that its direct-labour workforce would work a total of 200 hours during the period.

At the beginning of the period, the company had no jobs in progress. The company began work on two jobs – information related to the jobs is below:

	<u>ABC Co (Job 67)</u>	<u>Peregrine (Job 68)</u>
Direct materials	\$200	\$100
Labour costs	\$6,000	\$1,600
Labour hours	150	40

The ABC Co job was fully completed, and the company billed and collected \$15,000. The Peregrine job had not been completed by the end of the month, and the client had not been billed.

Actual overhead costs for the period were tabulated (months later) to be: \$4,200.

**Required:**

- a.) Compute the predetermined overhead rate.
- b.) Compute the total cost of each job.
- c.) Calculate the Gross profit on the ABC Co job.
- d.) By how much was overhead overapplied or underapplied for the period?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=5jVwIeG0Ynw>**

## **2-5A – Journal Entries of Job Order Costing**

Intercity Roofing manufactures and installs custom shingles for use on damaged roofs of residential houses and apartments. The company uses a specialized manufacturing process to ensure the replacement shingles are an exact match with the existing roof. The company uses a job order costing system to apply manufacturing overhead on the basis of direct labour cost. The company estimates that during the next year, it will incur \$70,000 in overhead costs and will pay \$140,000 in direct labour costs. During the year, the following transactions occurred:

- a.) Purchased \$180,000 of direct materials on account.
- b.) Purchased \$5,000 of supplies on account. (The supplies consisted of glue and cleaning supplies.)
- c.) Requisitioned \$170,000 of direct materials and \$4,500 of supplies for use in production.
- d.) Incurred employee costs:
  - i. Direct labour \$150,000
  - ii. Indirect labour 40,000
  - iii. Administrative salaries 190,000
  - iv. Sales salaries 30,000
  - v. Sales commissions 90,000
- e.) Advertised on local television: \$5,000
- f.) Rent: \$12,000. 40% of the space related to sales offices, 60% was a shop used in production of roofing materials.
- g.) Depreciation: \$25,000. 70% relates to roofing equipment, 30% relates to office equipment.
- h.) Insurance expired: \$15,000. 90% relates to the factory, the remainder relates to insurance on the office equipment.
- i.) Manufacturing overhead costs were applied to production.
- j.) Goods costing \$375,000 were completed.
- k.) The company had sales on account of \$800,000. According to cost data, the jobs cost \$350,000.

***Required:***

- a.) For items a.)-k.) above, record journal entries. Unless otherwise noted, assume all transactions were on account.
- b.) Was overhead overapplied or underapplied for the period? By how much?
- c.) Record a journal entry to close overhead to cost of goods sold.
- d.) Based on the information above, prepare an income statement for the company – assume a 20% tax rate.

**Members Videos (Ad Free) – Part 1: <https://www.youtube.com/watch?v=m4rjsNMa40U>**

**Part 2: <https://www.youtube.com/watch?v=LH8TlFkEYDI>**

## **2-5B – Journal Entries of Job Order Costing**

Ace Cakes makes cakes and desserts for all festive occasions. The company uses a job order costing system to allocate manufacturing overhead costs to jobs on the basis of direct labour cost. The company anticipates overhead costs for the upcoming year will be \$150,000 and expects to see direct labour costs of \$500,000. The following events occurred during the year:

- a.) Purchased \$250,000 of raw materials (eggs/flour/sugar) on account.
- b.) Purchased \$11,000 of cleaning supplies on account.
- c.) Requisitioned \$240,000 of direct materials and \$10,000 of supplies for use in production.
- d.) Incurred employee costs:
  - i. Direct labour \$450,000
  - ii. Indirect labour 50,000
  - iii. Administrative salaries 200,000
  - iv. Sales wages 80,000
- e.) Advertising: \$3,000
- f.) Property taxes: \$10,000. 90% of the space was devoted to the kitchen, 10% of the space related to sales offices.
- g.) Depreciation: \$55,000. 80% relates to kitchen equipment, 20% relates to office equipment.
- h.) Insurance expired: \$15,000. 80% relates to the kitchen, 20% relates to insurance on the office equipment.
- i.) Manufacturing overhead costs were applied to production.
- j.) Desserts costing \$790,000 were completed.
- k.) The company had sales on account of \$1,800,000. According to cost data, the jobs cost \$720,000.

***Required:***

- a.) For items a.)-k.) above, record journal entries. Unless otherwise noted, assume all transactions were on account.
- b.) Was overhead overapplied or underapplied for the period? By how much?
- c.) Record a journal entry to close overhead to cost of goods sold.
- d.) Based on the information above, prepare an income statement for the company – assume a 20% tax rate, and assume a year end date of December 31.

**Free Video: <https://www.youtube.com/watch?v=zgeNY9wIXL0>**

**Members Video (Ad Free): <https://www.youtube.com/watch?v=sAatFwZ04Sc>**

# Module 3: Process Costing

**Module Intro Video:**

Free Video: [https://www.youtube.com/watch?v=vJM\\_OMwiXEA](https://www.youtube.com/watch?v=vJM_OMwiXEA)

Members Video (Ad Free): <https://www.youtube.com/watch?v=1IeJa4HVHaA>

Templates: <https://www.tonybell.com/templates.html>

### **3-1A – Production Report**

Bertuzzi Tires has three departments. Its first department (the Processing Department) shows the following data for the month of July:

Work in process, beginning:

Units in process	8,000
Stage of completion with respect to materials	80%
Stage of completion with respect to conversion	35%

Costs in the beginning inventory:

Materials cost	\$110,500
Labour cost	\$33,000
Overhead cost	\$26,000

Units started into production during the month	94,000
Units completed and transferred out	92,000

Costs added to production during the month:

Materials cost	\$950,000
Labour cost	\$310,000
Overhead cost	\$170,000

Work in process, ending:

Units in process	???
Stage of completion with respect to materials	90%
Stage of completion with respect to conversion	60%

**Required:**

Using the weighted average method, prepare a production cost report for the company.

**Free Video:** <https://www.youtube.com/watch?v=uifkCqKRCmQ>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=M7u1tjRG1Tg>

**Templates:** <https://www.tonybell.com/templates.html>

### **3-1B – Production Report**

Ritchie Company has two departments. Its first department (the Melting Department) shows the following data for the month of April:

Work in process, beginning:	
Units in process	400
Stage of completion with respect to materials	60%
Stage of completion with respect to conversion	85%
Costs in the beginning inventory:	
Materials cost	\$105
Labour cost	\$108
Overhead cost	\$300
Units started into production during the month	1,100
Units completed and transferred out	1,400
Costs added to production during the month:	
Materials cost	\$2,100
Labour cost	\$1,000
Overhead cost	\$1,700
Work in process, ending:	
Units in process	???
Stage of completion with respect to materials	70%
Stage of completion with respect to conversion	80%

**Required:**

Using the weighted average method, prepare a production cost report for the company.

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=sk-4FRnwyyA>

**Templates:** <https://www.tonybell.com/templates.html>

### **3-2A – Production Report**

Stable Platforms manufactures tables. Materials are added at the beginning of the process and conversion costs are incurred evenly throughout the process. Data for February follows:

#### **Production Data**

	Units	Percent Complete
Units in process, February 1	120	75%
Units started into production	380	
Units in process, February 28	100	50%

#### **Cost Data**

Work in process, Feb 1:	Costs added:
Materials \$1,100	Materials \$4,000
Labour 700	Labour 300
Manufacturing overhead 820	Manufacturing overhead 2,500

#### **Required:**

Using the weighted average method, prepare a production cost report for the company.

Free Video: <https://www.youtube.com/watch?v=VHkRHcyaw6M>

Members Video (Ad Free): <https://www.youtube.com/watch?v=AFLaackhG6E>

Templates: <https://www.tonybell.com/templates.html>

### **3-2B – Production Report**

Daring Watercraft manufactures small boats. Materials are added at the beginning of the process and conversion costs are incurred evenly throughout the process. Data for April follows:

#### **Production Data**

	Units	Percent Complete
Units in process, April 1	1000	60%
Units started into production	4000	
Units in process, April 30	1500	20%

#### **Cost Data**

Work in process, April 1:	Costs added:
Materials \$25,500	Materials \$90,000
Labour 3,000	Labour 12,000
Manufacturing overhead 6,000	Manufacturing overhead 18,900

#### **Required:**

Using the weighted average method, prepare a production cost report for the company.

**Members Video (Ad Free): [https://www.youtube.com/watch?v=ERu\\_Tqm6yig](https://www.youtube.com/watch?v=ERu_Tqm6yig)**

**Templates: <https://www.tonybell.com/templates.html>**

### 3-3A – Production Report

Mom's Cookies has two departments, Baking and Packaging. Raw materials are introduced at the beginning of the baking process. The following is the department's work in process T-Account for May:

Work in Process – Baking Department		
May 1 balance: (50 kilograms; 60% complete as to conversion)	750	Completed and transferred to the packaging department ( <u>?</u> kilograms) <u>?</u>
Costs added:		
Materials (1,500 kilograms)	7,035	
Labour	1,500	
Overhead	9,400	
May 31 balance (40 kilograms, 25% complete)	<u>?</u>	

The beginning work in process includes material of \$250, labour of \$100, and overhead of \$400.

**Required:**

Using the weighted average method, prepare a production cost report for the company.

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=v5Hhxe0HGqk>

**Templates:** <https://www.tonybell.com/templates.html>

### 3-3B – Production Report

Traffic Control Systems makes bright rubber traffic cones. The company has two departments, Melting and Forming. Raw materials are introduced at various stages throughout the melting process. The following is the department's work in process T-Account for August:

Work in Process – Melting Department		
Aug 1 balance: (200 kilograms; 80% complete as to materials, 70% complete as to conversion)	352	Completed and transferred to the packaging department ( <u>?</u> kilograms) <u>?</u>
Costs added:		
Materials (2,050 kilograms)	890	
Labour	400	
Overhead	2,000	
Aug 31 balance (40 kilograms, 50% complete as to materials, 60% complete as to conversion)	<u>?</u>	

The August 1 work in process includes material of \$100, labour of \$52, and overhead of \$200.

**Required:**

Using the weighted average method, prepare a production cost report for the company.

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=jtSM4j932dg>

**Templates:** <https://www.tonybell.com/templates.html>

### 3-4A – Production Report - FIFO

Piroddi Brakes has three departments. Its first department (the Processing Department) shows the following data for the month of May:

Work in process, beginning:

Units in process	8,000
Stage of completion with respect to materials	80%
Stage of completion with respect to conversion	35%

Costs in the beginning inventory:

Materials cost	\$110,500
Labour cost	\$33,000
Overhead cost	\$26,000

Units started into production during the month	94,000
Units completed and transferred out	92,000

Costs added to production during the month:

Materials cost	\$964,920
Labour cost	\$333,200
Overhead cost	\$190,400

Work in process, ending:

Units in process	???
Stage of completion with respect to materials	90%
Stage of completion with respect to conversion	60%

**Required:**

Using the FIFO method, prepare a production cost report for the company.

Free Video: <https://www.youtube.com/watch?v=BOYK1S6kx9w>

Members Video (Ad Free): <https://www.youtube.com/watch?v=57Dvijl33uo>

Templates: <https://www.tonybell.com/templates.html>

### **3-4B – Production Report - FIFO**

Sewell Company has two departments. Its first department (the Melting Department) shows the following data for the month of June:

Work in process, beginning:	
Units in process	400
Stage of completion with respect to materials	60%
Stage of completion with respect to conversion	90%
Costs in the beginning inventory:	
Materials cost	\$170
Labour cost	\$160
Overhead cost	\$300
Units started into production during the month	1,100
Units completed and transferred out	1,400
Costs added to production during the month:	
Materials cost	\$1,845
Labour cost	\$820
Overhead cost	\$1,700
Work in process, ending:	
Units in process	???
Stage of completion with respect to materials	70%
Stage of completion with respect to conversion	80%

**Required:**

Using the FIFO method, prepare a production cost report for the company.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=VGkr3-2zYiI>**

**Templates: <https://www.tonybell.com/templates.html>**

# Module 4: Activity-Based Costing

**Module Intro Video:**

**Free Video:** [https://www.youtube.com/watch?v=i9xo\\_w5KJrw](https://www.youtube.com/watch?v=i9xo_w5KJrw)

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=iOjFv2MB8jk>

## 4-1A – Comparing Traditional Costing and Activity Based Costing

### PART 1

E-Scoot makes electric scooters for urban commuters. The company has two models, the “Commuter” and the “Range” models. The company uses a “traditional” plantwide overhead rate and allocates its estimated \$160,000 of overhead costs to products on the basis of direct labour hours. The direct labour workforce is expected to work 10,000 hours next year. The estimated product costs are below:

	<u>Commuter</u>	<u>Range</u>
Direct Materials	\$600	\$900
Direct Labour (\$25/DL hour)	250	400
MOH (\$??/?DL Hour)	???	???
Number of units produced	600 units	250 units

#### ***Required – PART 1:***

- a.) Compute the predetermined overhead rate.
- b.) Calculate the total product cost for both models.

### PART 2

The company is considering switching to activity-based costing and gathers the following information about its estimated overhead:

Activity (Cost Driver)	Estimated MOH	Expected Activity		
		Total	Commuter	Range
Assembly (Labour Hours)	\$20,000	10,000	6,000	4,000
Quality control (Inspection Hours)	40,000	5,000	1,000	4,000
Parts Admin (Number of Parts)	<u>100,000</u>	100	25	75
	<u>\$160,000</u>			

#### ***Required – PART 2:***

- a.) Compute the activity rates for each activity.
- b.) Determine the expected unit cost of each product under activity-based costing.
- c.) Compare your answers in Part 1 and 2. Under “traditional costing” (part 1) which product is overcosted, which is undercosted? By how much?

Free Video: <https://www.youtube.com/watch?v=K891f97xKEA>

Members Video (Ad Free): <https://www.youtube.com/watch?v=ZS1SHVZhki0>

## 4-1B – Comparing Traditional Costing and Activity Based Costing

### **PART 1**

EgoDrone Inc. manufactures two models of high-end “Selfie Drones” - small toy helicopters which follow users around taking aerial video while the user participates in extreme sports. Whether the user is rafting down a raging river, or renewing their life insurance, all activities can be documented by the company’s two models: “Sport” or “Pro”. The company uses a “traditional” plantwide overhead rate and allocates its estimated \$410,000 of overhead costs to products on the basis of direct labour hours. The direct labour workforce is expected to work 20,000 hours next year. The estimated product costs are below:

	<u>Sport</u>	<u>Pro</u>
Direct Materials	\$600	\$1,000
Direct Labour (\$25/DL Hour)	150	250
MOH (\$????/DL Hour)	???	???
Number of units produced	2,500 units	500 units

#### ***Required – PART 1:***

- Compute the predetermined overhead rate.
- Calculate the total product cost for both models.

### **PART 2**

The company is considering switching to activity-based costing and gathers the following information about its estimated overhead:

<u>Activity (Cost Driver)</u>	<u>Estimated MOH</u>	<u>Expected Activity</u>		
		<u>Total</u>	<u>Sport</u>	<u>Pro</u>
Machining (Machine Hours)	\$40,000	5,000	2,500	2,500
Assembly (Labour Hours)	\$60,000	20,000	15,000	5,000
Quality control (# of inspections)	110,000	550	250	300
Machine Setups (# of Setups)	<u>200,000</u>	200	70	130
	<u>\$410,000</u>			

#### ***Required – PART 2:***

- Compute the activity rates for each activity.
- Determine the expected unit cost of each product under activity-based costing.
- Compare your answers in Part 1 and 2. Under “traditional costing” (part 1) which product is overcosted, which is undercosted? By how much?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=rhv46jMZOZc>**

#### 4-2A – Comparing Traditional Costing and Activity Based Costing

Double Bounce Trampolines produces two models of trampolines for backyard fun. The “Original”, and the recently introduced “Deluxe”. The Deluxe model introduced several safety features that were intended to scare overly protective parents into upgrading. Since its introduction, the deluxe model has been increasing in sales, but at the same time, the company’s profits have been declining. The CFO believes that the company’s traditional costing system may be to blame. Currently, the company uses direct-labour hours as the basis for applying overhead. The company estimates that it will incur \$600,000 in overhead costs in the next year and that its workforce will work 10,000 Direct-Labour hours during the year.

The following cost data is known:

	<u>Original</u>	<u>Deluxe</u>
Direct Materials	\$50	\$75
Direct Labour (\$20 per hour)	20	30
Number of units produced	7,000 units	2,000 units

The CFO wishes to explore an activity-based costing system

Activity (Cost Driver)	Estimated MOH	Expected Activity		
		Total	Standard	Deluxe
Assembly (Labour Hours)	\$100,000	10,000	7,000	3,000
Receiving (Receiving Reports)	200,000	4,000	3,000	1,000
Testing (Number of Tests)	<u>300,000</u>	1,000	200	800
	<u>\$600,000</u>			

**Required:**

- a.) Under the traditional costing method:
  - i. Compute the predetermined overhead rate.
  - ii. Determine the unit cost of each product.
- b.) Under activity-based costing:
  - i. Compute the activity rates for each activity.
  - ii. Determine the expected unit cost of each product.
- c.) Compare and comment on your answers from parts a.) and b.) above.
- d.) If ABC produces more accurate cost data, why is it not more widely used?

Members Video (Ad Free): <https://www.youtube.com/watch?v=KraOLcklRqg>

#### **4-2B – Comparing Traditional Costing and Activity Based Costing**

You're in Hot Water Inc. manufactures Jacuzzi hot tubs. The company produces two models, the "Basic" and the "Superjet" which promises a jet power setting that "borders on cruel". Since the introduction of the Superjet, the company's profits have been faltering, despite increased sales. The company's senior accountant believes that the costing system may be causing problems. The company uses direct-labour hours as the basis for applying overhead. Overhead is estimated to be \$300,000.

The following cost data is known:

	<u>Basic</u>	<u>Superjet</u>
Direct Materials	\$700	\$1200
Direct Labour (\$15 per hour)	60	90
Number of units produced	600 units	100 units

The CFO wishes to explore an activity-based costing system

<u>Activity (Cost Driver)</u>	<u>Estimated MOH</u>	<u>Expected Activity</u>		
		<u>Total</u>	<u>Basic</u>	<u>Superjet</u>
Assembly (Labour Hours)	\$60,000	3,000	2,400	600
Quality control (Inspection Hours)	75,000	800	600	200
Machining (Machine Hours)	25,000	40,000	30,000	10,000
Parts Admin (Number of Parts)	140,000	500	100	400
	<u>\$300,000</u>			

***Required:***

- a.) Under the traditional costing method:
  - i. Compute the predetermined overhead rate.
  - ii. Determine the unit cost of each product.
- b.) Under activity-based costing:
  - i. Compute the activity rates for each activity.
  - ii. Determine the expected unit cost of each product.
- c.) Compare and comment on your answers from parts a.) and b.) above.
- d.) If ABC produces more accurate cost data, why is it not more widely used?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=QG83jgSNYd0>**

### **4-3A – Activity Based Costing and Over/Underapplied Overhead**

Neistat Corporation uses Activity Based Costing to determine product costs for its two lines of electric skateboard – the Turbo and the Plus. At the beginning of the year, the company broke its overhead costs down into the following three activity cost pools:

Activity (Cost Driver)	Estimated MOH	Expected Activity		
		Total	Turbo	Plus
Assembly (Machine Hours)	\$400,000	4,000	3,000	1,000
Product Testing (Number of Tests)	200,000	1,000	600	400
Parts Admin (Number of Parts)	<u>300,000</u>	250	100	150
	<u><u>\$900,000</u></u>			

During the year, the following actual costs and activities occurred:

Activity (Cost Driver)	Actual MOH	Actual Activity		
		Total	Turbo	Plus
Assembly (Machine Hours)	\$450,000	4,600	3,700	900
Product Testing (Number of Tests)	180,000	1,250	1000	250
Parts Admin (Number of Parts)	<u>320,000</u>	225	120	105
	<u><u>\$950,000</u></u>			

**Required:**

- a.) Compute the activity rate of each of the cost pools.
- b.) Given the actual activity levels, how much overhead would be applied to each product line and how much overhead would be applied in total?
- c.) How does the applied MOH compare to the actual MOH, by how much is overhead overapplied, or underapplied?
- d.) Record the following:
  - i. The journal entry for ACTUAL MOH (Credit Accounts Payable)
  - ii. The journal entry for APPLYING MOH based on your calculations in b.)
  - iii. The adjustment to overapplied or underapplied MOH through Cost of Goods Sold

**Members Video (Ad Free): [https://www.youtube.com/watch?v=0gx7\\_JDXSoo](https://www.youtube.com/watch?v=0gx7_JDXSoo)**

#### 4-3B – Activity Based Costing and Over/Underapplied Overhead

Jesse Corporation uses Activity Based Costing to determine product costs for its two lines of surfboards – the Long and the Skim. At the beginning of the year, the company broke its overhead costs down into the following three activity cost pools:

Activity (Cost Driver)	Estimated MOH	Expected Activity		
		Total	Long	Skim
Engineering (Engineering Hours)	\$100,000	500	200	300
Assembly (Assembly Hours)	150,000	7,500	5,000	2,500
Maintenance (Maintenance Hours)	80,000	1,000	700	300
	<u>\$330,000</u>			

During the year, the following actual costs and activities occurred:

Activity (Cost Driver)	Actual MOH	Actual Activity		
		Total	Long	Skim
Engineering (Engineering Hours)	\$75,000	300	125	175
Assembly (Assembly Hours)	125,000	7,000	4,800	2,200
Maintenance (Maintenance Hours)	50,000	600	400	200
	<u>\$250,000</u>			

**Required:**

- a.) Compute the activity rate of each of the cost pools.
- b.) Given the actual activity levels, how much overhead would be applied to each product line and how much overhead would be applied in total?
- c.) How does the applied MOH compare to the actual MOH, by how much is overhead overapplied, or underapplied?
- d.) Record the following:
  - i. The journal entry for ACTUAL MOH (Credit Accounts Payable)
  - ii. The journal entry for APPLYING MOH based on your calculations in b.)
  - iii. The adjustment to overapplied or underapplied MOH through Cost of Goods Sold

Members Video (Ad Free): <https://www.youtube.com/watch?v=3cw1qIQlluI>

# Module 5: Cost Behaviour

**Module Intro Video:**

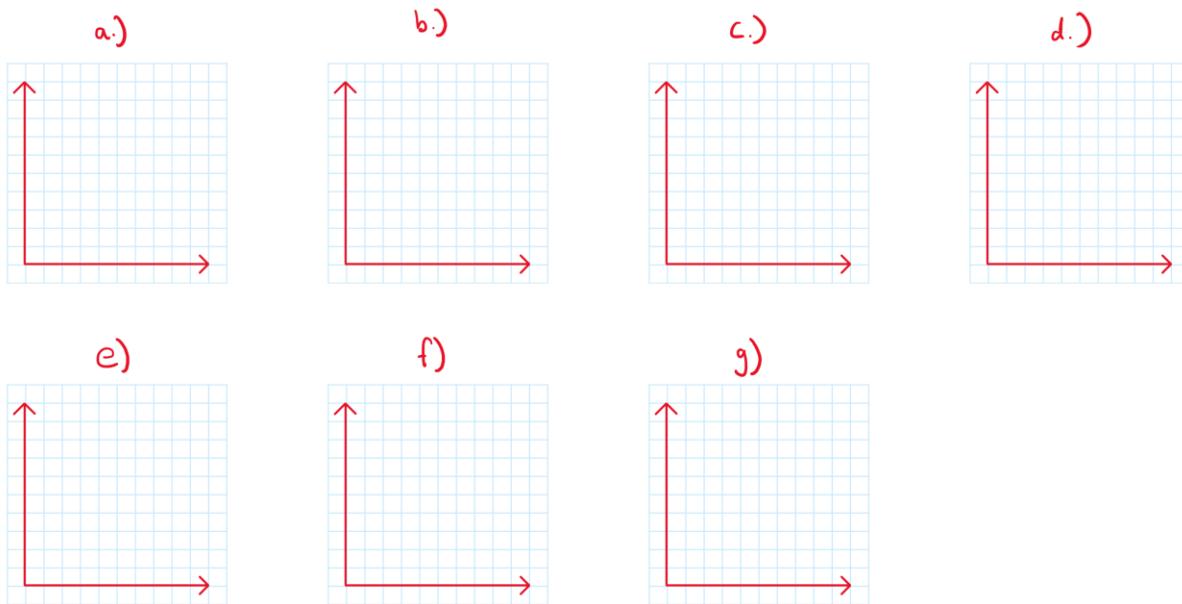
**Free Video:** <https://www.youtube.com/watch?v=r6ONaC1VFRY>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=Txkjftsysug>

## 5-1A – Graphing Cost Behaviour

For each of the following costs, prepare a ROUGH graph that illustrates the cost behaviour. The y-axis will be the cost and the x-axis will be the activity level.

- a.) Cost of a cell phone plan. The plan charges a flat rate of \$10 per month for unlimited calling and text messaging + \$5/Gigabyte. (The activity is data usage)
- b.) Cost of plastic used in manufacturing small garbage bins. Each bin takes 600 grams of plastic. (The activity is the number of bins manufactured.)
- c.) Cost of rent on an automotive parts manufacturing factory. (The activity is the number of good parts produced.)
- d.) Cost of professors' salaries to teach introductory accounting. Cost is \$5,000 per class section. Sections have a maximum size of 50 students. The university typically has between 120 and 220 students enrolled in the course. (The activity is the number of students).
- e.) Staffing costs at a pipe manufacturer. Each employee can make 10 pipes per day and is paid a salary of \$80 per day. (Activity level is the number of pipes ordered per day.)
- f.) Cost of private jet rental. The cost is \$500 per hour for the first 4 hours and \$300 per hour thereafter. (The activity is rental-hours).
- g.) The cost of a rental car. The cost is a flat rate of \$50 per day and the first 40 kilometers are included, then \$0.50 per kilometer above the first 40 kilometers. (The activity is the number of kilometers driven.)



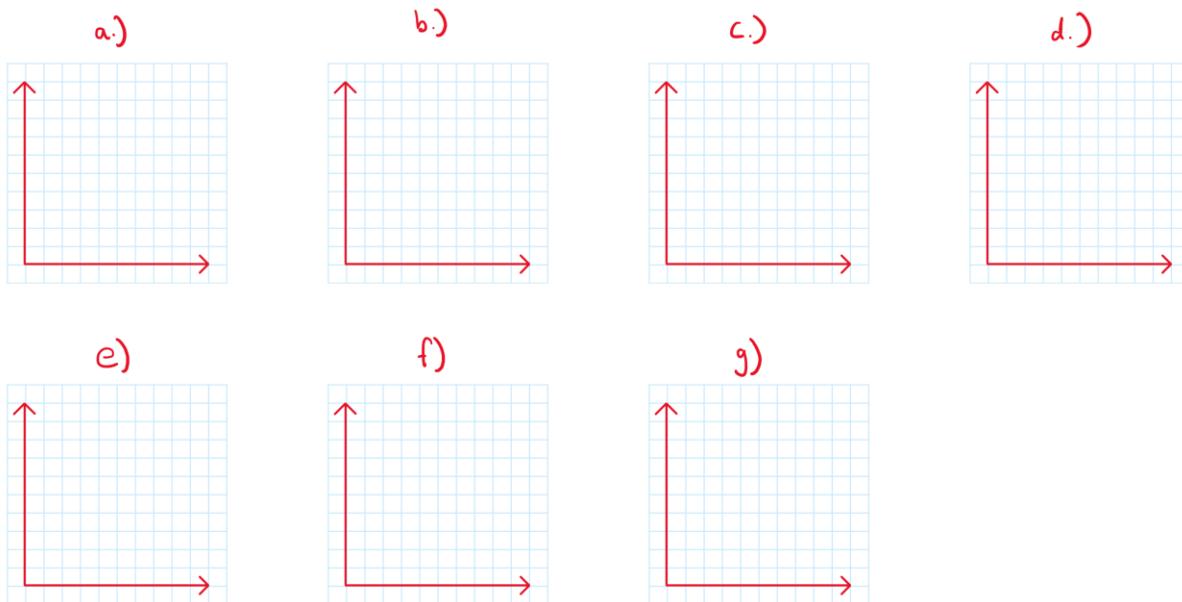
Free Video: <https://www.youtube.com/watch?v=p3xd2fEEsAg>

Members Video (Ad Free): <https://www.youtube.com/watch?v=IAAHk56Pt4E>

## 5-1B – Graphing Cost Behaviour

For each of the following costs, prepare a ROUGH graph that illustrates the cost behaviour. The y-axis will be the cost and the x-axis will be the activity level.

- a.) The cost of ski season's pass. The pass costs \$750 and is usable for the full ski season. (Activity is number of ski trips.)
- b.) Electricity cost. The cost is \$10 per month plus \$0.10 per kWh for the first 1,000 kWh and \$0.15 per kWh thereafter. (Activity is the number of kWh. – kWh = kilowatt hours)
- c.) Cost of beverage syrup for a restaurant. The cost is \$0.25/liter for the first 100 liters of an order, \$0.20 per liter for the next 100 liters of an order, and \$0.18/liter thereafter. (Activity is the number of liters ordered.)
- d.) Cost of mufflers in the manufacture of cars. Each car requires one muffler. Mufflers cost the company \$100 each. (Activity is the number of cars produced).
- e.) Cost of a "Vacation Club" membership where customers pay \$5,000 per year to become members, then pay a \$75 fee per night of use. (Activity is the number of days used).
- f.) Customer support staff costs. For each 10,000 customers, one full time customer support employee is required. Assume employees are paid a fixed salary. (Activity is the number of customers.)
- g.) Wages cost for staff at a construction site. Employees are paid \$15/hour, but must be paid for a minimum of two hours and in two-hour increments. (The activity is hours worked).



Members Video (Ad Free): [https://www.youtube.com/watch?v=f1ZTz\\_nqurk](https://www.youtube.com/watch?v=f1ZTz_nqurk)

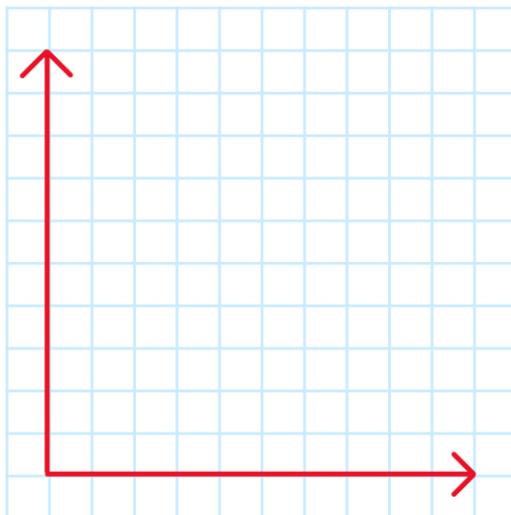
### 5-2A – High-Low Method, Scattergraph, Least-squares Regression

Danny Office Supplies shows the following data related to shipping costs for the first six months of the year:

	Number of Packages Shipped	Shipping Cost
January	100	\$1,200
February	120	1,300
March	125	1,350
April	130	1,500
May	110	1,400
June	90	1,100

**Required:**

- a.) Using the high-low method, estimate the cost formula (write it in  $y=mx+b$  format).
  - i. Using your answer from part a.) above, assuming in July the company expects to ship 150 packages, what will be the company's estimated shipping cost.
- b.) Using the scattergraph method, estimate the cost formula. A 10x10 grid is provided below:



- c.) Using the least squares regression method, estimate the cost formula.
- d.) Are there any factors other than the number of packages shipped that may contribute to a variation in shipping cost?

Free Videos:		Members Ad Free Videos:	
Part 1	<a href="https://youtu.be/u_sXVsOmZXs">https://youtu.be/u_sXVsOmZXs</a>	Part 1	<a href="https://youtu.be/RqqSMd5T-wo">https://youtu.be/RqqSMd5T-wo</a>
Part 2	<a href="https://youtu.be/UYuonT5vUoM">https://youtu.be/UYuonT5vUoM</a>	Part 2	<a href="https://youtu.be/2KRrcbzOPH4">https://youtu.be/2KRrcbzOPH4</a>
Part 3	<a href="https://youtu.be/vzncVTM4A3k">https://youtu.be/vzncVTM4A3k</a>	Part 3	<a href="https://youtu.be/vr6KcSWm1IY">https://youtu.be/vr6KcSWm1IY</a>

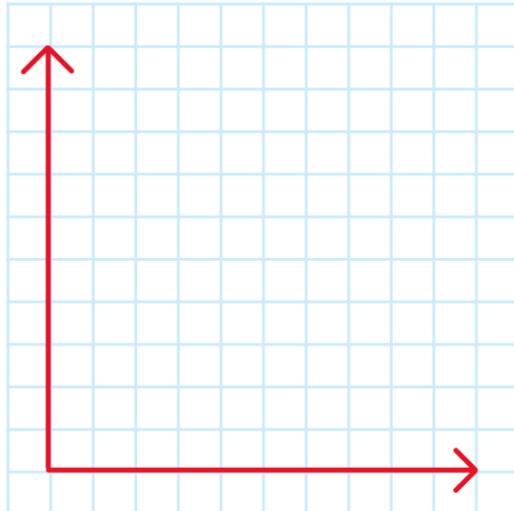
### 5-2B – High-Low Method, Scattergraph, Least-squares Regression

Pane of Glass Inc. produces custom glasswork for high-end homes and buildings. The following cost data relate to the company's labour costs.

	Units Produced	Labour Cost
July	400	\$15,000
August	300	13,000
September	320	13,200
October	350	13,800
November	420	16,000
December	410	14,800

**Required:**

- a.) Using the high-low method, estimate the cost formula (write it in  $y=mx+b$  format).
  - i. Using your answer from part a.) above, assuming in the following month the company expects to make 250 units, what will be the company's estimated labour cost.
- b.) Using the scattergraph method, estimate the cost formula. A 10x10 grid is provided:



- c.) Using the least squares regression method, estimate the cost formula.
- d.) Are there any factors other than the number of units produced that may contribute to a variation in labour cost?

**Members Video (Ad Free): [https://www.youtube.com/watch?v=\\_hzMkYApJzk](https://www.youtube.com/watch?v=_hzMkYApJzk)**

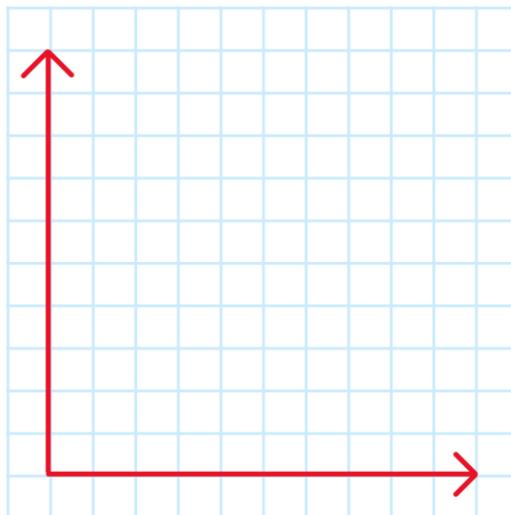
### 5-3A – High-Low Method, Scattergraph, Least-squares Regression

Bill's Burger Restaurant has noticed a strong correlation between the number of customers served and the monthly maintenance costs:

	Number of Customers	Maintenance Cost
January	1,300	\$4,000
February	1,400	4,100
March	1,600	4,400
April	1,650	5,000
May	1,500	4,250
June	1,700	4,800

**Required:**

- a.) Using the high-low method, estimate the cost formula (write it in  $y=mx+b$  format).
  - i. Using your answer from part a.) above, assuming in July the company expects to have 2,000 customers, what will be the company's estimated maintenance cost.
- b.) Using the scattergraph method, estimate the cost formula. A 10x10 grid is provided:



- c.) Using the least squares regression method, estimate the cost formula.
- d.) Are there any factors other than the number of customers that may contribute to a variation in maintenance cost?

**Members Video (Ad Free): [https://www.youtube.com/watch?v=MapuSG\\_Phbk](https://www.youtube.com/watch?v=MapuSG_Phbk)**

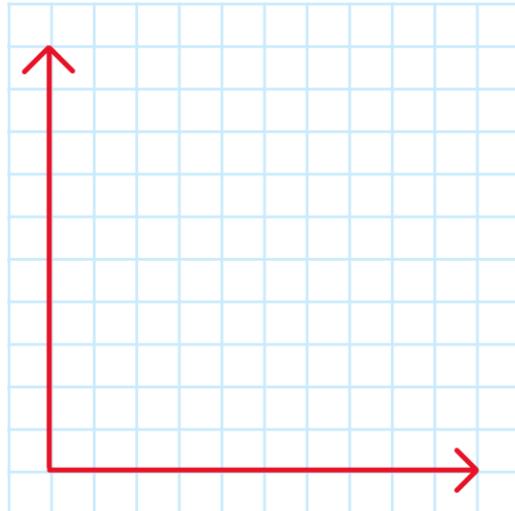
### 5-3B – High-Low Method, Scattergraph, Least-squares Regression

Charming Clothiers manufactures neckties and bow ties. The company has the following cost data:

	Units Produced	Utilities Cost
July	200	\$800
August	220	810
September	250	880
October	350	950
November	300	900
December	150	850

**Required:**

- a.) Using the high-low method, estimate the cost formula (write it in  $y=mx+b$  format).
  - i. Using your answer from part a.) above, assuming in the following month the company expects to make 100 units, what will be the company's estimated utilities cost.
- b.) Using the scattergraph method, estimate the cost formula. A 10x10 grid is provided:



- c.) Using the least squares regression method, estimate the cost formula.
- d.) Are there any factors other than the number of units produced that may contribute to a variation in utilities cost?

Members Video (Ad Free): <https://www.youtube.com/watch?v=Gz2F3sleID4>

# Module 6: Cost-Volume-Profit Analysis

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=1KTnuycYtas>

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=XSY\\_zanwDIk](https://www.youtube.com/watch?v=XSY_zanwDIk)

## **Cost Volume Profit Formulas**

1. Contribution Margin = Sales Revenue – Variable Expenses
2. CM per Unit = Selling Price per Unit – Variable Expenses per Unit
3. Contribution Margin Ratio =  $\frac{CM}{Sales\ Revenue}$
4. Breakeven point in Units =  $\frac{Fixed\ Expenses}{CM/unit}$
5. Breakeven point in Dollars = B/E Units x Selling Price per Unit
6. Breakeven point in Dollars =  $\frac{Fixed\ Expenses}{CM\ Ratio}$
7. Target Sales in Units =  $\frac{(Fixed\ Expenses + Target\ Operating\ Income)}{CM/unit}$
8. Target Sales in Dollars =  $\frac{(Fixed\ Expenses + Target\ Operating\ Income)}{CM\ ratio}$
9. Operating Leverage =  $\frac{CM}{Operating\ income}$
10. Safety Margin =  $\frac{(Budgeted\ Sales - Breakeven\ Sales)}{Budgeted\ Sales}$

### **6-1A – CVP Analysis, Margin of Safety, Degree of Operating Leverage**

Charming Clothiers manufactures neckties. The company has the following information:

The company's sales price is \$30 per unit. The variable cost of producing neckties is \$18 per unit. The company expects to have fixed costs of \$60,000 next year. The company expects to sell 8,000 neckties next year. Assume no taxes.

***Required:***

- a.) Calculate the breakeven point in units.
- b.) Calculate the breakeven point in dollars.
- c.) How many units must the company sell to reach a target operating income of \$50,000?
- d.) Prepare a budgeted contribution format income statement.
- e.) Compute the margin of safety – state your answer as a percentage.
- f.) Compute the degree of operating leverage.
- g.) If sales increase by 20% in the following year, how much would operating income increase (use the degree of operating leverage to compute your answer).

**Free Video:**

Part 1: <https://www.youtube.com/watch?v=9bAFjI2OXzk>

Part 2: <https://www.youtube.com/watch?v=Ea7sXAGTGXE>

**Members Video (Ad Free):**

Part 1: <https://www.youtube.com/watch?v=KcC8N1Idh6M>

Part 2: <https://www.youtube.com/watch?v=nQlyZ7ea-Ok>

### **6-1B – CVP Analysis, Margin of Safety, Degree of Operating Leverage**

Flora's Flats produces comfortable and portable women's shoes designed to be worn as a second pair of shoes after a formal event. The company has the following financial information:

The company's sales price is \$20 per unit. The variable cost of producing flats is \$6 per unit. The company expects to have fixed costs of \$10,000 next year. The company expects to sell 1,000 pairs of flats next year. Assume no taxes.

***Required:***

- a.) Calculate the breakeven point in units.
- b.) Calculate the breakeven point in dollars.
- c.) How many units must the company sell to reach a target operating income of \$25,000?
- d.) Prepare a budgeted contribution format income statement.
- e.) Compute the margin of safety.
- f.) Compute the degree of operating leverage.
- g.) If sales increase by 20% in the following year, how much would operating income increase (use the degree of operating leverage to compute your answer).

**Members Video (Ad Free): <https://www.youtube.com/watch?v=QBmfp5pT-Vo>**

## **6-2A – Breakeven Calculations (WITH Taxes!)**

Harry's Hats manufactures hats. The company has the following information:

The company's sales price is \$25 per unit. The variable cost of producing hats is \$9 per unit. The company expects to have fixed costs of \$100,000 next year. The company expects to sell 20,000 hats next year. The tax rate is 20%.

***Required:***

- a.) Calculate the breakeven point in units.
- b.) How many units must the company sell to reach a target net income (after tax) of \$200,000?

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=ZcThHoCkjE>

### **6-2B – Breakeven Calculations (WITH Taxes!)**

Steve's Socks manufactures socks. The company has the following information:

The company's sales price is \$15 per unit (the unit is a "pair of socks"). The variable cost of producing socks is \$6 per unit. The company expects to have fixed costs of \$36,000 next year. The company expects to sell 10,000 units next year. The tax rate is 20%.

***Required:***

- a.) Calculate the breakeven point in units.
- b.) How many units must the company sell to reach a target net income (after tax) of \$50,000?

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=-TnNXLj6qPA>

### 6-3A – CVP Analysis, “What if?” Analysis

Hewins Inc’s projected contribution-format income statement for the upcoming year is shown below (assume no taxes):

	Per Unit	Total (10,000 units)	Percentage
Sales (10,000 units)		\$2,000,000	
Variable expenses		1,400,000	
Contribution margin		600,000	
Fixed expenses		480,000	
Operating income		<u>\$120,000</u>	

**Required:**

- a.) Compute the breakeven point in units.
- b.) Compute the breakeven point in dollars.
- c.) If the company wishes to earn a target operating income of \$300,000, how many units must be sold?
- d.) Compute the company’s margin of safety.
- e.) The company’s manager thinks that increasing advertising by \$150,000 will increase sales by \$250,000. If he is correct, what will be the net dollar advantage or disadvantage of making this change?
- f.) Refer to the original data, the company’s manager believes that using a slightly cheaper direct material will decrease variable expenses (per unit) by 10% will reduce units sold by 5%. If he is correct, what will be the net dollar advantage or disadvantage of making this change?

**Free Video:** <https://www.youtube.com/watch?v=xo1vVBkaHsY>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=-uvXYxVLsso>

### 6-3B – CVP Analysis, “What if?” Analysis

Kevin Co.’s projected contribution-format income statement for the upcoming month is shown below (assume no taxes):

	Per Unit	Total (500 units)	Percentage
Sales (500 units)		\$10,000	
Variable expenses		<u>4,000</u>	
Contribution margin		6,000	
Fixed expenses		<u>1,200</u>	
Operating income		<u><u>\$4,800</u></u>	

***Required:***

- a.) Compute the breakeven point in units.
- b.) Compute the breakeven point in dollars.
- c.) If the company wishes to earn a monthly target operating income of \$10,000, how many units must be sold each month?
- d.) Compute the company’s margin of safety.
- e.) The company’s manager thinks that adding a salaried sales staff member at a cost of \$2,000 per month will increase sales by \$4,000 per month. If he is correct, what will be the net dollar advantage or disadvantage of making this change?
- f.) Refer to the original data, the company’s manager believes that a new production process will improve profitability. He plans to add new machinery that will cut variable expenses in half. This will increase fixed expenses by \$3,000. He expects after this change the company’s unit sales will increase by 25%. If he is correct, what will be the net dollar advantage or disadvantage of making this change?

Members Video (Ad Free): <https://www.youtube.com/watch?v=vY3-cxrv1pE>

### **6-4A – Multi-product CVP**

Awesome Axes sells electric guitars. The company sells three models of guitar: Enthusiast, Jammer and Pro.

Information relating to next year's budget for the three models follows:

	Enthusiast	Jammer	Pro
Expected sales (units)	600	350	50
Sales price	\$200	\$500	\$3,000
Variable cost	\$120	\$200	\$800

The company has annual fixed costs of \$200,000 and a tax rate of 25%.

***Required:***

- a.) Compute the company's expected profit (net income) for the upcoming fiscal period.
- b.) Compute the company's sales mix.
- c.) Assuming a consistent sales mix, how many units of each product type must the company sell to break even?
- d.) Assuming a consistent sales mix, if the company wishes to earn net income of \$300,000, how many units of each product type must be sold?
- e.) Compute the margin of safety.

Free Video: <https://www.youtube.com/watch?v=swLoYRgFarc>

Members Video (Ad Free): <https://www.youtube.com/watch?v=3d2vaJUkXJY>

### **6-4B – Multi-product CVP**

Tony's is a Pizzeria located near a local university. The restaurant not only sells two types of pizza: Thin Crust and Deep Dish, but also sells Pasta.

Information relating to the three products for the next month follows:

	Thin Crust	Deep Dish	Pasta
Expected sales (units)	1,000	400	200
Sales price	\$15	\$20	\$12
Variable cost	\$6	\$8	\$5

The company has monthly fixed costs of \$10,000 and a tax rate of 20%.

***Required:***

- a.) Compute the company's expected profit (net income) for the upcoming fiscal period.
- b.) Compute the company's sales mix.
- c.) Assuming a consistent sales mix, how many units of each product type must the company sell to break even?
- d.) Assuming a consistent sales mix, if the company wishes to earn monthly net income of \$25,000, how many units of each product type must be sold?
- e.) Compute the margin of safety.

**Members Video (Ad Free): <https://www.youtube.com/watch?v= ltf433NuDA>**

# Module 7: Variable vs Absorption Costing

**Module Intro Video:**

Free Video: [https://www.youtube.com/watch?v=uKN-lPp0X\\_Y](https://www.youtube.com/watch?v=uKN-lPp0X_Y)

Members Video (Ad Free): <https://www.youtube.com/watch?v=Wz5B9S4u3ek>

### **7-1A – Variable vs Absorption Costing**

May Company began operations at the start of the year. Details about the company's activities are below:

#### ***Inventory and Production:***

Beginning inventory:	0
Number of units produced:	100,000
Number of units sold:	95,000
Sales Price:	\$20/unit
Ending inventory:	???

#### ***Manufacturing Costs:***

Direct materials used	\$4/unit
Direct labour	\$2/unit
Variable overhead	\$3/unit
Fixed overhead	\$400,000 (Total)

#### ***Selling and Administrative Costs:***

Variable selling and admin costs	\$5/unit
Fixed selling and admin costs	\$120,000 (Total)

#### ***Required:***

- a.) Calculate the cost per unit under:
  - i. Variable Costing
  - ii. Absorption Costing
- b.) What is the ending inventory value under:
  - i. Variable Costing
  - ii. Absorption Costing
- c.) Assuming no taxes, prepare an income statement under:
  - i. Variable Costing
  - ii. Absorption Costing

Free Video: <https://www.youtube.com/watch?v=L4irOrvfGFk>

Members Video (Ad Free): <https://www.youtube.com/watch?v=PiDuMAuI1Mg>

### 7-1B – Variable vs Absorption Costing

June Company began operations at the start of the year. Details about the company's activities are below:

#### *Inventory and Production:*

Beginning inventory:	0
Number of units produced:	50,000
Number of units sold:	47,000
Sales Price:	\$50/unit
Ending inventory:	???

#### *Manufacturing Costs:*

Direct materials used	\$2/unit
Direct labour	\$9/unit
Variable overhead	\$5/unit
Fixed overhead	\$600,000 (Total)

#### *Selling and Administrative Costs:*

Variable selling and admin costs	\$4/unit
Fixed selling and admin costs	\$630,000 (Total)

#### *Required:*

- a.) Calculate the cost per unit under:
  - i. Variable Costing
  - ii. Absorption Costing
- b.) Assuming no taxes, prepare an income statement under:
  - i. Variable Costing
  - ii. Absorption Costing

Members Ad Free Video: <https://www.youtube.com/watch?v=n6U2YYVyqPo>

## 7-2A – Variable vs Absorption Costing (over multiple months)

Details about Pete Company's activities for its first two months in business are below:

### **Inventory and Production:**

	<b>August</b>	<b>September</b>
Number of units produced:	10,000	10,000
Number of units sold:	9,000	10,250
Sales Price:	\$50	\$50

### **Manufacturing Costs:**

Variable Manufacturing Costs (DM+DL+VMOH)	\$20	\$20
Fixed Manufacturing Costs (Fixed MOH)	\$100,000	\$100,000

### **Selling and Administrative Costs:**

Variable Selling and Admin	\$6	\$6
Fixed Selling and Admin	\$50,000	\$50,000

### **Required:**

- a.) Calculate the cost per unit under:
  - i. Variable Costing
  - ii. Absorption Costing
- b.) What is the ending inventory for August under:
  - i. Variable Costing
  - ii. Absorption Costing
- c.) What is the ending inventory for September under:
  - i. Variable Costing
  - ii. Absorption Costing
- d.) Assuming no taxes, prepare an income statement under:
  - i. Variable Costing (make separate columns for each month)
  - ii. Absorption Costing (make separate columns for each month)
- e.) Which method (absorption costing or variable costing) has higher net income in August?  
Which method has higher net income in September? Why is this?

Free Video: <https://www.youtube.com/watch?v=fS9DqKq9G1Q>

Members Video (Ad Free): <https://www.youtube.com/watch?v=6WUZXSRR5YA>

## 7-2B – Variable vs Absorption Costing (over multiple months)

Details about Gus Company's activities for its first two months are shown below:

### **Inventory and Production:**

	<b>March</b>	<b>April</b>
Number of units produced:	4,000	4,000
Number of units sold:	3,000	4,500
Sales Price:	\$30	\$30

### **Manufacturing Costs:**

Variable Manufacturing Costs (DM+DL+VMOH)	\$9	\$9
Fixed Manufacturing Costs (Fixed MOH)	\$20,000	\$20,000

### **Selling and Administrative Costs:**

Variable Selling and Admin	\$3	\$3
Fixed Selling and Admin	\$10,000	\$10,000

### **Required:**

- a.) Calculate the cost per unit under:
  - i. Variable Costing
  - ii. Absorption Costing
- b.) What is the ending inventory for March under:
  - i. Variable Costing
  - ii. Absorption Costing
- c.) What is the ending inventory for April under:
  - i. Variable Costing
  - ii. Absorption Costing
- d.) Assuming no taxes, prepare an income statement under:
  - i. Variable Costing (make separate columns for each month)
  - ii. Absorption Costing (make separate columns for each month)
- e.) Which method (absorption costing or variable costing) has higher net income in March?  
Which method has higher net income in April? Why is this?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=u5xuhk4VSG4>**

### 7-3A –Absorption Costing and Production Distortions

August Company began operations at the start of the year. Details about the company's activities are below:

#### **Inventory and Production:**

Beginning inventory:	0
Number of units produced:	See Required a.)
Number of units sold:	8,000
Sales Price:	\$100/unit
Ending inventory:	???

#### **Manufacturing Costs:**

Direct materials used	\$25/unit
Direct labour	\$12/unit
Variable overhead	\$10/unit
Fixed overhead	\$150,000 (Total)

#### **Selling and Administrative Costs:**

Variable selling and admin costs	\$5/unit
Fixed selling and admin costs	\$100,000 (Total)

#### **Required:**

- a.) Calculate the cost per unit under Absorption Costing assuming the company produced:
  - i. 10,000 units
  - ii. 20,000 units
- b.) Assuming no taxes, prepare an income statement assuming the company produced:
  - i. 10,000 units
  - ii. 20,000 units
- c.) Why are the answers in part b.) above so different? Why is this difference a potential problem?

Free Video: [https://www.youtube.com/watch?v=zSL\\_TRoSOiY](https://www.youtube.com/watch?v=zSL_TRoSOiY)

Members Video (Ad Free): [https://www.youtube.com/watch?v=G0BgGVER\\_kQ](https://www.youtube.com/watch?v=G0BgGVER_kQ)

### 7-3B –Absorption Costing and Production Distortions

July Company began operations at the start of the year. Details about the company's activities are below:

#### *Inventory and Production:*

Beginning inventory:	0
Number of units produced:	See Required a.)
Number of units sold:	24,000
Sales Price:	\$45/unit
Ending inventory:	???

#### *Manufacturing Costs:*

Direct materials used	\$6/unit
Direct labour	\$2/unit
Variable overhead	\$4/unit
Fixed overhead	\$400,000 (Total)

#### *Selling and Administrative Costs:*

Variable selling and admin costs	\$3/unit
Fixed selling and admin costs	\$200,000 (Total)

#### *Required:*

- a.) Calculate the cost per unit under Absorption Costing assuming the company produced:
  - i. 25,000 units
  - ii. 50,000 units
- b.) Assuming no taxes, prepare an income statement assuming the company produced:
  - i. 25,000 units
  - ii. 50,000 units
- c.) Why are the answers in part b.) above so different? Why is this difference a potential problem?

Members Video (Ad Free): <https://www.youtube.com/watch?v=mm0At0jJJ3Q>

# Module 8: Budgeting

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=spA1seSKfFI>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=HptqKpbUzTc>

### **8-1A - Sales Budget and Schedule of Expected Cash Collections**

Baker Company shows the following estimates for unit sales for next year:

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Year</b>
Units sold	11,000	12,000	14,000	13,000	50,000

The company expects to sell its goods for \$50 per unit.

***Required:***

- a.) Prepare a sales budget for the year ended December 31.


Additional information:

The company expects to collect 70% of sales in the quarter of the sale, and 25% in the quarter following the sale. 5% of sales are expected to be uncollectible. The company's beginning accounts receivable was \$125,000, all of which was expected to be collected in the first quarter.

***Required:***

- b.) Prepare a schedule of expected cash collections for the year ended December 31.


**Free Video:** <https://www.youtube.com/watch?v=Jzvg3-yK8UI>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=dUx--MDxkP8>

## **8-1B - Sales Budget and Schedule of Expected Cash Collections**

Green Company shows the following estimates for unit sales for next year:

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Year</b>
Units sold	1,000	1,200	1,250	2,100	5,550

The company expects to sell its goods for \$12 per unit.

***Required:***

- a.) Prepare a sales budget for the year ended December 31.


## Additional information

The company expects to collect 90% of sales in the quarter of the sale, and 8% in the quarter following the sale. 2% of sales are expected to be uncollectible. The company's beginning accounts receivable was \$900, all of which was expected to be collected in the first quarter.

***Required:***

- b.) Prepare a schedule of expected cash collections for the year ended December 31.

Members Video (Ad Free): <https://www.youtube.com/watch?v=n5-mbPJQCcQ>

## **8-2A - Production Budget**

Danny Company shows the following estimates for unit sales for the first quarter of its upcoming fiscal year:

	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Units sold	3,000	3,500	4,500	11,000

The company requires finished goods inventory on hand equal to 20% of the next month's expected sales.

The company expects to begin January with 600 units in inventory. The expected unit sales for April are 5,000.

**Required:**

Prepare a production budget for the quarter.


**Free Video:** <https://www.youtube.com/watch?v=XSmfrecati0>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=ar4gQhMyg70>

## 8-2B - Production Budget

Joanne Company shows the following estimates for unit sales for the third quarter of its upcoming fiscal year:

	July	August	September	Quarter
Units sold	5,000	4,000	3,500	12,500

The company requires finished goods inventory on hand equal to 30% of the next month's expected sales.

The company expects to begin July with 1,500 units in inventory. The expected unit sales for October are 3,800.

**Required:**

Prepare a production budget for the quarter.


**Members Video (Ad Free): <https://www.youtube.com/watch?v=dunhp0xORAAo>**

## **8-3A – Materials Purchases Budget**

Sheng Company manufactures faux-leather bags. Each bag takes 0.5 yards of material. The material costs \$5 per yard. The company had 1,500 yards of material on hand at the beginning of January and required enough ending monthly materials to be on hand to meet 10% of the following month's production requirements.

The company's production budget follows:

	January	February	March	Quarter
Required Production	30,000	35,000	38,000	103,000

The company expects to produce 40,000 units in April.

## **Required:**

Prepare a materials purchases budget for the quarter. Provide both the number of yards, and dollar value of inventory to be purchased.

Free Video: <https://www.youtube.com/watch?v=poAxyIHIWJM>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=FADN26RSIY0>

## **8-3B – Materials Purchases Budget**

Brown Company manufactures wood tables. Each table requires 15 board-feet of wood. Wood costs \$6 per board foot. The company had 2,000 board feet wood on hand at the beginning of July and required enough wood inventory to be on hand to meet 20% of the following month's production requirements.

	<b>July</b>	<b>August</b>	<b>September</b>	<b>Quarter</b>
Required Production	5,000	7,000	10,000	22,000

The company expects to produce 8,000 units in October.

## **Required:**

Prepare a materials purchases budget for the quarter. Provide both the number of board feet, and dollar value of inventory to be purchased.

Members Video (Ad Free): <https://www.youtube.com/watch?v=A9QshcoQmIw>

## **8-4A – Direct Labour Budget**

McCluskey Company's production requirements are as follows:

	January	February	March	Quarter
Units to be produced	11,000	10,500	12,000	33,500

Each unit requires two direct labour hours to produce and workers are paid \$30.00 per hour.

## **Required**

- a.) Assuming a completely flexible labour force, prepare the company's direct labour budget for the quarter.

- b.) Refer to the original data. Assume the company has permanent employees who are guaranteed to be paid for at least 20,000 hours of work per month. Any amount of work above 20,000 hours will be paid at 1.5 times their normal hourly rate. Please include the "Overtime Premium" for each month.

**Free Video:** <https://www.youtube.com/watch?v=6vWUHsmH3kk>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=CikMQIx97VE>

## **8-4B – Direct Labour Budget**

McFarlane Company's production requirements are as follows:

	April	May	June	Quarter
Units to be produced	17,000	20,000	18,000	55,000

Each unit requires 1.5 direct labour hours to produce and workers are paid \$20.00 per hour.

## **Required**

- a.) Assuming a completely flexible labour force, prepare the company's direct labour budget for the quarter.

- b.) Refer to the original data. Assume the company has permanent employees who are guaranteed to be paid for at least 25,000 hours of work per month. Any amount of work above 25,000 hours will be paid at 1.5 times their normal hourly rate. Please include the "Overtime Premium" for each month.

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=u1IsM3imOTk>

### **8-5A – Manufacturing Overhead Budget**

Plural Inc. budgets direct labour hours for the first quarter as follows:

	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Direct labour hours	75,000	80,000	95,000	250,000

The company's variable overhead rate is \$10 per direct labour hour. The company's fixed overhead is \$100,000 per month – this number includes monthly depreciation of \$25,000.

#### **Required**

Prepare the company's manufacturing overhead budget for the quarter. Show both total manufacturing overhead, and cash paid for manufacturing overhead.


**Free Video:** <https://www.youtube.com/watch?v=KdUQ3b93FIU>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=3cT0J7e34tQ>

## 8-5B – Manufacturing Overhead Budget

Singular Company budgets machine hours for the first quarter as follows:

	October	November	December	Quarter
Machine hours	200	160	180	540

The company's variable overhead rate is \$5 per machine hour. The company's fixed overhead is \$2,000 per month – this number includes monthly depreciation of \$500.

### Required

Prepare the company's manufacturing overhead budget for the quarter. Show both total manufacturing overhead, and cash paid for manufacturing overhead.


Members Video (Ad Free): <https://www.youtube.com/watch?v=F36rjaEASzE>

## **8-6A – Selling and Administrative Expenses Budget**

The budgeted unit sales for Jana Corporation for the upcoming quarter are as follows:

	July	August	September	Quarter
Units sold	30,000	25,000	22,000	77,000

### *Details about expenses:*

Variable Expenses		Fixed Expenses	
Shipping	\$2.00 per unit	Advertising	\$75,000 per month
Sales commissions	\$5.00 per unit	Executive Salaries	\$90,000 per month
Other	\$6.00 per unit	Depreciation	\$20,000 per month

*Additional details:*

Also, executive bonus payments of \$25,000 will be made in the July and September, and a major building repair of \$35,000 will be paid in August.

***Required:***

Prepare the company's selling and administrative budget for the upcoming quarter.

Disclose both total selling and administrative expenses and cash disbursements for selling and administrative expenses.

Free Video: <https://www.youtube.com/watch?v=zp8ZQOHh8nA>

Members Video (Ad Free): <https://www.youtube.com/watch?v=vkCwR01DdMM>

## **8-6B – Selling and Administrative Expenses Budget**

The budgeted unit sales for Chris Corporation for the upcoming quarter are as follows:

	April	May	June	Quarter
Units sold	10,000	15,000	25,000	50,000

#### *Details about expenses:*

Variable Expenses		Fixed Expenses	
Wages	\$4.00 per unit	Rent	\$15,000 per month
Sales commissions	\$1.00 per unit	Salaries	\$35,000 per month
Other	\$3.00 per unit	Depreciation	\$10,000 per month

*Additional details:*

Also, the company expects to pay accounting fees of \$12,000 at the end of April, and employee bonuses of \$30,000 will be paid in June.

**Required:**

Prepare the company's selling and administrative budget for the upcoming quarter.

Disclose both total selling and administrative expenses and cash disbursements for selling and administrative expenses.

**Members Video (Ad Free):** [https://youtu.be/MM\\_e6DwToI0](https://youtu.be/MM_e6DwToI0)

## 8-7A – Cash Budget

Cookie Crunchers had the following estimated cash flows for the first quarter:

	January	February	March	Quarter
Cash receipts	\$50,000	\$140,000	\$90,000	\$280,000
Cash disbursements	80,000	90,000	100,000	270,000

The company begins the quarter with \$20,000 in cash and requires a minimum cash balance of \$10,000. The company may borrow any amount from a local bank at an annual interest rate of 6%. The borrowing must occur at the beginning of any month and all repayments must be made at the end of any month. Interest must be repaid at the time of loan repayment.

***Required:***

In good form, prepare the company's cash budget for the upcoming year.

Free Video: <https://www.youtube.com/watch?v=uC3H2MXgVog>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=0G8wh-xayLs>

## 8-7B – Cash Budget

Corrugated Box Company had the following estimated cash flows for the third quarter:

	August	September	October	Quarter
Cash receipts	\$900,000	\$1,000,000	\$1,300,000	\$3,200,000
Cash disbursements	1,100,000	1,000,000	1,000,000	3,100,000

The company begins the quarter with \$100,000 in cash and requires a minimum cash balance of \$25,000. The company may borrow any amount from a local bank at an annual interest rate of 3%. The borrowing must occur at the beginning of any month and all repayments must be made at the end of any month. Interest must be repaid at the time of loan repayment.

***Required:***

In good form, prepare the company's cash budget for the upcoming year.

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=Z5sXe1YH\\_d0](https://www.youtube.com/watch?v=Z5sXe1YH_d0)

### 8-8A –Cash Budget, Income Statement, Balance Sheet

Mullins Company manufactures didgeridoos. The company's June 30 balance sheet follows:

Mullins Company	
Balance Sheet	
June 30	
	ASSETS
Cash	\$ 20,000
Accounts receivable, net	30,000
Inventory	50,000
Property, plant and equipment, net	150,000
Total assets	<u>\$ 250,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Accounts payable, net	\$ 50,000
Bank loan payable	20,000
Common shares	140,000
Retained earnings	40,000
Total liabilities and shareholders' equity	<u>\$ 250,000</u>

The company shows the following budget items for July:

- a.) Sales are expected to be \$100,000 in July. 60% are expected to be collected in July, 40% will be collected in August.
- b.) The full \$30,000 of accounts receivable on the June 30 balance sheet (above) is expected to be collected in July.
- c.) Cost of goods sold is expected to be 45% of sales.
- d.) The company plans to purchase \$50,000 in inventory during July. The company's purchases are all on account. Of the company's purchases, 20% are paid in the month of the purchase, and 80% are paid in the following month.
- e.) The full \$50,000 of accounts payable on the June 30 balance sheet (above) is expected to be paid off in July.
- f.) The company's operating expenses are expected to be \$40,000 including depreciation of \$1,000. All operating expenses except depreciation are cash expenses.
- g.) The company's bank loan will be paid in full with \$200 interest. The company paid its interest costs monthly, and the \$200 interest payment represents interest from July.
- h.) New equipment costing \$15,000 will be purchased using cash.
- i.) The company wishes to keep a minimum cash balance of \$10,000 and has access to borrow up to \$100,000 from a local bank – any borrowing will occur at the end of the month at an annual interest rate of 12%.

**Required:**

- a.) Compute the expected cash inflows for July.
- b.) Compute the expected cash outflows for July.
- c.) Based on your answers for part a.) and b.), prepare a cash budget for July.
- d.) Prepare a budgeted income statement for July.
- e.) Prepare a balance sheet dated July 31.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=cPTRy6xgyPM>**

### **8-8B –Cash Budget, Income Statement, Balance Sheet**

Noskova Company manufactures boomerangs. The company's September 30 balance sheet follows:

Noskova Company	
Balance Sheet	
September 30	
ASSETS	
Cash	\$ 50,000
Accounts receivable, net	125,000
Inventory	225,000
Property, plant and equipment, net	<u>500,000</u>
Total assets	<u>\$ 900,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Accounts payable, net	\$ 200,000
Bank loan payable	250,000
Common shares	50,000
Retained earnings	<u>400,000</u>
Total liabilities and shareholders' equity	<u>\$ 900,000</u>

The company shows the following budget items for October:

- a.) Sales are expected to be \$600,000 in October. 70% are expected to be collected in October, 30% will be collected in November.
- b.) The full \$125,000 of accounts receivable on the September 30 balance sheet (above) is expected to be collected in October.
- c.) Cost of goods sold is expected to be 40% of sales.
- d.) The company plans to purchase \$300,000 in inventory during October. The company's purchases are all on account. Of the company's purchases, 25% are paid in the month of the purchase, and 75% are paid in the following month.
- e.) The full \$200,000 of accounts payable on the September 30 balance sheet (above) is expected to be paid off in October.
- f.) The company's operating expenses are expected to be \$250,000 including depreciation of \$20,000. All operating expenses except depreciation are cash expenses.
- g.) The company's bank loan will be paid in full with \$2,000 interest. The company paid its interest costs monthly, and the \$2,000 interest payment represents interest from October.
- h.) New equipment costing \$50,000 will be purchased for cash.
- i.) The company wishes to keep a minimum cash balance of \$20,000 and has access to borrow up to \$500,000 from a local bank – any borrowing will occur at the end of the month at an annual interest rate of 6%.

**Required:**

- a.) Compute the expected cash inflows for October.
- b.) Compute the expected cash outflows for October.
- c.) Based on your answers for part a.) and b.), prepare a cash budget for October.
- d.) Prepare a budgeted income statement for October.
- e.) Prepare a balance sheet dated October 31.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=ZSPeu-eSwI>**

# Module 9: Variance Analysis and Flexible Budgeting

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=vQHIpO-4qmI>

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=pj\\_8jKlbAPE](https://www.youtube.com/watch?v=pj_8jKlbAPE)

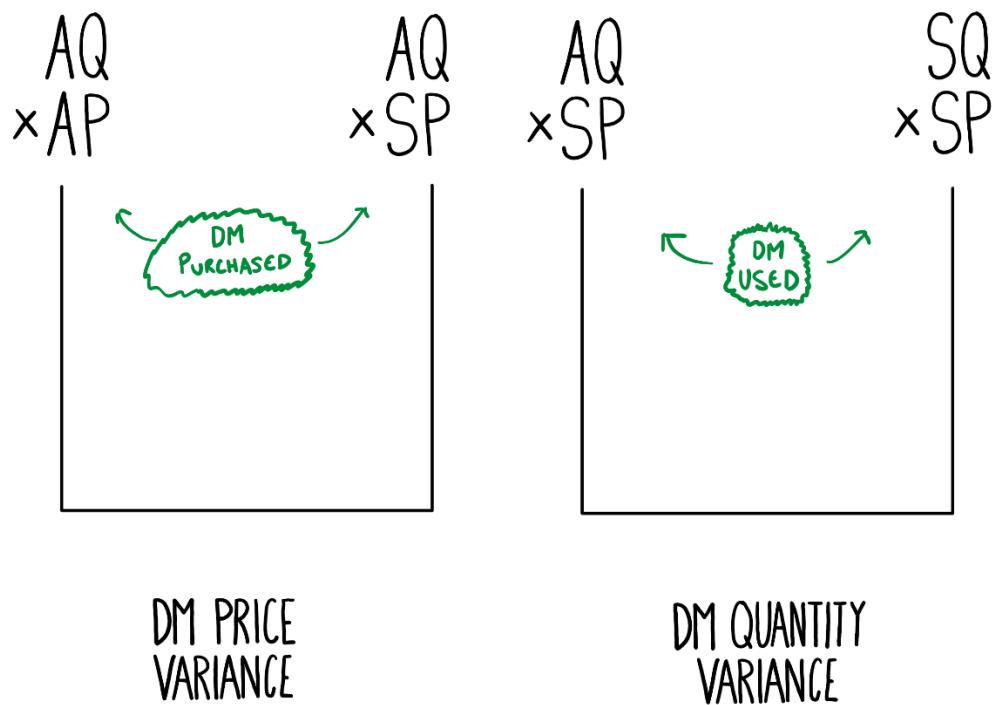
### 9-1A Direct Materials Variances

Steve's Sausages begins business in March. In planning his business, Steve sets the following materials standard: Each sausage should take 250 grams of pork (250 grams = 0.25kgs), and pork should cost \$10 per kilogram, therefore each sausage should contain \$2.50 of direct material.

In March, Steve purchases 80 kilograms of pork for \$740. Steve makes and sells 300 sausages and has 2 kilograms of pork remaining on hand at the end of the month.

**Required:**

Compute the company's direct materials price and quantity variances.



Free Video: [https://www.youtube.com/watch?v=pZjFR\\_jYCMk](https://www.youtube.com/watch?v=pZjFR_jYCMk)

Members Video (Ad Free): <https://www.youtube.com/watch?v=gY4737ENHrY>

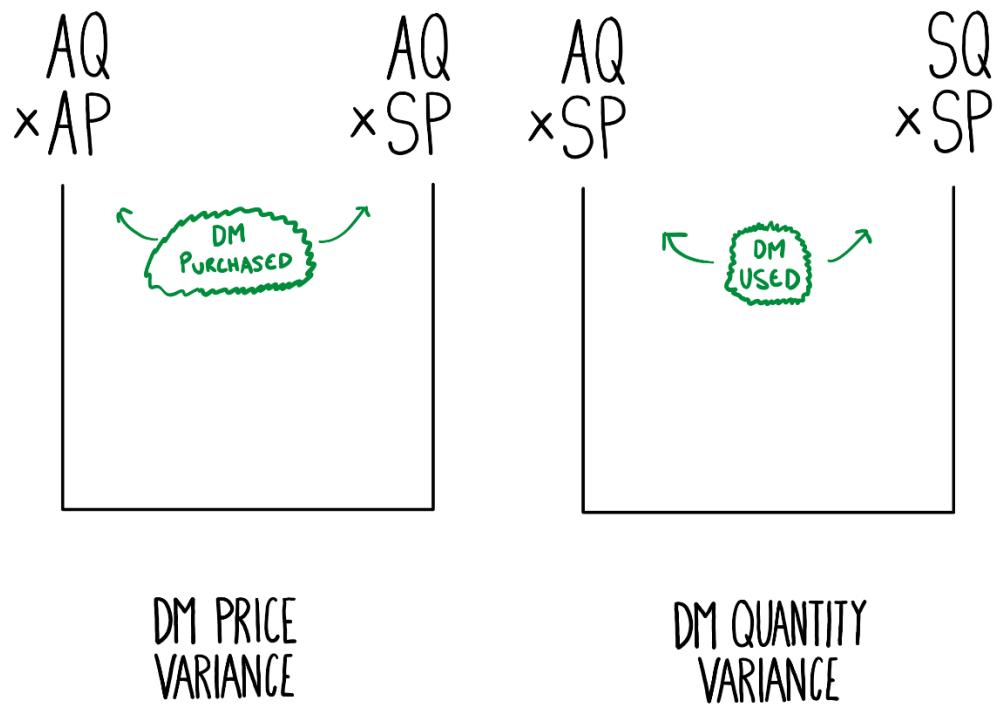
### 9-1B Direct Materials Variances

Relief Inc. manufactures portable toilets for use on construction sites. Each toilet requires 40 kilograms of plastic and plastic is estimated to cost \$5 per kilogram.

At the beginning of June, the company had no plastic inventory on hand. During the month, the company purchased 4,500 kilograms of plastic for \$24,000. The company produced 100 toilets during the month and had 300 kilograms of plastic on hand at the end of the month.

**Required:**

Compute the company's direct materials price and quantity variances.



Members Video (Ad Free): <https://www.youtube.com/watch?v=rXnZeJb00Y0>

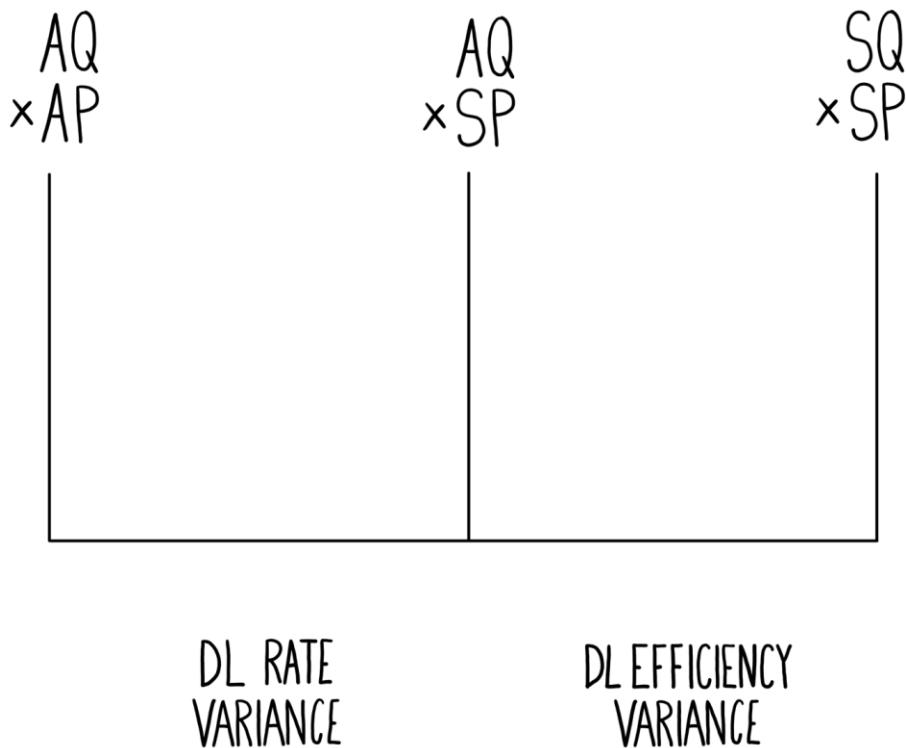
### 9-2A Direct Labour Variances

Frank's Bikes makes fixed gear bicycles. The company set the following standards related to labour: Each bike should take four direct labour hours to manufacture at a cost of \$15 per hour.

For August, the company produced 160 bicycles and employees worked 700 direct labour hours. The company's total labour cost for the month was \$10,000.

**Required:**

Compute the company's direct labour rate and efficiency variances.



Free Video: <https://www.youtube.com/watch?v=dnu4FSvbk3Q>

Members Video (Ad Free): [https://www.youtube.com/watch?v=Kb0\\_Tlv6API](https://www.youtube.com/watch?v=Kb0_Tlv6API)

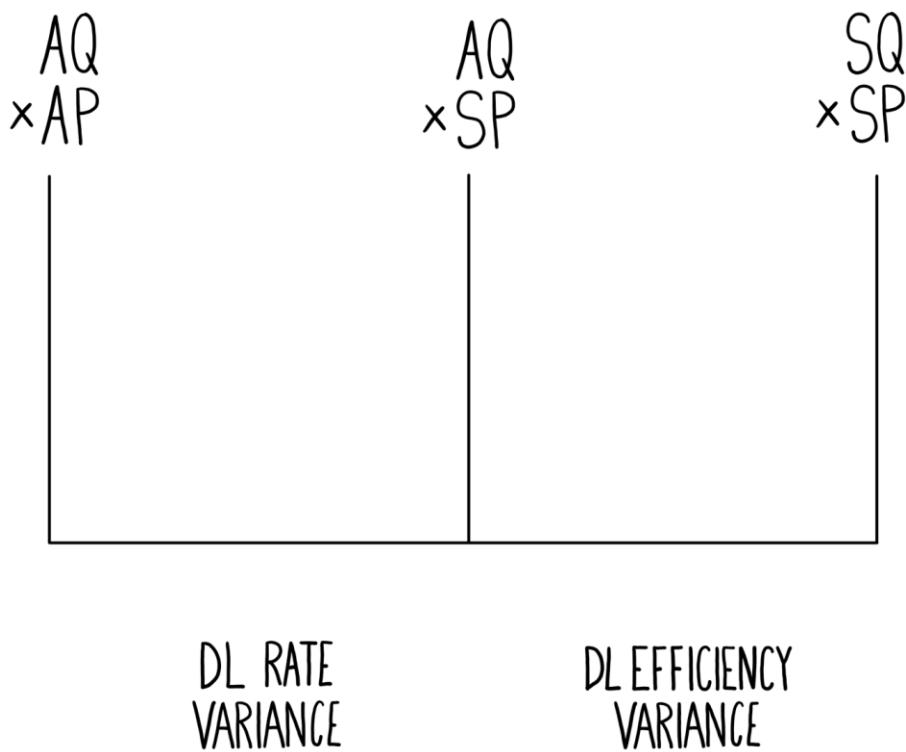
## 9-2B Direct Labour Variances

Chi Hou's Noodles makes noodles by hand and supplies local Chinese restaurants. The company has the following standards for direct labour: Staff should be able to make 10 packages per hour and the labour wage rate is \$20 per hour.

For September, the company produced 15,000 packages of noodles. The direct labour workforce worked for 1,400 hours and the labour cost for the month was \$28,700.

**Required:**

Compute the company's direct labour rate and efficiency variances.



Members Video (Ad Free): <https://www.youtube.com/watch?v=FynpW6BzjYM>

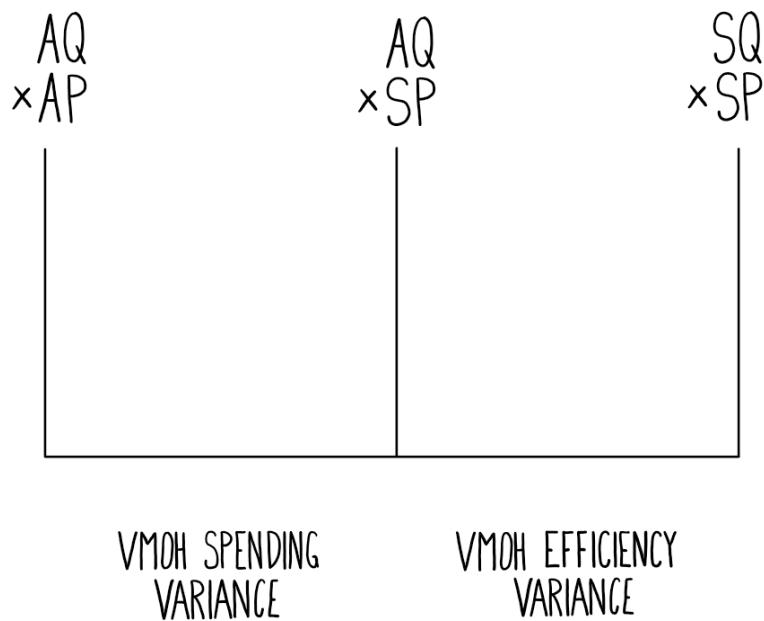
### 9-3A Variable Overhead Variances

Widgets R Us applies variable overhead costs to jobs based on machine hours. The company's predetermined variable overhead rate is \$6 per machine hour, and it is estimated that each machine can produce 2 widgets per hour.

For January, the company produced 600 widgets and machines were active for 320 machine hours. The company's total variable manufacturing overhead cost for the month was \$1,400.

**Required:**

Compute the company's variable manufacturing overhead spending and efficiency variances.



Free Video: [https://www.youtube.com/watch?v=TzJO2\\_wsw-w](https://www.youtube.com/watch?v=TzJO2_wsw-w)

Members Video (Ad Free): <https://www.youtube.com/watch?v=NivvFaZ4azI>

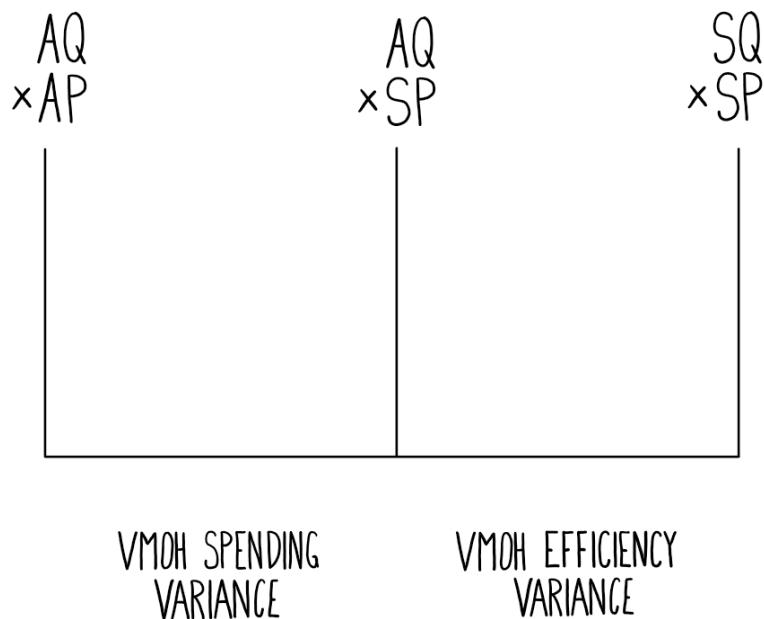
### 9-3B Variable Overhead Variances

Batter Up produces small baseball bats for young baseball players. The company applies variable overhead costs to jobs based on machine hours. The company's predetermined variable overhead rate is \$15 per machine hour, and it is estimated that the company's lone machine can produce 10 bats per hour.

For June, the company produced 2000 bats and the machine was active for 180 machine hours. The company's variable manufacturing overhead cost for the month was \$2,500.

**Required:**

Compute the company's variable manufacturing overhead spending and efficiency variances.



Members Video (Ad Free): <https://www.youtube.com/watch?v=XofGCy9x2HA>

### **9-4A Fixed Overhead Variances**

XYZ Company manufactures tables. The company budgets fixed overhead to be \$10,000 for the month of August. The company applies overhead costs to jobs on the basis of direct labour hours. The company has the following direct labour standards: It expects each table will take two hours to make, and the company anticipates making 1,000 tables (direct labour workers are budgeted to work for 2,000 hours during the month).

During August, the company produced 1,200 tables and workers worked a total of 2,200 hours. Actual fixed overhead incurred for August was \$10,500.

***Required:***

Compute the company's fixed manufacturing overhead budget and volume variances.

ACTUAL	BUDGET	APPLIED

FMOH BUDGET VARIANCE                    FMOH VOLUME VARIANCE

**Free Video:** <https://www.youtube.com/watch?v=MBVsHmPSZYg>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=pHcKeBJF0d4>

### **9-4B Fixed Overhead Variances**

ABC Company manufactures chairs. The company budgets fixed overhead to be \$25,000 for the month of August. The company applies overhead costs to jobs on the basis of direct labour hours. The company has the following direct labour standards: It expects each chair takes four hours to make, and the company anticipates making 800 chairs (direct labour workers are budgeted to work for 3,200 hours during the month).

During August, the company produced 700 chairs and workers worked a total of 3,000 hours. Actual fixed overhead incurred for August was \$23,500.

**Required:**

Compute the company's fixed manufacturing overhead budget and volume variances.

ACTUAL	BUDGET	APPLIED

FM OH BUDGET VARIANCE      FM OH VOLUME VARIANCE

Members Video (Ad Free): <https://www.youtube.com/watch?v=SvjEDB1nxQU>

## 9-5A Comprehensive Variance Analysis Problem

Chemco produces chemicals for cleaning pools. It sells the chemicals (a liquid) in four-liter buckets. The company's standard costs per unit follow:

	Quantity	Cost	Total
Direct materials	5 liters	\$4.00 per liter	\$20.00
Direct labour	0.25 hours	\$20 per DL hour	5.00
Manufacturing overhead	0.25 hours	\$8 per DL hour	2.00
			<u>\$27.00</u>

During the month, the company produced 1,000 buckets of chemicals. The following information is known:

- 1.) The company purchased 5,500 liters of direct material at a cost of \$21,450.
- 2.) The company had no beginning inventory, and had 700 liters of material on hand at the end of the year.
- 3.) The direct labour workforce worked a total of 220 hours and was paid a total of \$5,280.
- 4.) Variable overhead of \$1,050 and fixed overhead of \$800 were incurred.

The manufacturing overhead rate of \$8 per direct labour hour can be further broken down. The company estimates variable overhead to be \$5 per direct labour hour. The company expected to produce 1,100 buckets using 275 direct-labour hours during the month, and based on those estimates, variable overhead was budgeted to be \$1,375 for the month. Fixed overhead was budgeted to be \$825 for the month.

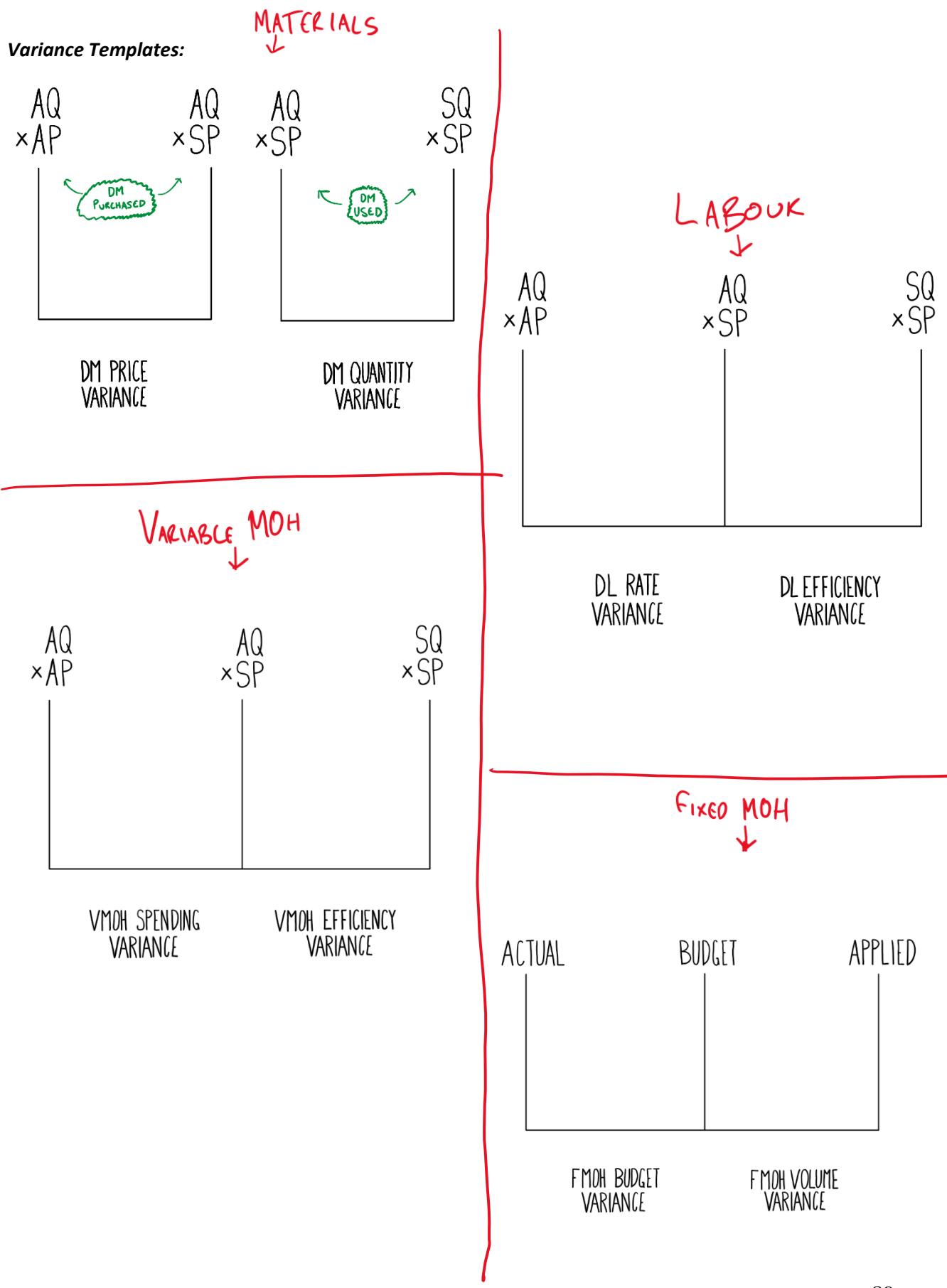
***Required:***

(Note: Templates for Calculations are found on the next page)

- a.) Compute Direct Materials price and quantity variances.
  - i. The company recently entered into a contract with a new supplier who is eager for their business. Should the company continue to work with this new supplier, or should they look for a new one.
- b.) Compute Direct Labour rate and efficiency variances.
  - i. The company experimented using more senior staff and fewer junior employees this month. Was the experiment successful?
- c.) Compute Variable Overhead spending and efficiency variances.
- d.) Compute Fixed Overhead spending and volume variances.

Free Video: <https://www.youtube.com/watch?v=shUlRkAGb14>

Members Video (Ad Free): <https://www.youtube.com/watch?v=LtLXtAtsKHY>



## 9-5B Comprehensive Variance Analysis Problem

Smithco produces a plastic furniture set for outdoor use. The company's standard costs per set follow:

	Quantity	Cost	Total
Direct materials	10 kilograms	\$6.00 per kg	\$60.00
Direct labour	2 hours	\$15 per DL hour	30.00
Manufacturing overhead	2 hours	\$5 per DL hour	<u>10.00</u>
			<u>\$100.00</u>

During the month, the company produced 200 furniture sets. The following information is known:

- 1.) The company purchased 2,300 kilograms of direct material at a cost of \$13,000.
- 2.) The company had no beginning inventory and had 50 kilograms of material on hand at the end of the year.
- 3.) The direct labour workforce worked a total of 420 hours and was paid a total of \$5,800.
- 4.) Variable overhead of \$1,555 and fixed overhead of \$600 were incurred.

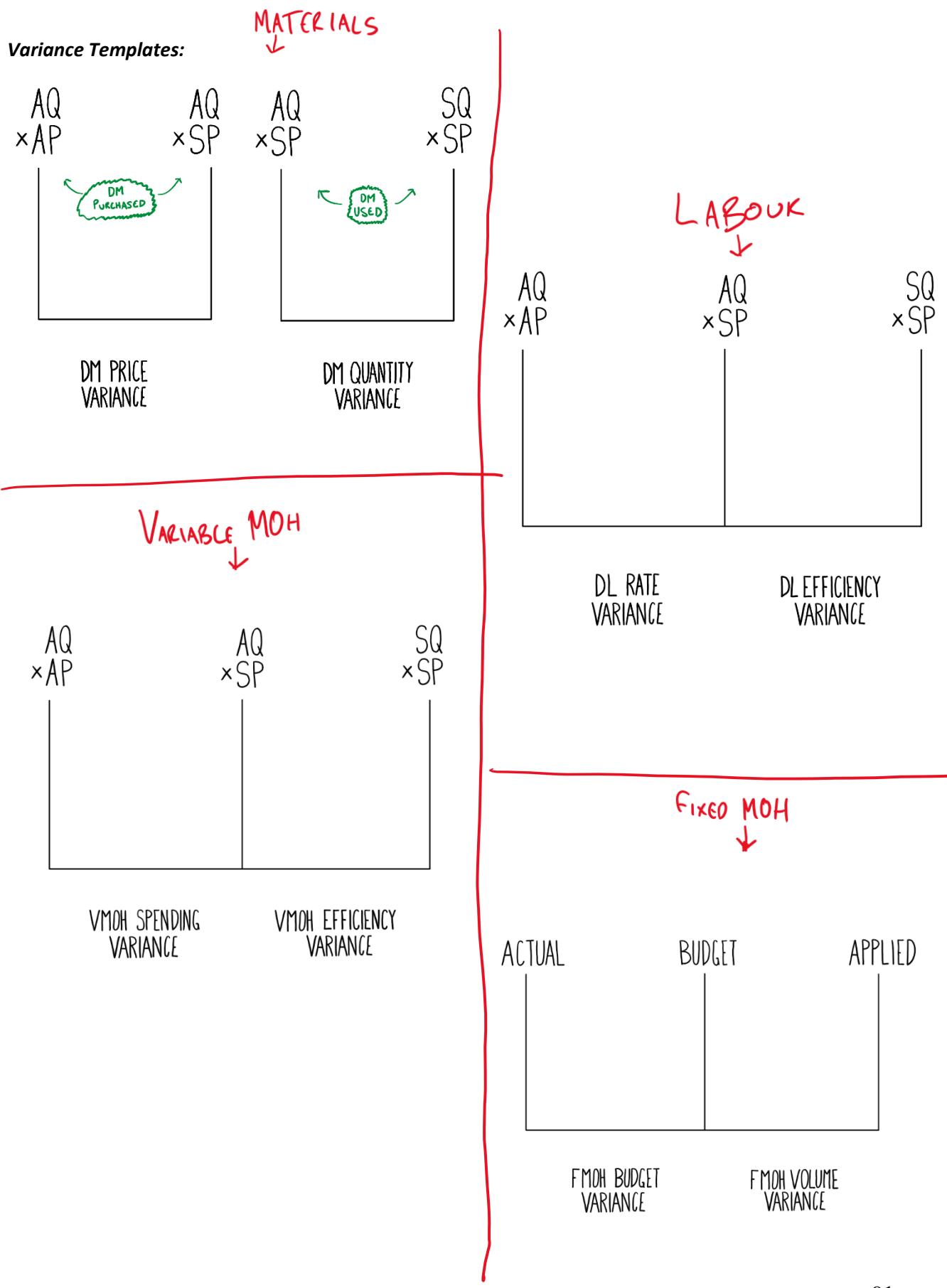
The manufacturing overhead rate of \$5 per direct labour hour can be further broken down. The company estimates variable overhead to be \$3.75 per direct labour hour. The company planned to make 180 furniture sets during the month and budgeted to use 360 direct labour hours. Accordingly, the company's variable overhead was budgeted to be \$1,350 for the month. Fixed overhead was budgeted to be \$450 for the month.

***Required:***

(Note: Templates for Calculations are found on the next page)

- a.) Compute Direct Materials price and quantity variances.
  - i. The company recently entered into a contract with a new supplier who is eager for their business. Should the company continue to work with this new supplier, or should they look for a new one.
- b.) Compute Direct Labour rate and efficiency variances.
  - i. The company experimented using more junior staff and fewer senior employees this month. Was the experiment successful?
- c.) Compute Variable Overhead spending and efficiency variances.
- d.) Compute Fixed Overhead spending and volume variances.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=ETHxyLVgymM>**



# **Module 9 Appendix:**

## **Flexible Budgeting**

**Flexible Budgeting Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=Wab54eRyKHg>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=8DGt7v2tLWo>

## 9-6A Flexible Budget

Refined Touch is a dating service. Rather than using algorithms, the company uses a traditional matchmaker. The company had the following cost variance report for April:

**Refined Touch**  
**Cost Variance Report (Actual vs Budget)**  
**For the Month Ended April 30**

	Budget	Actual	Variance
Number of matches	120	150	30 F
Variable costs			
Matching	\$3,000	\$3,600	\$600 U
Customer screening	2,400	1,500	900 F
Payment processing	<u>1,200</u>	<u>1,450</u>	<u>250 U</u>
Total variable costs	6,600	6,550	50 F
Fixed costs			
Office expenses	2,000	1,800	200 F
Rent expense	<u>900</u>	<u>950</u>	<u>50 U</u>
Total fixed costs	<u>2,900</u>	<u>2,750</u>	<u>150 F</u>
Total costs	<u><u>\$9,500</u></u>	<u><u>\$9,300</u></u>	<u><u>\$200 F</u></u>

Linda Frost, the manager and matchmaker comments on the report: "What a great month. We were busier than we expected to be and we still managed to keep costs down – I just wish every month could be this good".

**Required:**

- Comment on the major flaw in the report above.
- Prepare a revised report using a flexible budget.
- Comment on Frost's assertion that it was a "great month".
- Which variance(s) ought to be investigated further?

Free Video: <https://www.youtube.com/watch?v=8t33wGuta9Y>

Members Video (Ad Free): [https://www.youtube.com/watch?v=M-7\\_vYI-62w](https://www.youtube.com/watch?v=M-7_vYI-62w)

## **9-6B Flexible Budget**

The Greatest Friends is a dog rescue group that specializes in finding homes for the Great Dane breed. The company produces the following cost report for June.

### **The Greatest Friends Cost Variance Report For the Month Ended June 30**

	Budget	Actual	Variance
Number of dogs in care	10	4	6 U
Variable costs			
Grooming	\$2,000	\$1,300	\$700 F
Dog food	10,000	6,500	3,500 F
Cleaning supplies	500	400	100 F
Total variable costs	12,500	8,200	4,300 F
Fixed costs			
Salaries	1,500	1,600	100 U
Property taxes	400	400	-
Total fixed costs	1,900	2,000	100 U
Total costs	<u>\$14,400</u>	<u>\$10,200</u>	<u>\$4,200 F</u>

Valerie Pringle, the manager of the rescue group comments on the report: "I'm certainly proud of this cost report, it shows that I'm not only doing a great job caring for the animals in our care, I'm also keeping costs under control".

***Required:***

- a.) Comment on the major flaw in the report above.
- b.) Prepare a revised report using a flexible budget.
- c.) Comment on Pringle's assertion that she is doing a "great job" keeping costs under control.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=niXPEzEv5N0>**

# Module 10: Capital Budgeting

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=t84fqhWIDtE>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=ZSTM85rXxyk>

**10-1A – Payback Period, Internal Rate of Return (IRR) and Net Present Value (NPV)**

Pinnacle Company is considering a project that will cost \$32,000 today it expects will provide cash flows of \$10,000 per year for the next 4 years.

***Required:***

- a.) Calculate the payback period.
- b.) Calculate the net present value assuming a required rate of return of 6%.
- c.) Calculate the net present value assuming a required rate of return of 30%.
- d.) Calculate the internal rate of return.

**Free Video:** <https://www.youtube.com/watch?v=PuN27Gvzt2c>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=lgrr3c0P8e4>

**10-1B – Payback Period, Internal Rate of Return (IRR) and Net Present Value (NPV)**

Momentum Management is considering a project that will cost \$225,000 today it expects will provide cash flows of \$50,000 per year for the next 6 years.

***Required:***

- a.) Calculate the payback period.
- b.) Calculate the net present value assuming a required rate of return of 7%.
- c.) Calculate the net present value assuming a required rate of return of 25%.
- d.) Calculate the internal rate of return.

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=C5B7FyBOTJE>

### **10-2A – Uneven Cash Flows - Payback Period, NPV and IRR**

Grey Animations is considering purchasing computers. The computers could be purchased today for \$115,000 and would have an expected life of five years. Over the five-year life, the computers would be used to generate cash flows of an estimated \$40,000 per year for the first two years, and \$25,000 in the last three years. The estimated cash salvage value of the computers at the end of year 5 is \$12,000. The project's cost of capital (required rate of return) is 12%.

***Required:***

- a.) Calculate the project's cash payback period.
- b.) Calculate the project's net present value.
- c.) Calculate the internal rate of return of the project.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=RcAPiiUwQI4>**

## **10-2B – Uneven Cash Flows - Payback Period, NPV and IRR**

Barry Cabs owns and operates a taxi business with one old taxi cab. Barry is thinking of replacing the old cab with a new, more efficient one. Barry thinks he could sell the cab today for \$6,000 cash.

Barry is considering an all-electric replacement. The all-electric car would cost \$61,000 and would have an expected useful life of 5 years. Over its 5-year life, the cab would reduce annual operating costs (mostly gas and maintenance) by \$13,000 for the first two years, and \$15,000 per year thereafter. After 5 years, it is expected the taxi would have a \$20,000 cash salvage value. Barry's cost of capital (required rate of return) is 15%.

***Required:***

- a.) Calculate the project's cash payback period.
- b.) Calculate the project's net present value.
- c.) Calculate the internal rate of return of the project.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=2P4xVX-Ee2w>**

# Module 11: Performance Measurement

**Module Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=pV9CJEGtsc>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=w49enSfvOhc>

### **11-1A – Balanced Scorecard**

For each of the balanced scorecard targets listed below, identify the matching perspective: Employee learning and growth (L), Internal business processes (I), Customer (C), Financial(F).

- a.) Product returns as a percentage of sales decreases by 5%.
- b.) Employee satisfaction score above 4/5 on employee surveys.
- c.) Number of complaints reduced below 10 per week.
- c.) Percentage of products with defects below 1%
- d.) Average employee training hours of over 20 per year.
- e.) Share price increases by \$2.
- f.) Sales grow by 15%.
- g.) Setup time reduced by 20%.

**Free Video:** <https://www.youtube.com/watch?v=Rs77FgY378g>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=WijkhYxMvz4>

### **11-1B – Balanced Scorecard**

For each of the balanced scorecard targets listed below, identify the matching perspective: Employee learning and growth (L), Internal business processes (I), Customer (C), Financial(F).

- a.) Customer satisfaction survey improves to 4.5/5
- b.) Profit grows by 25%.
- c.) Customer hold time average below 2 minutes.
- d.) Percentage of on time delivery over 95%
- e.) Employee turnover of below 20%.
- f.) Customer retention is held above 70%
- g.) Over 90% of employees participate in new service training session.
- h.) Return on investment increases by 10%.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=fYq6yt6VUQw>**

### **11-2A – Computing ROI and Residual Income**

The CEO of Grace Company, Nicole Grace is debating an investment. The investment is projected to earn \$20,000 annually and will require the company to acquire \$100,000 in assets. The following chart summarizes Grace's decision:

	Before Investment	After Investment
Operating income	75,000	95,000
Average operating assets	300,000	400,000

**Required:**

- a.) Assume Grace is evaluated based on growth in the company's ROI. Compute the Return on Investment for the company before and after the investment. Would you recommend Grace make the investment?
- b.) Assume Grace is evaluated based on growth in the company's residual income. The company's required rate of return is 15%. Compute the company's residual income before and after the investment. Would you recommend Grace make the investment?
- c.) Give at least one advantage and one disadvantage of using measures like ROI and residual income to evaluate company performance.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=qnHvhw-Es4s>**

### **11-2B – Computing ROI and Residual Income**

The CFO of Gentry Autogroup, Allison Gentry is debating an investment. The investment is projected to earn \$100,000 annually and will require the company to acquire \$600,000 in assets. The following chart summarizes Gentry's decision:

	Before Investment	After Investment
Operating income	600,000	700,000
Average operating assets	3,000,000	3,600,000

**Required:**

- a.) Assume Gentry is evaluated based on growth in the company's ROI. Compute the Return on Investment for the company before and after the investment. Would you recommend Gentry make the investment?
- b.) Assume Gentry is evaluated based on growth in the company's residual income. The company's required rate of return is 15%. Compute the company's residual income before and after the investment. Would you recommend Gentry make the investment?
- c.) Give at least one advantage and one disadvantage of using measures like ROI and residual income to evaluate company performance.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=UWhtZynQjLs>**

# **Module 11 Appendix:**

## **Transfer Pricing**

**Transfer Pricing Intro Video:**

**Free Video:** <https://www.youtube.com/watch?v=FzOyT61syX8>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=gjKhBKRZDDU>

### 11-3A – Transfer Pricing

PhonyTel Inc. was a massive media company that controlled a cable company, a wireless data network, and several other related businesses. PhonyTel Inc. was a highly decentralized organization, where managers were encouraged to make decisions that were most profitable for their own divisions. One of PhonyTel Inc's subsidiary businesses was PhonyTel Data (PD), an installer of data servers. PhonyTel Data's manager, Steve Frost, had a large job that would require the installation of two thousand servers. The request received 3 bids: One from PhonyTel Networking (PN), a subsidiary of PhonyTel Inc.; one from Little Guys Data (LGD); and one from Big Name Competitor (BNC). Details of the bids are below:

Company	Bid (Per server)	Notes
PhonyTel Networking	\$1,800	<ul style="list-style-type: none"><li>The company would purchase the processors from PhonyTel Chips (a subsidiary of PhonyTel Inc.)</li><li>The final product would be of a very high quality</li></ul>
Little Guys Data	\$1,600	<ul style="list-style-type: none"><li>The company would purchase the processors from PhonyTel Chips (a subsidiary of PhonyTel Inc.)</li><li>The final product would be of equal quality to that produced by PhonyTel Networking</li></ul>
Big Name Competitor	\$1,550	<ul style="list-style-type: none"><li>The company would manufacture its own parts,</li><li>The final product would be of equal quality to that produced by PhonyTel Networking</li></ul>

Frost was frustrated by the bids, and phoned Kianna Chang, the manager of PhonyTel Networking, "How on earth is it that the only internal bid is by far the highest! You're not anywhere near capacity; shouldn't you be cutting me a deal? You've got to drop below \$1,550 or I'll buy from BNC."

Chang replied, "Look, I understand where you're coming from, but I have margins to protect, I simply can't offer you a better deal. The bosses are stressing a focus on higher margins and higher average selling-prices, I can't tell all my salespeople to pitch the high-end, only to kill the firm's just to make you guys look good."

Frustrated, Frost called Teegan Bertuzzi, the CFO of the parent company. "I'll have a look at the issue", said Bertuzzi, and she noted the following details:

- PhonyTel Data would incur \$300 in variable costs on top of its purchase price, and sell the installation for \$2,400 per server.
- PhonyTel Networking's variable costs would be \$1,400, and included the cost of the processors purchased from PhonyTel Chips.
- PhonyTel Chips sold this type of processor for \$500. Their contribution margins were typically 20%.
- PhonyTel Chips had excess capacity.

**Required:**

- a.) Give the dollar advantage or disadvantage of accepting each deal (for the parent company, PhonyTel Inc.)
- b.) What are Teegan Bertuzzi's options? What should she do?

**Free Video:** <https://www.youtube.com/watch?v=Y8AuXKtTkBU>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=7nYXZgJ8wck>

# Module 12: Relevant Costs for Decision Making

**Module Intro Video:**

Free Video: <https://www.youtube.com/watch?v=jBcwA4v1CK4>

Members Video (Ad Free): <https://www.youtube.com/watch?v=S0JjpCrtez0>

## 12-1A – Relevant Costs

Tammy Smith has recently gotten into winemaking at home. She has completed her first batch of wine, and while it was a culinary success (it tasted good), her husband Steve is not happy because her winemaking area has been encroaching on space that had previously been exclusively used for his “Man Cave”. He knows his wife well, and knows she is cost conscious\* - so he makes the following argument to appeal to her financial frugality:

“Tammy, I think you need to sell all that winemaking equipment – I know the hobby is fun, but it’s financially wasteful. I figure it’s costing us \$36 per bottle, and we could get equivalent quality wine for \$15 per bottle in the store – I’ve run the numbers and here they are:

- **Winemaking Equipment - \$400**  
*(A fermenter, carboy, siphon, coker, and more were purchased)*
- **Grapes and juice - \$150**  
*(Those Riesling grapes were expensive!)*
- **Property taxes - \$230**  
*(Our annual taxes are \$2,300; your winemaking is taking up 10% of the house's space)*
- **Yeast and additives - \$20**  
*(\$20 of yeast and additives per batch is brutal, and it stinks up the house – making it smell like a bakery, and what a mess!)*
- **Bottles and Corks - \$60** (\$50 for the bottles, \$10 per batch for corks)  
*(I know the bottles are reusable, but the corks are thrown out each batch!)*
- **Specialized cleaning equipment - \$40**  
*(Those bottle washers are weird.)*

The numbers don’t lie:  $\$400 + \$150 + \$230 + \$20 + \$60 + \$40 = \$900$ . Your first batch was 25 bottles, and don’t get me wrong, they were delicious, but that’s \$900 for 25 bottles -- **\$36 per bottle**. More than double the price of your favorite Riesling which only costs \$15 at the wine store!

Tammy, I love you, but I hope you’ll consider giving up this wasteful hobby.”

**Required:**

- a.) Calculate the relevant costs of producing the next batch of wine.
- b.) Are there any non-financial items that may be relevant to this decision?

\*- Cost conscious is the nice way of saying it... she is definitely cheap!

Free Video: [https://www.youtube.com/watch?v=5\\_f81-tcMkU](https://www.youtube.com/watch?v=5_f81-tcMkU)

Members Video (Ad Free): [https://www.youtube.com/watch?v=4-QesI\\_V5t4](https://www.youtube.com/watch?v=4-QesI_V5t4)

## 12-1B – Relevant Costs

Jackie Mack is a Pokémon Go superfan. Her husband Scott is getting frustrated as he feels it's taking up too much of her free time (and he'd prefer she spend her time on his preferred hobby – bird watching). He's an accountant, and wants to make a financial argument for her to quit. He puts together the following annual cost analysis of her hobby:

### Pokémon Go Annual Cost Report

Last year, a typical year for you, the following Pokémon Go costs were incurred:

- 2,500 Pokécoins per month - **\$240/year**  
*( $\$20/\text{month}$  on coins - expensive! Why do you play a game that keeps charging you!?!?)*
- iPhone - **\$200**  
*(You use your \$1,000 phone for other things of course, but 20% of it is Pokémon – so \$200 is a fair estimate.)*
- Running Shoes - **\$140**  
*(I know you like to run too, but shoes are costly, and you're wearing them out searching for Mewtwo!)*
- Premium Battle Passes - \$5/month - **\$60/year**  
*(Coins AND Battle Passes, give me a break!)*
- Pokémon Go Fest festival travel and tickets - **\$2,200/year**  
*(It's expensive to travel to these events every year, and we wouldn't spend like that on travel otherwise – but you need to get those exclusive characters. I know you like Klefki & Skiddo – but not sure \$2,200 was worth it.)*
- Portable Battery Pack - **\$40**  
*(That app is such a battery drain that you had to buy a battery pack!)*
- Data/Cell Plan - **\$120/year**  
*(Your phone plan is \$50/month (\$600/year). Pokémon GO takes 20% of that, that's \$120 a year just to chase pixelated pigeons.)*

Total:  $\$240 + \$200 + \$140 + \$60 + \$2,200 + \$40 + \$120 = \underline{\$3,000}$

Birdwatching is a much better value, last week I spotted a Harlequin Duck and didn't cost anything. For the good of our bank account, I hope you'll quit Pokémon Go and join me birdwatching!

#### **Required:**

- a.) Calculate the relevant costs as to whether Jackie should continue the hobby next year.
- b.) Are there any non-financial items that may be relevant to this decision?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=cpbU7siMV8c>**

## **12-2A – Drop or Retain a Segment**

All-Mart is a department store with three major departments: Housewares, Hardware, and Electronics. Company management is very concerned about the performance of the electronics department, noting that it seems to be a drag on the company based on its most recent fiscal quarter. A company-wide segmented income statement follows:

	Housewares	Hardware	Electronics	Total
Sales	\$150,000	\$220,000	\$200,000	\$570,000
Variable expenses	<u>60,000</u>	<u>100,000</u>	<u>140,000</u>	<u>300,000</u>
Contribution margin	90,000	120,000	60,000	270,000
Fixed expenses	<u>50,000</u>	<u>100,000</u>	<u>90,000</u>	<u>240,000</u>
Operating income (loss)	<u>\$40,000</u>	<u>\$20,000</u>	<u>\$(30,000)</u>	<u>\$30,000</u>

The company notes that if the electronics department were dropped, the other departments could expect a 10% decrease in foot traffic and sales. Also, \$20,000 of the electronics department's fixed costs are allocated and would continue even if the department was dropped. The company has no planned use for the space currently used by the electronics department.

### ***Required***

Compute the net dollar advantage or disadvantage of dropping the electronics department.

**Free Video:** <https://www.youtube.com/watch?v=VRPcIX4Icm8>

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=7Reejp\\_ftiA](https://www.youtube.com/watch?v=7Reejp_ftiA)

## 12-2B – Drop or Retain a Segment

Fresh Juice has three locations in Kamloops: Downtown, North Shore and Dufferin.

Management is concerned about the performance of the downtown location; the rent is high and management is debating closing the store. A company-wide segmented income statement follows:

	Downtown	North Shore	Dufferin	Total
Sales	\$300,000	\$350,000	\$250,000	\$900,000
Variable expenses	<u>210,000</u>	<u>225,000</u>	<u>175,000</u>	<u>610,000</u>
Contribution margin	90,000	125,000	75,000	290,000
Fixed expenses	<u>150,000</u>	<u>75,000</u>	<u>40,000</u>	<u>265,000</u>
Operating income (loss)	<u><u>\$(60,000)</u></u>	<u><u>\$50,000</u></u>	<u><u>\$35,000</u></u>	<u><u>\$25,000</u></u>

An analysis of expenses reveals that \$40,000 of the downtown location's fixed expenses are allocated costs that would continue even if the store was closed. The North Shore and Dufferin locations could expect a 5% decrease in revenues due to lost promotional synergies closing the prominent downtown location.

### ***Required***

Compute the net dollar advantage or disadvantage of dropping the downtown location.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=WVpTdbZX3wA>**

### 12-3A - Make or Buy

Carol's Cupcakes sells cupcakes and other desserts through its retail store. The company has always made all of its ingredients from scratch, but has recently been approached by a supplier that specializes in icing. Carol believes that the supplier's icing is of equal quality to her own, and believes their offer of \$3.00 per liter may enable her to save money. Carol is evaluating her own cost of producing icing:

	Per Liter	5,000 liters per year
Direct materials	\$1.00	\$5,000
Direct labour	0.50	2,500
Variable manufacturing overhead	0.25	1,250
Fixed manufacturing overhead – traceable*	1.00	5,000
Fixed manufacturing overhead - allocated	<u>1.75</u>	<u>8,750</u>
Total	<u><u>\$4.50</u></u>	<u><u>\$22,500</u></u>

\*40% relates to cleaning and maintenance of the icing equipment and 60% relates to depreciation of icing equipment (with no resale value)

Examining the report, Carol says, "Their icing is just as good, and it would save me \$1.50 per liter, that's over \$7,500 for the year. I think I'm going to take the deal."

#### **Required**

- a.) Assuming there is no other use for the icing equipment or the space it uses in the kitchen, what is the net dollar advantage or disadvantage of accepting the supplier's offer?
- b.) If the offer is accepted, Carol's Cupcakes could use the space that had been previously used for making icing as a bacon-frying space. Carol believes that a new bacon line of cupcakes would produce margins of \$5,000 per year. Should Carol's Cupcakes accept the supplier's offer?

Free Video: <https://www.youtube.com/watch?v=iUKJU2KHaAM>

Members Video (Ad Free): <https://www.youtube.com/watch?v=QGimGACSFHM>

### **12-3B - Make or Buy**

Howard Grills makes high-end barbecues. The company has recently been approached by a supplier who has offered to provide the company igniters (the barbecue part that provides a spark to start the flame). The company has offered a price of \$5.00 per igniter. Howard's internal costs of producing the igniter follow:

	Per Igniter	30,000 igniters per year
Direct materials	\$1.25	\$37,500
Direct labour	0.25	7,500
Variable manufacturing overhead	0.50	15,000
Fixed manufacturing overhead – traceable*	3.00	90,000
Fixed manufacturing overhead – allocated	<u>1.50</u>	<u>45,000</u>
Total	<u><u>\$6.50</u></u>	<u><u>\$195,000</u></u>

\*2/3 relate to equipment maintenance and 1/3 relate to depreciation of specialized equipment (no resale value).

Gloria Howard, the owner and CEO of Howard Grills notes: "To make 30,000 igniters costs us \$195,000, their starters are just as good and buying from them will only cost us \$150,000, I'm no accountant, but it seems obvious we should take this deal."

#### ***Required***

- a.) Assuming there is no other use for the space used to make the starters, what is the net dollar advantage or disadvantage of accepting the supplier's offer?
- b.) If the offer is accepted, the company could use the space to develop a new product line that would generate estimated margins of \$25,000. Should the company accept the supplier's offer?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=XEfMo2akAdE>**

## 12-4A – Special Order

Eversharp is a knife manufacturer. The company normally sells 5,000 sets of high-quality knives each year and, with its current staff and machinery, has the capacity to produce up to 6,000 sets of knives. At this level of output, the company estimates its costs of producing and selling one set of knives as follows:

	<u>Per unit</u>
Direct materials	\$5.00
Direct labour	1.50
Variable manufacturing overhead	1.00
Fixed manufacturing overhead	2.00
Sales commissions	1.50
Fixed selling and administrative expenses	<u>4.00</u>
Total costs	<u>\$15.00</u>

The company's selling price is \$20 per unit. An order has been received for 500 units, but because it's a bulk purchase, the buyer has requested a 40% price discount. If the order were accepted it would not affect the company's regular sales. There would be no sales commissions on this deal, and fixed costs would not be affected. The purchasing company would like their logo engraved into the handle of each knife, which would increase labour costs by \$0.25 per unit and require the purchase of a new machine for \$2,000.

***Required***

- a.) Determine the net dollar advantage or disadvantage of accepting the order.
- b.) Separate from a.), assume the company finds a box from 1994 containing 1,000 old steak knives, although styles have changed, the knives are still of a reasonably good quality and sharpness. Assuming manufacturing cost data was similar in 1994 to the chart above, what is the minimum selling price that should be accepted?

**Free Video:** [https://www.youtube.com/watch?v=2F2zMdJ\\_GDg](https://www.youtube.com/watch?v=2F2zMdJ_GDg)

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=eUD1O9cwGuQ>

### **12-4B – Special Order**

Duty Gear manufactures and sells high-quality gear for firefighters. Operating at capacity, the company can produce and sell up to 10,000 uniforms per year. Costs associated with this level of production and sales are as follows:

	<u>Per unit</u>	<u>At Capacity (10,000 units)</u>
Direct materials	\$800	\$8,000,000
Direct labour	500	5,000,000
Variable manufacturing overhead	700	7,000,000
Fixed manufacturing overhead	<u>1,000</u>	<u>10,000,000</u>
Total costs	<u>\$3,000</u>	<u>\$30,000,000</u>

The firefighter gear normally sells for \$5,000 per unit. Despite this high price, the company expects to sell 8,000 units in the upcoming year. Fixed overhead is constant at \$10,000,000 between 6,000 and 10,000 units.

A filmmaker wishes to purchase 250 authentic firefighting uniforms from the company. The company's regular price is \$5,000, but the filmmaker would like volume discount and asks the company to reduce its price to \$3,000 for this large purchase. Accepting this deal would not affect the company's normal business. To fill the order, the company would have to purchase a machine to provide a special rubber coating each unit of fire gear. The machine would cost \$100,000 and would have no use outside of the order. The additional rubber coating would add a cost of \$50 per unit.

***Required***

Determine the net dollar advantage or disadvantage of accepting the order.

**Members Video (Ad Free): <https://www.youtube.com/watch?v=IrtCBHD-Ejk>**

### **12-5A – Sell or Process Further**

Andrew's Antiques is an antique furniture dealer. It purchased a 1902 oak table from a client for \$800. The table was in terrible disrepair. Andrew's antique dealer friend noticed the table in the back room and offered to buy it for \$1,200 (as is).

Andrew thinks he may be able to do better if he puts some work into repairing the table. He believes with 10 hours of employee work (\$25/hour) and \$100 of supplies, the table could be “spruced up” and sold for a higher price. The company applies variable overhead costs to jobs at a rate of \$20 per direct labour hour. If this work is done, Andrew believes the table will sell for \$2,000.

#### ***Required***

- a.) Determine the net dollar advantage or disadvantage of selling the table now (as is) compared with processing it further by repairing the table and selling to for \$2,000.
- b.) What qualitative considerations should Andrew be giving to this decision?

**Free Video:** <https://www.youtube.com/watch?v=Wasa7ydXUvA>

**Members Video (Ad Free):** [https://www.youtube.com/watch?v=qI\\_Vd8aF\\_dE](https://www.youtube.com/watch?v=qI_Vd8aF_dE)

### **12-5B – Sell or Process Further**

U-Junk Auto is a car lot that has just received a 1991 Toyota Tercel that is barely in running condition. The company paid \$400 for the car and has already received an offer for the car (as is) for \$600. The shop's mechanic does not wish to sell the car as is, he believes that the company should replace the damaged parts at a cost of \$200 and have him repair the car. It would take him 30 hours of work at \$20 per hour. The company applies variable overhead costs to jobs at a rate of \$10 per direct labour hour. If the upgrades are made, the car could be sold for \$1,500.

***Required***

- a.) Determine the net dollar advantage or disadvantage of selling the car now instead of repairing it (processing further).
- b.) What are some qualitative considerations in making this decision?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=Pm-5eqs7DII>**

## **12-6A – Constrained Resource**

Anthony Bertuzzi is a very busy man. He runs an event planning business that organizes weddings, birthday parties, and corporate events. Anthony's business is so busy that he has recently started turning away customers. Anthony tried to bring in a partner, but customers wanted Anthony's magic touch. Anthony enjoys all three types of events - wedding, birthday parties, and corporate events - equally, and would like your help in determining which events he should prioritize. Although all events are different, he has laid out the following information about "typical" events of each type:

	Weddings	Birthday Parties	Corporate Events
Price	\$10,000	\$2,000	\$5,000
Variable expenses	<u>6,000</u>	<u>1,000</u>	<u>2,000</u>
Contribution margin	<u>\$4,000</u>	<u>\$1,000</u>	<u>\$3,000</u>

Typically, weddings take 40 planning hours, birthday parties take 16 planning hours and Corporate Events take 20 planning hours.

### ***Required***

- a) Which event requests should Anthony take first? Second? Third? (Explain your answer.)
- b) Assume Anthony has 1,600 available planning hours per year. How much money will he make assuming he specializes exclusively in: Weddings? Birthday Parties? Corporate Events?

**Free Video:** <https://www.youtube.com/watch?v=ol0j26-qTko>

**Members Video (Ad Free):** <https://www.youtube.com/watch?v=KKkgCbXsCsY>

## 12-6B – Constrained Resource

Wondrous Aromas Company has three lines of perfume: Red, Green, and Blue. After mega-celebrity Caitlyn Spencer tweeted that this was her favourite line of perfume, demand for all three products has been off the charts. The company has a problem, it has a limited supply of orchid nectar, a common ingredient in all three products. Orchid nectar costs \$5 per gram and is the major selling feature of all three perfumes. Cost data follow:

	Red	Green	Blue
Price	\$200	\$160	\$80
Variable expenses			
Orchid nectar	50	30	20
Other direct materials	15	25	15
Direct labour	20	25	10
Variable manufacturing overhead	<u>15</u>	<u>10</u>	<u>10</u>
Total variable cost	<u>100</u>	<u>90</u>	<u>55</u>
Contribution margin	<u>\$100</u>	<u>\$70</u>	<u>\$25</u>

### **Required**

- a.) Which product would you recommend the company focus on producing first? Second? Third?
- b.) Assuming the company has exactly 10,000 grams of orchid nectar available. How much money will the company make if it makes only Red? Green? Blue?
- c.) A supplier emerges willing to provide the company with more orchid nectar, but for a major premium. What is the maximum the company should be willing to pay per gram of orchid nectar as long as there is unfilled demand for all three perfumes?

**Members Video (Ad Free): <https://www.youtube.com/watch?v=O9frm68008Y>**

**You Made It.**

**This is the end of the workbook.**

**Congratulations 😊**