

3 Cost classification**29 mins**

- 3.1 A firm has to pay a 20c per unit royalty to the inventor of a device which it manufactures and sells.
How would the royalty charge be classified in the firm's accounts?

A Selling expense
 B Direct expense
 C Production overhead
 D Administrative overhead

(2 marks)

- 3.2 Which of the following would be classed as indirect labour?

A Assembly workers in a company manufacturing televisions
 B A stores assistant in a factory store
 C Plasterers in a construction company
 D A consultant in a firm of management consultants

(2 marks)

- 3.3 A manufacturing firm is very busy and overtime is being worked.
How would the amount of overtime premium contained in direct wages normally be classed?

A Part of prime cost
 B Factory overheads
 C Direct labour costs
 D Administrative overheads

(2 marks)

- 3.4 A company makes chairs and tables. Which of the following items would be treated as an indirect cost?

A Wood used to make a chair
 B Metal used for the legs of a chair
 C Fabric to cover the seat of a chair
 D The salary of the sales director of the company

(2 marks)

- 3.5 Over which of the following is the manager of a profit centre likely to have control?

(i) Selling prices
 (ii) Controllable costs
 (iii) Apportioned head office costs
 (iv) Capital investment in the centre

A All of the above
 B (i), (ii) and (iii)
 C (i), (ii) and (iv)
 D (i) and (ii)

(2 marks)

- 3.6 Which of the following best describes a controllable cost?

A A cost which arises from a decision already taken, which cannot, in the short run, be changed.
 B A cost for which the behaviour pattern can be easily analysed to facilitate valid budgetary control comparisons.
 C A cost which can be influenced by its budget holder.
 D A specific cost of an activity or business which would be avoided if the activity or business did not exist.

(2 marks)

Which is the coding for the issue of indirect materials issued from stores to the machining department?

- A 10410
- B 10440
- C 13410
- D 13440

(2 marks)

(Total = 24 marks)

4 Cost behaviour

43 mins

4.1 Fixed costs are conventionally deemed to be which of the following?

- A Constant per unit of output
- B Constant in total when production volume changes
- C Outside the control of management
- D Easily controlled

(2 marks)

4.2 The following data relate to the overhead expenditure of a contract cleaners at two activity levels.

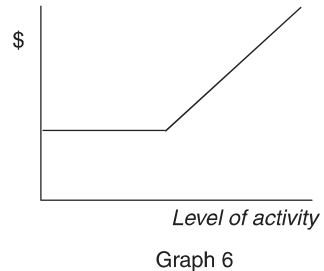
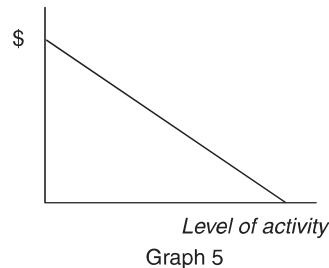
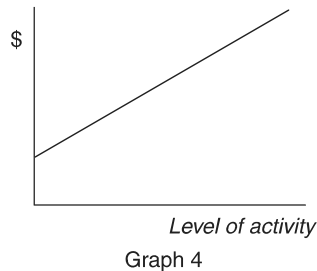
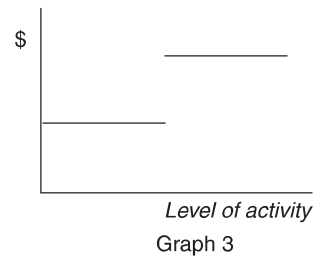
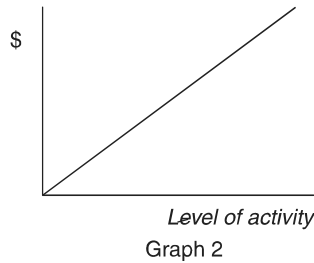
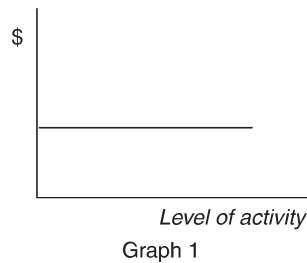
Square metres cleaned	13,500	15,950
Overheads	\$84,865	\$97,850

What is the estimate of the overheads if 18,300 square metres are to be cleaned?

- A \$96,990
- B \$110,305
- C \$112,267
- D \$115,039

(2 marks)

The following information relates to questions 4.3 to 4.7.



Which one of the above graphs illustrates the costs described in questions 4.3 to 4.7?

4.3 A linear variable cost – when the vertical axis represents cost incurred.

- A Graph 1
- B Graph 2
- C Graph 4
- D Graph 5

(2 marks)

4.4 A fixed cost – when the vertical axis represents cost incurred.

- A Graph 1
- B Graph 2
- C Graph 3
- D Graph 6

(2 marks)

4.5 A linear variable cost – when the vertical axis represents cost per unit.

- A Graph 1
- B Graph 2
- C Graph 3
- D Graph 6

(2 marks)

4.6 A semi-variable cost – when the vertical axis represents cost incurred.

- A Graph 1
- B Graph 2
- C Graph 4
- D Graph 5

(2 marks)

4.7 A step fixed cost – when the vertical axis represents cost incurred.

- A Graph 3
- B Graph 4
- C Graph 5
- D Graph 6

(2 marks)

4.8 A company has recorded the following data in the two most recent periods.

<i>Total costs of production</i>	<i>Volume of production</i>
\$	Units
13,500	700
18,300	1,100

What is the best estimate of the company's fixed costs per period?

- A \$13,500
- B \$13,200
- C \$5,100
- D \$4,800

(2 marks)

4.9 A production worker is paid a salary of \$650 per month, plus an extra 5 cents for each unit produced during the month. How is this type of labour cost best described?

- A A variable cost
- B A fixed cost
- C A step cost
- D A semi-variable cost

(2 marks)

4.10 What type of cost is supervisor salary costs, where one supervisor is needed for every ten employees added to the staff?

- A A fixed cost
- B A variable cost
- C A mixed cost
- D A step cost

(2 marks)

4.11 The following information for advertising and sales has been established over the past six months:

<i>Month</i>	<i>Sales revenue</i> \$'000	<i>Advertising expenditure</i> \$'000
1	155	3
2	125	2.5
3	200	6
4	175	5.5
5	150	4.5
6	225	6.5

Using the high-low method which of the following is the correct equation for linking advertising and sales from the above data?

- A Sales revenue = 62,500 + (25 × advertising expenditure)
 - B Advertising expenditure = – 2,500 + (0.04 × sales revenue)
 - C Sales revenue = 95,000 + (20 × advertising expenditure)
 - D Advertising expenditure = – 4,750 + (0.05 × sales revenue)
- (2 marks)**

4.12 A total cost is described as staying the same over a certain activity range and then increasing but remaining stable over a revised activity range in the short term.

What type of cost is this?

- A A fixed cost
 - B A variable cost
 - C A semi-variable cost
 - D A stepped fixed cost
- (2 marks)**

4.13 A company incurs the following costs at various activity levels:

<i>Total cost</i> \$	<i>Activity level</i> units
250,000	5,000
312,500	7,500
400,000	10,000

Using the high-low method what is the variable cost per unit?

- A \$25
 - B \$30
 - C \$35
 - D \$40
- (2 marks)**

4.14 The following diagram represents the behaviour of one element of cost:

