

MANAGEMENT ACCOUNTING- Week 3 Tutorial Homework

Exhibit 2.2

Common cost classifications in management accounting

Basis of classification	Cost classifications	Used to:
■ Behaviour (see Chapter 3)	■ Variable – Unit level – Engineered ■ Fixed – Committed – Discretionary	■ Plan (budget) costs ■ Control costs ■ Make decisions
■ Traceability	■ Direct ■ Indirect	■ Estimate the cost of goods and services ■ Estimate the cost of organisational units, such as departments or activities
■ Controllability (see Chapter 12)	■ Controllable ■ Uncontrollable	■ Measure managers' performance ■ Control costs
■ Value chain	■ Upstream: – Research and development – Design – Supply ■ Manufacturing/production ■ Downstream: – Marketing – Distribution – Customer service	■ Analyse cost structures and identify strategies ■ Measure performance ■ Control/manage costs
■ Manufacturing/product costs	■ Direct material ■ Direct labour ■ Manufacturing overhead	■ Estimate the cost of products ■ Estimate the cost of goods sold for the income statement, and inventory for the balance sheet
■ Timing of the expense	■ Product ■ Period	■ Prepare income statement and balance sheet

Exercise 2.5 (learning objective 2.3)

What is meant by the phrase different costs for different purposes?

Depending upon "how managers use this information", different costs are used for different purposes. Some costs may be relevant for managers as they will have to understand this to manage the level of resources to create value for customers and shareholders. Costs may be relevant to multiple areas such as; product costing affects determining product profitability or costs relevant to planning has an effect on future operations. Based on the situation and the needs of the manager, costs relevant to it should be provided by management accountants.

Exercise 2.6 (learning objective 2.4)

Traditional management accounting systems classify costs as fixed and variable. Define these terms and provide three examples of each for the Commonwealth Bank.

Fixed cost is a cost that remains unchanged in total despite changes in the level of activity.

Variable cost is a cost that changes, in total, in direct proportion to a change in the level of activity.

Fixed costs of Commonwealth Bank:

- Renting of premises
- Admin expenses
- Depreciation of computer and equipment

Variable costs of Commonwealth Bank

- Cost of funding
- Interest on loans
- Commission expense

Exercise 2.7 (learning objective 2.4)

When analysing cost behaviour, what do we mean by level of activity?

Level of activity refers to the level of work performed in the organisation. Hence, the activity causes the cost and therefore is called the cost driver, which is any activity or factor that causes costs to be incurred. The activity can be expressed in different units, such as kilometres, pages printed, and hours worked based on the type of organisation being looked at in the scenario.

Exercise 2.22 (learning objective 2.5, 2.6)

Classifying product and period costs, variable and fixed costs, manufacturing costs

For each of the costs listed below, indicate whether it is:

- (a) A product or period cost
- (b) A variable or fixed cost
- (c) A manufacturing or non-manufacturing cost

You may wish to use the following table format in answering this question.

Cost No.	Product/ period cost?	Variable or fixed cost?	Manufacturing/ non-manufacturing cost?
Advertising costs of Nike	Period costs	Fixed costs	Non-manufacturing
Straight-line depreciation on mining machinery of BHP Billiton	Period costs	Fixed costs	Non-manufacturing
Wages of assembly line personnel of Mack Trucks	Product costs	Variable costs	Manufacturing costs
Delivery costs on customer shipments of Streets ice-cream	Product costs	Variable costs	Non-manufacturing
Newsprint consumed in printing The Sydney Morning Herald	Product costs	Variable costs	Manufacturing costs
Plant insurance costs of Levi Strauss	Period costs	Fixed costs	Non-manufacturing costs
Glass costs incurred in cookware produced by Pyrex	Product costs	Variable costs	Manufacturing costs
Tyre costs incurred by Subaru	Product costs	Variable costs	Manufacturing costs
Sales commissions paid to the sales force of Dell Inc	Product costs	Variable costs	Manufacturing costs
Wood glue consumed in the manufacture of Fantastic Furniture wardrobes	Period costs	Variable costs	Manufacturing costs
Hourly wages of refinery security guards employed by BP	Period costs	Fixed costs	Non-manufacturing costs
The salary of a financial vice president of Microsoft	Period costs	Fixed costs	Non-manufacturing costs

Tutorial Question- Exercise 2.41

Required:

Michael Halls asks you to review the results for the month and evaluate the company's approach to estimating product costs. In doing so, you should:

1. Comment on the cost classifications used in CTC's income statement.

The bookkeeper has clearly not distinguished between the costs.

- He has charged the entire purchases as an expense while there was still a few remaining on hand
-
-
-
-

2. Estimate the cost of goods manufactured and sold

Colonial Tap company

Schedule of cost of goods manufactured for the month ended

Direct Material:	\$	\$
Raw material inventory		
Add purchases of raw material		
Raw material available for use		
Deduct Raw material inventory		
Raw material used		
Direct Labour		
Manufacturing Overhead:		
Indirect material		
Indirect labour		
Depreciation of factory		
Depreciation of equipment		
Electricity		
Insurance		
Total manufacturing overhead		
Total manufacturing costs		

Work in progress inventory		
Subtotal		
Deduct work in process inventory		
Cost of goods manufactured		

Schedule of costs of goods sold for the month ended

Finished goods inventory	
Add cost of goods manufactured	
Costs of goods available for sale	
Deduct finished goods inventory	
Cost of Goods sold	

3. Prepare a revised income statement for the month.

Income statement for the month ended

Sales Revenue	
Less Costs of Goods Sold	
=Gross Profit	
Selling and administrative expenses	
Profit before taxes	
Income tax expenses	
Net profit	

4. Explain the difference between your income statement and the above one.

5. If possible suggest a more useful format for analysing costs that that used in your revised income statement.
6. Evaluate the usefulness of product costs based on direct materials and direct labour for determining selling prices.
7. Make recommendations for changes to be made to the company's approach to product costing and reporting profit.