EXERCISE 2-1 Classifying Manufacturing Costs

Your Boat, Inc., assembles custom sailboats from components supplied by various manufacturers. The company is very small and its assembly shop and retail sales store are housed in a Gig Harbor, Washington, boathouse. Below are listed some of the costs that are incurred at the company.

Required:

For each cost, indicate whether it would most likely be classified as direct labor, direct materials, manufacturing overhead, selling, or an administrative cost.

1. The wages of employees who build the sailboats.
2. The cost of advertising in the local newspapers.
3. The cost of an aluminum mast installed in a sailboat.
4. The wages of the assembly shop's supervisor.
5. Rent on the boathouse.
6. The wages of the company's bookkeeper.
7. Sales commissions paid to the company's salespeople.
8. Depreciation on power tools.

EXERCISE 2-2 Classification of Costs as Period or Product Costs [LO2]

Suppose that you have been given a summer job at Fairwings Avionics, a company that manufactures sophisticated radar sets for commercial aircraft. The company, which is privately owned, has approached a bank for a loan to help finance its tremendous growth. The bank requires financial statements before approving such a loan. You have been asked to help prepare the financial statements and were given the following list of costs:

1. The cost of the memory chips used in a radar set.
2. Factory heating costs.
3. Factory equipment maintenance costs.
4. Training costs for new administrative employees.
5. The cost of the solder that is used in assembling the radar sets.
6. The travel costs of the company's salespersons.
7. Wages and salaries of factory security personnel.
8. The cost of air-conditioning executive offices.
9. Wages and salaries in the department that handles billing customers.
10. Depreciation on the equipment in the fitness room used by factory workers.
11. Telephone expenses incurred by factory management.
12. The costs of shipping completed radar sets to customers.
13. The wages of the workers who assemble the radar sets.
14. The president's salary.
15. Health insurance premiums for factory personnel.

Required:

Classify the above costs as either product (inventoriable) costs or period (noninventoriable) costs for purposes of preparing the financial statements for the bank.

EXERCISE 2-3 Constructing an Income Statement [LO3]

Last month Mountain High, a mountain sporting goods retailer, had total sales of $3,200,000, selling expenses of $110,000, and administrative expenses of $470,000. The company had beginning merchandise inventory of $140,000, purchased additional merchandise inventory for $2,550,000, and had ending merchandise inventory of $180,000.

Required:

Prepare an income statement for the company for the month.

EXERCISE 2-4 Prepare a Schedule of Cost of Goods Manufactured

Mannerman Fabrication manufactures a variety of products in its factory. Data for the most recent month's operations appear below:

Beginning raw materials inventory	$55,000
Purchases of raw materials	$440,000
Ending raw materials inventory	$65,000
Direct labor	$215,000
Manufacturing overhead	$380,000
Beginning work in process inventory	$190,000
Ending work in process inventory	$220,000

Required:

Prepare a schedule of cost of goods manufactured for the company for the month.

EXERCISE 2-5 Classification of Costs as Fixed or Variable

Below are costs and measures of activity in a variety of organizations.

Required:

Classify each cost as variable or fixed with respect to the indicated measure of activity by placing an X in the appropriate column.

		Cost Behavior	
Cost	Measure of Activity	Variable	Fixed
1. The cost of small glass plates used for lab tests in a medical lab	Number of lab tests performed		
2. A boutique jewelry store's cost of leasing retail space in a mall	Dollar sales		
3. Top management salaries at FedEx	Total sales		
4. Electrical costs of running production equipment at a Toyota factory	Number of vehicles produced		
5. The cost of insuring a dentist's office against fire	Patient-visits		
6. The cost of commissions paid to salespersons at a Honda dealer	Total sales		
7. The cost of heating the intensive care unit at Swedish Hospital	Patient-days		
8. The cost of batteries installed in trucks produced at a GM factory	Number of trucks produced		
9. The salary of a university professor	Number of students taught by the professor		
10. The costs of cleaning supplies used at a fast-food restaurant to clean the kitchen and dining areas at the end of the day	Number of customers served		

EXERCISE 2-6 Identifying Direct and Indirect Costs

The Empire Hotel is a four-star hotel located in downtown Seattle.

Required:

For each of the following costs incurred at the Empire Hotel, indicate whether it would most likely be a direct cost or an indirect cost of the specified cost object by placing an X in the appropriate column.

	Cost	Cost Object	Direct Cost	Indirect Cost
Ex.	Room service beverages	A particular hotel guest	X	
1.	The salary of the head chef	The hotel's restaurant		
2.	The salary of the head chef	A particular restaurant customer		
3.	Room cleaning supplies	A particular hotel guest		
4.	Flowers for the reception desk	A particular hotel guest		
5.	The wages of the doorman	A particular hotel guest		
6.	Room cleaning supplies	The housecleaning department		
7.	Fire insurance on the hotel building	The hotel's gym		
8.	Towels used in the gym	The hotel's gym		

EXERCISE 2-7 Differential, Opportunity, and Sunk Costs [LO7]

The Sorrento Hotel is a four-star hotel located in downtown Seattle. The hotel's operations vice president would like to replace the hotel's antiquated computer terminals at the registration desk with attractive state-of-the-art flat-panel displays. The new displays would take less space, would consume less power than the old computer terminals, and would provide additional security since they can only be viewed from a restrictive angle. The new computer displays would not require any new wiring. The hotel's chef believes the funds would be better spent on a new bulk freezer for the kitchen.

Required:

For each of the items below, indicate by placing an X in the appropriate column whether it should be considered a differential cost, an opportunity cost, or a sunk cost in the decision to replace the old computer terminals with new flat-panel displays. If none of the categories apply for a particular item, leave all columns blank.

	Item	Differential Cost	Opportunity Cost	Sunk Cost
Ex.	Cost of electricity to run the terminals	X		
1.	Cost of the new flat-panel displays			
2.	Cost of the old computer terminals			
3.	Rent on the space occupied by the registration desk . . .			
4.	Wages of registration desk personnel			
5.	Benefits from a new freezer			
6.	Costs of maintaining the old computer terminals			
7.	Cost of removing the old computer terminals			
8.	Cost of existing registration desk wiring			