
Solution of Homework Chapter 1

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EX 1: The following data on cost components are extracted from the books of Automotive Manufacturer Flamers:

Solution EX1:

Costs	Based On Elements	Based On Function	Based On Cost Re.	Based On Behavior
The cost of bulbs and elements	Material	Production	Direct	Variable
The cost of fuels and oils Machines	Material	Production	In Direct	Variable
Wages of production workers	Labor	Production	Direct	Variable
The cost of materials and wrap packages	Material	Selling Exp.	Direct	Variable
The cost of wires For Factory Building	Material	Production	In Direct	Fixed
Cost of spare parts for machines	Material	Production	In Direct	Fixed
The cost of screens	Material	Production	Direct	Variable
Maintenance workers wages	Labor	Production	In Direct	Fixed
Depreciation Machinery Factory	Expenses	Production	In Direct	Fixed
Exhibition wages guard workers	Labor	Selling Dep.	In Direct	Fixed
the cost of lighting and cooling Factory plant	Expenses	Production	In Direct	Fixed
The salaries of supervisors	Labor	Production	In Direct	Fixed

Continue Exercise1

Solution Exercise1:

Costs	Based On Elements	Based On Function	Based On Cost Re.	Based On Behavior
The factory manager's salary	Labor	Production	In Direct	Fixed
Selling Men salaries	Labor	Selling Exp.	In Direct	Fixed
Commission salesmen	Labor	Selling Exp.	Direct	Variable
Depreciation of factory buildings	Expenses	Production	In Direct	Fixed
Administrative salaries	Labor	Admin.	In Direct	Fixed
Exhibition Rent	Expenses	Selling Exp.	In Direct	Fixed
Insurance Administration Building	Expenses	Admin	In Direct	Fixed
Interest and bank commissions	Expenses	Admin	In Direct	Fixed

Required: Analyze the cost components as previously studied according to cost classifications

Exercise 2: The factory incurs the following costs for the production of identical tanks:

1. Laborers' wages	2. Synthetic wood
3. Power consumption	4. Glass
5. Nails and screws	6. Factory insurance
7. Handles, locks and hinges	8. Wood
9. Supervisors' salaries	10. Factory depreciation
11. Glue, paints	12. Factory manager's salary

Required: Classify the above costs as direct or indirect.

Solution Exercise 2

1. Direct	2. Indirect
3. Direct	4. Indirect
5. Direct	6. Indirect
7. Indirect	8. Direct
9. Indirect	10. Indirect
11. Indirect	12. Indirect

- **Exercise 3:**

Green Fuels is engaged in production of biofuels. At the start of financial year 2012, the company had a raw material inventory of \$10 million. During the year it purchased \$320 million of raw material. The raw material inventory at the end of 2012 amounted to \$50 million. Out of the raw materials consumed \$100 million went to manufacturing overheads. The company's total labor costs are \$300 million. 20% of the labor is indirect.

- **Required:** Compute the prime costs?

- **Note:** Prime costs can be calculated using any of the following formulas depending on the information available:

- Prime Costs = Direct Materials Cost + Direct Labor Cost

- Prime Costs = Total Manufacturing Costs - Total Manufacturing Overheads

Solution Exercise3

- Raw materials consumed = opening raw materials (\$10 million) + purchases (\$320 million) – (\$50 million) = \$280 million
- Direct materials consumed = raw materials consumed (\$280 million) – indirect materials (\$100 million) = \$180 million
- Direct labor costs = 80% of \$300 million = \$240 million
- Prime costs = \$180 million + \$240 million = \$420 million