

# A11 Cost Accounting (I)

Name : \_\_\_\_\_ Class: \_\_\_\_\_

## Chapter 24 Cost classification, concepts and terminology

### Direct and indirect costs

Direct costs => the costs that can be easily traced => Variable costs  
Indirect costs => the cost that cannot be easily traced => Fixed costs

### Fixed, variable and mixed costs

Fixed costs => remain unchanged with the change of level of production => Indirect costs  
Variable costs => vary with changes in the level of production => Direct costs  
Mixed costs/Semi-variable costs => partly fixed and partly variable  
Step costs/Semi-fixed costs => does not change within a number of production

### Using high-low method to separate a mixed cost into fixed and variable

The variable cost per unit of mixed cost = $\frac{\text{Highest mixed cost} - \text{Lowest mixed cost}}{\text{The highest production units} - \text{The lowest production units}}$
--

### Using the variable costs per unit to calculate the fixed cost of a mixed cost

- Step 1 Using the highest or lowest mixed cost  
Step 2 Find the fixed cost of a mixed cost by applying the following formula  
The fixed cost = highest mixed cost – the highest production units x the variable cost per unit of mixed cost  
The fixed cost = lowest mixed cost – the lowest production units x the variable cost per unit of mixed cost

### HKDSE (2020, 4)

### (Cost classification)

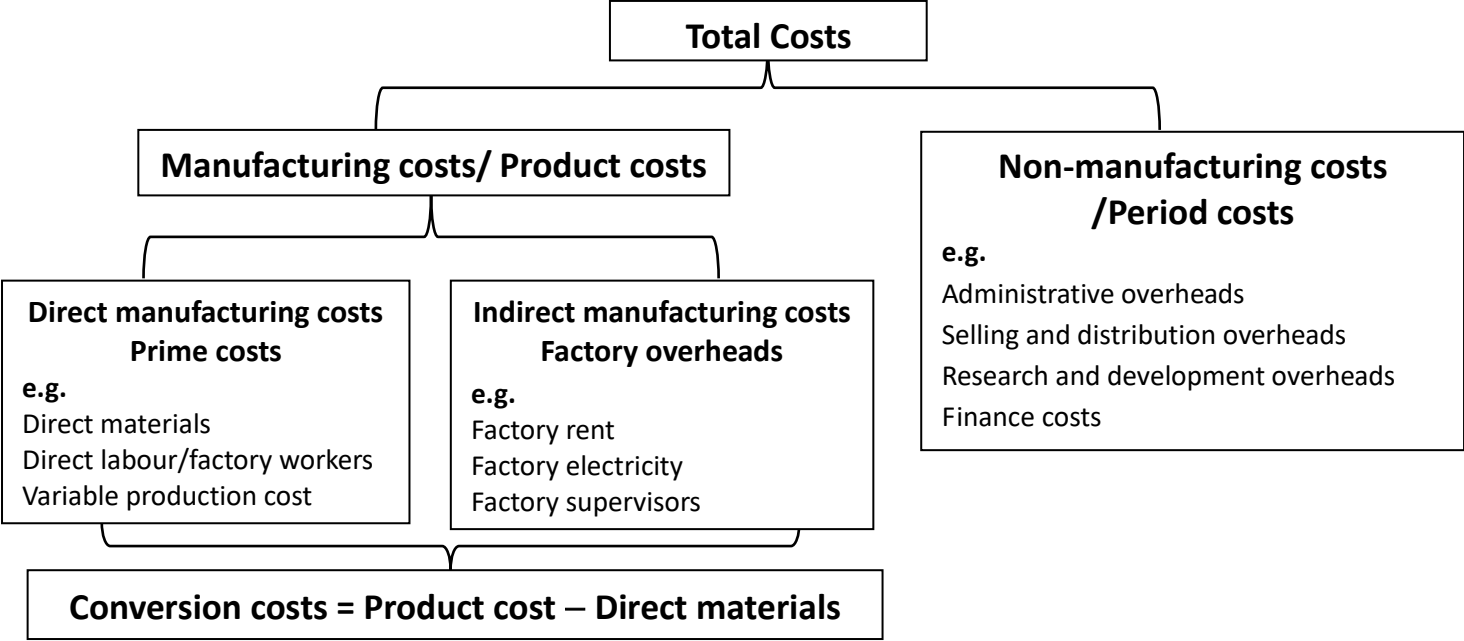
4. Sunny Company launched a new product in 2019. Cost information for the past four quarters is as follows:

Activity level	Quarter 1 3 000 units	Quarter 2 6 000 units	Quarter 3 12 000 units	Quarter 4 11 000 units
Cost item	\$	\$	\$	\$
Direct materials	3 600	7 200	14 400	13 200
Direct labour	6 000	12 000	24 000	22 000
Machinery depreciation	3 000	3 000	3 000	3 000
Rental expenses	7 000	7 000	10 000	10 000
Electricity expenses	2 600	4 700	9 800	10 000

- (a) Classify the above costs into: (i) Fixed cost (ii) Variable cost (iii) Mixed cost (iv) Step costs  
(b) Use the high-low method to calculate the variable component and the fixed component of the electricity expenses respectively.

- (a) (i) \_\_\_\_\_  
(ii) \_\_\_\_\_  
(iii) \_\_\_\_\_  
(b) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Manufacturing and non-manufacturing costs**



2 David operates a factory that makes a single product. The following costs were extracted from the books for the first financial year just ended:

	\$
Raw materials used	7,600,000
Wages and salaries:	
Direct factory workers	800,000
Indirect factory workers	600,000
Office staff	140,000
Water and electricity	80,000
Rent	120,000
Depreciation:	
Plant and machinery	20,000
Office equipment	10,000
Selling and administrative	8,000

Additional information:

- (i) It was determined that 80% of the water and electricity expenses and 70% of the rent were related to the factory while the rest were related to the office.
- (ii) There were no inventories of raw materials or work-in-progress.

**Required:**

- (a) Calculate the prime cost, factory overheads and non-manufacturing overheads incurred for the year.
  - (b) Differentiate the above costs into product costs and period costs and explain their accounting treatments.
- (a)
- 
- 
- 
- 
- (b)
- 
- 
- 
-