

**Solution Manual for Managerial Accounting Canadian Canadian 10th
Edition Garrison Libby Webb 1259024903 9781259024900**

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Chapter 2: Cost Terms, Concepts, and Classifications

Learning Objectives

- LO1. Identify and give examples of each of the three basic manufacturing cost categories.
- LO2. Distinguish between product and period costs, and give examples of each.
- LO3. Prepare an income statement, including the calculation of cost of goods sold.
- LO4. Prepare a schedule of cost of goods manufactured.
- LO5. Explain the differences between variable and fixed costs.
- LO6. Identify the differences between direct and indirect costs.
- LO7. Describe the cost classifications used in making decisions: differential costs, opportunity costs, and sunk costs.

Chapter Overview

Managers need to rely upon different classifications of costs for different purposes. This chapter emphasizes **four main purposes** of cost classification:

- ✓ For preparing external reports such as the balance sheet and income statement.
- ✓ To predict cost behaviour—how costs will react to changes in activity.
- ✓ For purposes of assigning costs to cost objects such as products or departments.
- ✓ To aid in making business decisions

Service-Related Examples

<i>Company</i>	<i>Type of Business</i>	<i>Text Page</i>
The Lawn Guy	Landscaping & snow-removal	26
Industry Canada	Canadian federal government	29
Reston Bookstore	Retail bookstore	32
Saskatchewan Clinic	Medical clinic	41

Assignment Topic Grid Chapter 2

<i>Problem</i>	<i>Topic</i>	<i>LO1: DM, DL, Manufacturing overhead</i>	<i>LO2: Period and product costs</i>	<i>LO3: Income statement</i>	<i>LO4: Schedule of cost of goods manufactured</i>	<i>LO5: Variable and fixed costs</i>	<i>LO6: Direct and indirect costs</i>	<i>LO7: Decision-making cost classifications</i>	<i>Ethical issues</i>	<i>Service industry</i>	<i>Writing component</i>	<i>CMA/CPA adapted</i>
E2-1	Classifying Manufacturing Costs	✓										
E2-2	Classification of Costs as Period or Product Cost		✓									
E2-3	Constructing an Income Statement			✓								
E2-4	Prepare a Schedule of Cost of Goods Manufactured				✓							
E2-5	Classification of Costs as Fixed or Variable					✓				☺		
E2-6	Identifying Direct or Indirect Costs						✓			☺		
E2-7	Differential, Opportunity, and Sunk Costs							✓		☺		
E2-8	Opportunity and Sunk Costs							✓				
E2-9	Product Cost Flows; Product versus Period Costs		✓	✓								
E2-10	Preparation of Schedule of Costs of Goods Mfg. and COGS	✓		✓	✓							
E2-11	Classification of Costs of Variable or Fixed and Selling Adm. or Prod.		✓			✓				☺		
E2-12	Classification of Labour Costs	✓									✗	
P2-13	Classification of Costs		✓			✓	✓					
P2-14	Classification of Labour Costs	✓										
P2-15	Cost Classification	✓	✓			✓		✓				
P2-16	Classification of Costs as Variable or Fixed and Direct or Indirect	✓	✓			✓	✓					
P2-17	Schedule of Cost of Goods Mfg.; Income Statement; Cost Behaviour	✓	✓	✓	✓	✓					✗	
P2-18	Classification of Salary Cost as a Period or Product Cost		✓								✗	
P2-19	Classification of Various Costs	✓	✓			✓		✓			✗	
P2-20	Cost Classification and Cost Behaviour		✓			✓	✓	✓			✗	
P2-21	Variable and Fixed Costs; Subtleties of Direct and Indirect Costs					✓	✓			☺		
P2-22	Schedule of Cost of Goods Mfg.; Income Statement	✓	✓	✓	✓							
P2-23	Ethics and the Manager		✓						✓		✗	
P2-24	Schedule of Cost of Goods Mfg.; Income Statement; Cost Behaviour	✓	✓	✓	✓	✓					✗	
P2-25	Working with Incomplete Data from the I/S & Schedule of COG Mfg.			✓	✓							

<i>Problem</i>	<i>Topic</i>	<i>LO1: DM, DL, Manufacturing overhead</i>	<i>LO2: Period and product costs</i>	<i>LO3: Income statement</i>	<i>LO4: Schedule of cost of goods manufactured</i>	<i>LO5: Variable and fixed costs</i>	<i>LO6: Direct and indirect costs</i>	<i>LO7: Decision-making cost classifications</i>	<i>Ethical issues</i>	<i>Service industry</i>	<i>Writing component</i>	<i>CMA/CPA adapted</i>
P2-26	Income Statement.; Schedule of Cost of Goods Manufactured	✓	✓	✓	✓							
C2-27	Income Statement	✓	✓	✓	✓				✓		✗	
C2-28	Differential Revenues and Costs, Opportunity and Sunk Costs								✓	☺	✗	

Video Clip

Classifying Costs for Decision-Making (McGraw-Hill Managerial/Cost Accounting Library) 10:53 min.

To Access: Visit the Garrison 10th Canadian edition Connect Site, Instructor Resources Page, and select Videos under Course-wide Content

Scenes from a Clorox manufacturing facility and the production of an animated feature length film by Disney provide the background for the discussion of the difficulties of cost analysis. The narrator describes the differences between fixed and variable costs as managers provide examples of these costs. Managers discuss the classifications of direct and indirect costs within the operations of their companies. As other classifications are described, (i.e., differential, opportunity and sunk costs), managers discuss the use of other classifications for decision-making purposes. After explaining that the decisions that a company must make dictate the methods it uses to classify costs, a summary of cost classifications is provided.

Class Discussion Question

Ask students to select a real-world manufacturing company.

Identify the following types of costs for this company:

- 1) direct/indirect material
- 2) direct/indirect labour
- 3) manufacturing overhead
- 4) period
- 5) variable
- 6) fixed
- 7) differential

- 8) opportunity
- 9) sunk
- 10) inventoriable