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## CHAPTER 2 BASIC MANAGEMENT ACCOUNTING CONCEPTS

### QUESTIONS FOR WRITING AND DISCUSSION

1. Product costing accuracy means assigning the cost of that production to the cost object that cost object.
2. A cost object is any item for which costs are accumulated and analyzed, including such things as products, plants, projects, departments, and activities.
3. An activity is a basic unit of work performed within an organization. Examples include material handling, inspection, purchasing, billing, and maintenance.
4. A direct cost is a cost that can be traced to a cost object; an indirect cost is a cost that cannot be traced to cost objects.
5. Traceability is the ability to assign a cost directly to a cost object in an economically feasible way using its causal relationship. Tracing is the assignment of costs to cost objects using either an observable measure of the cost object's resource consumption or factors that uniquely explain the causal relationship.
6. Allocation is the assignment of indirect costs to cost objects based on convenience or assumed linkages.
7. Drivers are factors that cause changes in resource usage, energy, output, costs, and revenues. Resource drivers measure the demands placed on resources by activities and are used to assign the cost of resources to activities. Examples: time used to assign the cost of inspection to individual activities. Activity drivers measure the demands placed on activities by cost objects and are used to assign the cost of activities to cost objects. Example: number of inspection hours used to assign the cost of inspection to individual products.
8. Direct tracing is the process of assigning costs to cost objects based on physically observable causal relationships. Direct tracing is assigning costs using drivers, which are causal factors. The driver represents the link or relationship of cause that uniquely captures the causal relationship. Direct tracing relies on physical observation of the causal relationship and, therefore, is more reliable.
9. Driver tracing is the use of drivers to trace costs to cost objects. Often, the means that cost are the ratios to activities using the source drivers and then to cost objects using activity drivers.
10. A tangible product is a good that is made by converting raw materials through the use of labor and capital inputs.
11. A service is a task or activity performed for a customer or an activity performed by a cost center during an organization's production facilities.
12. Services differ from tangible products on four important dimensions: intangibility, perishability, inseparability, and heterogeneity. Intangibility means that buyers of services cannot see, feel, taste, or hear a service before it is bought. Perishability means that services cannot be stored. Inseparability means that producers of services and buyers of services must be interconnected (not just for tangible products). Heterogeneity means that there is a greater chance of variation in the performance of services than in the production of products.
13. Three examples of product cost definitions are value-chain, operating, and traditional definitions. The value-chain definition includes cost assignments for all value-chain activities. Operating product costs include all costs except for research and development. Traditional product costs include only production costs. Different costs are needed because they serve different managerial purposes.
14. The three cost elements that determine the cost of making a product are direct materials, direct labor, and overhead.
15. The income statement for a service firm does not need a supporting cost of goods manufactured schedule. Because services cannot be stored, the cost of services provided

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