

## Application & Analysis

### Mini Cases

#### A6-74 Cost Behavior in Real Companies

Choose a company with which you are familiar that manufactures a product or provides a service. In this activity, you will be making reasonable estimates of the costs and activities associated with this company; companies do not typically publish internal cost or process information.

#### Basic Discussion Questions

1. Describe the company you selected and the products or services it provides.
2. List ten costs that this company would incur. Include costs from a variety of departments within the company, including human resources, sales, accounting, production (if a manufacturer), service (if a service company), and others. Make sure that you have at least one cost from each of the following categories: fixed, variable, and mixed.
3. Classify each of the costs you listed as either fixed, variable, or mixed. Justify why you classified each cost as you did.
4. Describe a potential cost driver for each of the variable and mixed costs you listed. Explain why each cost driver would be appropriate for its associated cost.
5. Discuss how easy or difficult it was for you to decide whether each cost was fixed, variable, or mixed. Describe techniques a company could use to determine whether a cost is fixed, variable, or mixed.

### ETHICS

#### A6-75 Ethics of building inventory (Learning Objective 6)

Fanfare Products, Inc., is a manufacturer of mobile devices. Kyle is the plant manager at Fanfare's Toledo, Ohio, plant. The Toledo plant manufactures a smartphone, the Zoom, which has sold well for the past six months. Kyle is being considered for promotion to manager of the entire West Coast division of Fanfare Products. Bethany is an accounting supervisor at Fanfare Products and is a good friend of Kyle's.

Kyle and Bethany are having lunch in the company cafeteria. There are about six weeks left in the current fiscal year. Kyle is concerned that his plant will be showing a loss rather than the healthy profit he had projected for the year. The reason for the shortfall is that demand has radically declined for the Zoom smartphone currently manufactured by Kyle's plant. New smartphones with more features have been brought to market by Fanfare's competitors. Engineers at Fanfare are currently working on an updated model of the Zoom, but it will not be ready for production in Kyle's plant for another five months. If Kyle's plant shows a loss this year, Kyle will not receive his performance bonus for the year. He also knows that his chance of promotion to the West Coast manager will be greatly reduced.

Bethany thinks about Kyle's situation. She then shares with him a strategy that he can use to help increase his profits. She explains that under absorption costing, the more units in ending inventory, the more costs can be deferred. Using her tablet, she makes up a quick example in Excel to show him how he can turn his situation around and show operating income for the year.

Bethany's first spreadsheet assumes that five units are produced and sold in this hypothetical situation:

	A	B	C	D
1	<b>Scenario #1</b>			
2	<b>Traditional Income Statement (5 units produced and 5 units sold)</b>			
3	<b>For the year ended December 31</b>			
4				
5	Sales revenue		\$	150
6	Less: Cost of goods sold			115
7	Gross profit		\$	35
8	Less: Operating expenses			55
9	Operating income (loss)		\$	(20)
10				

If five units are produced and sold, the hypothetical company would have a loss of \$20. Now Bethany changes just one fact; instead of producing five units, the company in the example produces ten units. No other facts change—the company still sells just five units. Bethany shows Kyle the revised income statement under the increased production scenario: