Brief Exercise 1-1

Direct labor: Labor costs that can be easily traced to individual units of product.

Direct materials: Materials that become an integral part of a finished product and whose costs can be conveniently traced to it.

Manufacturing overhead: All costs associated with manufacturing except direct materials and direct labor.

Selling: All costs necessary to secure customer orders and get the finished product or service into the hands of the customer.

Administrative: All executive, organizational, and clerical costs associated with the general management of an organization rather than with manufacturing, marketing, or selling.

2. Cost of advertising in the Pugent Sound Computer User newspaper – selling cost.
3. The wages of employees who assemble computers from components – direct labor cost.
4. Sales commissions paid to the company’s salespeople – selling cost.
5. Wages of the assembly shop’s supervisor – manufacturing overhead cost.
6. Wages of the company’s accountant – administrative cost.
7. Depreciation on equipment used to test assembled computers before release to customers – manufacturing overhead cost.
8. Rent on the facility in the industrial park – prorated to manufacturing overhead cost, selling cost and administrative cost based on space occupied.