Variable cost: A cost that varies, in total, in direct proportion to changes in the level of activity.

Fixed cost: A cost that remains constant, in total, regardless of changes in the level of activity within the relevant range.

Selling and administrative cost: Cost involved in selling a product or running and managing an organization.

Product cost: All costs involved in the purchase or manufacture of goods.

1. Hamburger buns in a Wendy’s outlet: Variable cost; product cost.
3. Apples processed and canned by Del Monte: Variable cost; product cost.
4. Shipping canned apples from Del Monte plant to customers: Variable cost; selling and administrative cost.

Exercise 1-9 (continued)

5. Insurance on a Bausch & Lomb factory producing contact lenses – Fixed cost; product cost.
6. Insurance on IBM’s corporate headquarters – Fixed cost; selling and administrative cost.
7. Salary of a supervisor overseeing production of printers at Hewlett-Packard – Fixed cost; product cost.
8. Commissions paid to pharmaceutical sales representatives – Variable cost; selling and administrative cost.
10. Steering wheels installed in BMWs – Variable cost; product cost.