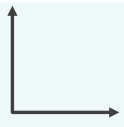
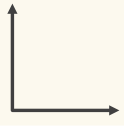
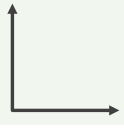


TOPIC: FIXED, VARIABLE, AND MIXED COSTS

◆ To make accurate plans, managers need to understand how their costs will change if their level of activity changes.

	Definition	Examples	When activity increases...
Fixed Costs	Remain constant, regardless of the activity level.	Rent Salaried Employee	Remains _____. 
Variable Costs	Change in direct proportion to changes in the activity level.	Raw Materials Sales Commissions	Increases from the _____. 
Mixed Cost	Contain both variable and fixed cost elements.	Janitorial Costs Delivery Costs	Increases from _____. 

◆ An activity base, also called a _____, is a measurement of what causes costs to change.

EXAMPLE

Some of Bryan Clothing's costs of producing clothing are listed below. Classify each of these costs as variable, fixed, or mixed by writing V, F, or M next to each statement. Assume that the quantity of sweaters produced is the activity base.

_____ Wool yarn costs \$10 per pound.

_____ Rent is \$70,000 per month.

_____ The delivery driver is paid \$5,000 per month, plus \$2 per delivery.

_____ Workers who knit sweaters are paid \$20 per hour.

_____ The factory manager is paid \$60,000 per year.

TOPIC: FIXED, VARIABLE, AND MIXED COSTS

PRACTICE

An employee at Bigtech Co. is paid an annual salary but also receives a commission for every item they produce. This employee's compensation is what type of cost to Bigtech Co?

- a) Fixed.
- b) Variable.
- c) Mixed.
- d) Stepwise.

PRACTICE

A restaurant learns from their landlord that their rent will be increasing at the start of the year. This means that their rent is:

- a) No longer a fixed cost, because the rent has changed once, and could change again in the future.
- b) No longer a fixed cost, because the rent will change if the company's activity level changes.
- c) Still a fixed cost, because the rent is guaranteed to remain unchanged during the year.
- d) Still a fixed cost, because the rent will not change if the company's activity level changes.