

17.1 Match the words in the box with the definitions below. Look at A, B and C opposite to help you.

break-even point	cost centre	fixed costs
overheads	variable costs	profitable

- expenses that are not clearly related to production or manufacturing
- a unit of activity in an organization for which costs are calculated separately
- costs that depend on the amount produced
- adjective meaning providing income for a company
- costs that do not change according to the production volume
- the sales volume at which a company doesn't make a loss, but doesn't make a profit

17.2 Sort the following into direct, indirect, fixed and variable costs. Look at A and B opposite to help you.

Cost	Direct	Indirect	Fixed	Variable
Advertising expenses				
Bad debts		✓		✓
Components	✓			✓
Electricity to run machines				
Electricity for heating				
Equipment repairs				
Factory canteen				
Overtime pay				
Raw materials				
Property tax				
Rent				

17.3 Which of the following statements describes:

- absorption costing?
- activity-based costing?

a

As well as direct manufacturing costs – materials and labour – we allocate part of our fixed and variable manufacturing overheads to the cost of every product.

b

We identify all the different functions within the company, and assign costs to products and services according to how much these functions are involved in the process of providing the products and services.