Costs

Finance

Costs Part A: Wysocki Co pays its sales force a fixed salary plus a 5% commission on all sales. Explain why sales force costs would be considered a mixed cost.

Mainly, these types of costs normally has both fixed and varying elements. The former represents a basic wage or a monthly salary, which a salesperson ought to earn irrespective of whether he or she has sold anything (Hansen, Mowen & Guan, 2009). The other element normally varies with sales' volume or quantity, which a given salesperson has so far sold within a predetermined duration. Mixed cost illustration

$Y = q + bx$

Whereby q – fixed cost, b = varying element and x – extent of level activities.

Part B:

Among the fixed costs of Howarth Co. are depreciation and research and development. Using these two costs as examples, explain the difference between committed and discretionary fixed costs.

Discretionary fixed costs ordinarily refer to short term fixed costs whose occurrence is due to decisions devised by a given firm's management in regards to spending on certain items or products (Aartsengel, & Kurtoglu, 2013). These include research and development whereby they are at the discretion of the managerial team in terms of manipulating them based on an already predetermined period, for instance, quarterly, monthly or annually. Hence, indicating this kind of fixed costs' flexible nature contrary to the committed ones (Dunn, Sherwood, Stevens & Winston, 2013).

Conversely, committed fixed cost, for instance, depreciation refer to long planning costs whose alterations may significantly affect continuity of a given firm. Hence, they are inflexible (Hartman, Vang & Cornwall, 2015).

Part C:

Why is it important that decision makers in a corporation know the cost function for producing the companies products?

Firms normally rely in this knowledge in their quest to come up with concrete and quality decisions regarding what to produce. For instance, this is quite evident with “ make or buy” situations whereby a given company ought to go for the most appropriate option that will guarantee it heightened profitability.

Part D:

What advantages does using regression analysis have over the visual-fit method for determining cost functions?

In arriving to the required results, it utilizes all the relayed data contrary to visual fit method, which mostly leaves out some data. This is especially when intending to link certain points of data graphically.

References

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