

Assignment Title: Classifying Costs for Decision Making

Objective:

The goal of this assignment is to help students understand the concept of relevant and irrelevant costs and apply it to decision-making scenarios.

Instructions:

1. **Read the Scenario:**

You are a manager of a small manufacturing company. You are considering whether to continue producing a specific product or to discontinue it. Analyze the costs provided below and classify them as either relevant or irrelevant for this decision.

2. **Key Definitions:**

- **Relevant Costs:** Costs that will be directly affected by the decision and will occur in the future.
- **Irrelevant Costs:** Costs that will not change as a result of the decision or are sunk costs (already incurred and cannot be recovered).

3. **Scenario and Cost Details:**

- a. Fixed factory rent: \$10,000/month (the factory will remain in use regardless).
- b. Direct materials for the product: \$5/unit.
- c. Direct labor costs: \$7/unit.
- d. Depreciation on machinery: \$2,000/month (non-cash cost, already allocated).
- e. Variable overhead: \$3/unit.
- f. Marketing costs specific to the product: \$500/month.
- g. General administrative costs: \$4,000/month (allocated, will not change).

4. **Assignment Task:**

- Classify each cost (a–g) as **relevant** or **irrelevant** for the decision to continue or discontinue the product.
- Provide a brief explanation for your classification of each cost.

5. **Example Response:**

Cost: Direct materials for the product

Classification: Relevant

Explanation: This cost varies directly with the production of the product and will be eliminated if production stops.

Submission Requirements:

- Submit your answers in a table format, as shown below:

Cost Item	Classification (Relevant/Irrelevant)	Explanation
Fixed factory rent	Irrelevant	The cost is fixed and will not change regardless of the decision.
Direct materials for the product	Relevant	The cost varies with production and will be eliminated if the product is discontinued.