**POSTTEST KEY**

**OBJECTIVE A**

1. **a Overhead.** Overhead and OPEX are other names for operating costs. Capital expenditures are the opposite of operating costs—they are one-time purchases a business makes. Fixed expenses and variable expenses are types of operating costs, but not alternative names for operating costs. (5 points)

2. **b They are not directly related to production**. Operating costs are the ongoing, day-to-day expenses of running a business that are not related to production. They consist of both fixed and variable expenses, and they are ongoing—not just occurring once or twice a year. All businesses incur operating expenses. (5 points)

3. **d Capital expenditures**. Operating costs are the opposite of capital expenditures. Capital
expenditures are one-time purchases a business makes, such as land, buildings, or equipment. Utilities are a type of operating cost. Variable and fixed expenses are the two main categories of operating costs. (5 points)

4. **c Fixed**. Operating costs that do not increase or decrease with changes in production are called fixed expenses. Variable expenses fluctuate along with production. Semi-variable,
or mixed, expenses are fixed until a certain level of production is reached—after that, they become variable. (5 points)

5. **d Fixed**. A business’s rent or mortgage is a fixed expense. It doesn’t increase or decrease with changes in production. Variable expenses fluctuate with changes in production. Semi-variable, or semi-fixed, expenses are fixed until production reaches a certain point—after that, they become variable. (5 points)

6. **a Variable**. Operating costs that fluctuate with changes in production are called variable
expenses. When production goes up, variable expenses go up. When production goes down, variable expenses go down. Fixed expenses do not increase or decrease with changes in production. Capital expenses are one-time purchases a business makes, such
as land or equipment. Total expenses are the sum of the operating and direct expenses it costs to make a product. (5 points)

7. **d Variable**. Sales commissions are a variable expense—they usually fluctuate with changes in production. They are not a one-time expense—businesses pay them on a continual basis. They are not a capital expense—these are one-time purchases a business makes, such as land or equipment. They are not a fixed expense—fixed expenses do not change along with changes in production. (5 points)

**POSTTEST KEY** (cont’d)

8. **c Semi-variable**. Operating costs that are fixed until the business reaches a certain level of production and then become variable are known as semi-variable, semi-fixed, or mixed expenses. Fluctuating expenses would describe fully variable expenses. Unfixed expenses is not a term used in business. Capital expenses are one-time purchases a business makes, such as land or equipment. (5 points)

9. **a Semi-fixed expense**. Considered together, salaries and sales commissions are a semi-fixed (also known as semi-variable or mixed) expense. The expense is fixed until a certain point and then becomes variable. Salaries and sales commissions are not a capital expenditure—a capital expenditure is a one-time purchase a business makes, such as land or equipment. Salaries and sales commissions do not relate directly to production, and they are not a tax of any kind. (5 points)

10. **c Some may be considered either fixed or variable**. Some operating expenses may be
considered either fixed *or* variable. It’s up to the individual business how to classify the
expense, but the classification must remain consistent for accounting purposes. Purchasing a piece of equipment is a capital expenditure, not an operating cost. Operating costs are divided into fixed and variable expenses—they can be further subdivided into selling and manufacturing expenses, but this is not always the case. Businesses don’t necessarily spend more on operating costs than production costs; as a matter of fact, they usually strive to keep operating costs low. (5 points)

11. **d Pest control**. Pest control is an operating expense that might be considered fixed by one business but variable by another business. One business might hire a company for pest control and pay a flat fee each year. Another business, however, might only pay for pest control as needed. Employee benefits and depreciation are operating expenses that are generally considered fixed. Travel expenses are generally considered variable. (5 points)

**OBJECTIVE B**

12. **a Keep them as low as possible**. Most businesses attempt to keep operating costs as low as possible. This enables them to boost their profits. Operating expenses can’t be eliminated completely, but businesses don’t spend lavishly on them. Businesses don’t usually focus on variable expenses rather than fixed ones. (5 points)

13**. b Total cost**. The sum of the operating and direct expenses required to make a product is its total cost. A product must be priced higher than the total cost for the business to make a profit. A price markup is the difference between total cost and selling price. Breakeven point happens when total expenses equal total sales. Gross cost is not a typical business term. (5 points)

**POSTTEST KEY** (cont’d)

14. **d Its selling price**. A price markup is the difference between how much it costs to make a product and its selling price. A product may go through several markups before it reaches its final selling price. A price markup does not indicate anything about how much employees make, what was estimated in the budget, or the company’s gross profit. (5 points)

15. **a Cost-based pricing**. Determining how much it costs to make a product and adding a predetermined markup is a method known as cost-based pricing. Price-based costing is determining how much customers will pay for a product, and then whittling down costs so the business can still make a profit. Economies of scale are cost savings created by increased levels of production. Gross profit is a company’s revenue after subtracting the costs of the products it has sold. (5 points)

16. **d Price-based costing**. Determining how much customers will pay for a product and adjusting costs so the business can still make a profit is known as price-based costing. Gross profit is a company’s revenues after subtracting the costs of the products it has sold. Economies of scale are cost savings created by increased levels of production. Cost-based pricing is a method in which a business adds a predetermined markup to a product’s
total cost. (5 points)

17. **c Operating**. When attempting to reduce costs, most businesses will first cut operating costs, whether those costs are fixed or variable. Most businesses will not cut production costs unless they cannot cut operating costs any further. (5 points)

18. **b Economy of scale**. A business creates economy of scale when it increases production to “spread out” or dilute its fixed operating costs. This allows the business to reduce the impact of its operating costs without actually having to lower them. A capital expenditure is a one-time purchase a business makes, such as land or equipment. Gross profit is a company’s revenues after subtracting the costs of the products it has sold. Breakeven point happens when a company’s total sales equal its total expenses. (5 points)

19. **b Gross profit**. The revenue a company makes after subtracting the costs of the products it has sold is called gross profit. Commission is an amount a salesperson earns per sale,
either a percentage or a flat fee. Breakeven point occurs when a company’s total sales equal its total expenses. Depreciation is a loss of value. (5 points)

20. **a Has reached its breakeven point**. When total sales equal total expenses, the business has reached its breakeven point. It has not yet made a profit, but it has not incurred any losses. When total sales equal total expenses, it is not necessary for a business to cut its operating costs or to increase its price markups. It does not necessarily mean that the business has successfully created economies of scale. (5 points)

**Suggested** Criterion Level: 80 points