

Variable Costing in-class

Student: _____

1. Nelson Corporation, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price.....	\$84
Units in beginning inventory.....	500
Units produced	1,900
Units sold.....	2,100
Units in ending inventory	300

Variable costs per unit:	
Direct materials	\$25
Direct labor.....	\$10
Variable manufacturing overhead	\$7
Variable selling and administrative...	\$10
Fixed costs:	
Fixed manufacturing overhead.....	\$38,000
Fixed selling and administrative	\$21,000

The Company produces the same number of units every month, although the sales in units vary from month to month. The company's variable costs per unit and total fixed costs have been constant from month to month.

Required:

2. a. Prepare a contribution format income statement for the month using variable costing.
b. Prepare an income statement for the month using absorption costing.

Variable Costing in-class **Key**

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Required:

- Prepare a contribution format income statement for the month using variable costing.
- Prepare an income statement for the month using absorption costing.

a. Unit product cost under variable costing:

Direct materials.....	\$25	
Direct labor.....	10	
Variable manufacturing overhead.....	7	
Variable costing unit product cost.....	<u>\$42</u>	

Variable costing income statement

Sales (\$84 per unit × 2,100 units).....		\$176,400
Variable expenses:		
Variable cost of goods sold		
(\$42 per unit × 2,100 units).....	\$88,200	
Variable selling and administrative		
(\$10 per unit × 2,100 units).....	21,000	109,200
Contribution margin.....		<u>67,200</u>
Fixed expenses:		
Fixed manufacturing overhead.....	38,000	
Fixed selling and administrative	21,000	59,000
Net operating income		<u>\$8,200</u>

b. Unit product cost under absorption costing:

Direct materials.....	\$25
Direct labor.....	10
Variable manufacturing overhead.....	7
Fixed manufacturing overhead cost (\$38,000 ÷ 1,900 units)	<u>20</u>
Absorption costing unit product cost.....	<u>\$62</u>

Absorption costing income statement

Sales (\$84 per unit × 2,100 units).....	\$176,400
Cost of goods sold	
(\$62 per unit × 2,100 units)	<u>130,200</u>
Gross margin.....	46,200
Selling and administrative expenses	
[(\$10 per unit × 2,100 units) + \$21,000]	<u>42,000</u>
Net operating income	<u>\$ 4,200</u>

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Garrison - Chapter 06 #210

Learning Objective: 06-01 Explain how variable costing differs from absorption costing and compute unit product costs under each method.

Learning Objective: 06-02 Prepare income statements using both variable and absorption costing.

variable costing inclass Summary

<u>Category</u>	<u># of Question</u>
AACSB: Analytic	1
AICPA BB: Critical Thinking	1
AICPA FN: Measurement	1
Blooms: Apply	1
Difficulty: 2 Medium	1
Garrison - Chapter 06	1
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