

CHAPTER 7: VARIABLE AND ABSORPTION COSTING

Question 1. Cortex Inc. reported the following information about the production and sales of its only product during July:

Sales (\$210 per unit)		\$147,000
Direct materials used		80,000
Direct labor		40,000
Variable factory overhead		20,000
Fixed factory overhead		40,000
Variable selling and administrative expenses		10,000
Fixed selling and administrative expenses		20,000
	Ending inventories	Beginning inventories:
Direct materials	-0-	-0-
WIP	-0-	-0-
Finished goods	150 units	50 units

What would be the followings?

- The ending inventory under variable costing
- The ending inventory under absorption costing

Question 2. Karsan Company sells its products for \$66 each. Unit manufacturing costs are: direct materials, \$12.00; direct manufacturing labor, \$18.00; and variable manufacturing overhead, \$9.00. Total fixed manufacturing overhead costs are \$180,000 and marketing expenses are \$6.00 per unit plus \$60,000 per year. The current production level is 25,000 units, although only 20,000 units are anticipated to be sold.

Prepare an income statement using variable costing.

Question 3. Coffey Company reported the following information about the production and sales of its only product during its first month of operations:

Sales (\$105 per unit)	\$147,000
Direct materials used	70,000
Direct labor	40,000
Variable factory overhead	30,000
Fixed factory overhead	17,500
Variable selling and administrative expenses	10,000
Fixed selling and administrative expenses	15,000
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	350 units

What would be the followings?

- The contribution margin under variable costing
- The operating income (loss) under variable costing
- The gross profit under absorption costing
- The operating income (loss) under absorption costing

Question 4. Flexy Company reported the following information about the production and sales of its only product during its first month of operations:

Sales (\$100 per unit)	\$ 150,000
Direct materials used	50,000
Direct labor	30,000
Variable factory overhead	20,000
Fixed factory overhead	25,000
Variable selling and administrative expenses	10,000
Fixed selling and administrative expenses	15,000

Ending inventories:

Direct materials	-0-
WIP	-0-
Finished goods	500 units

Required:

- Prepare an income statement using variable costing method.
- Prepare an income statement using absorption costing method.

Question 5. Lewis, Inc. gathered the following information for the year ended December 31, 2003.

Units produced	34,000 units
Units sold	31,200 units
Direct labor	\$54,700
Direct materials used	\$126,400
Fixed selling and administrative expenses	\$51,000
Variable selling and administrative expenses	\$58,000
Fixed manufacturing overhead	\$62,900
Variable manufacturing overhead	\$73,900
Beginning inventories	none
Gross margin	\$171,200
Direct-materials inventory, December 31	\$12,800
WIP, December 31	none

- What is the ending finished-goods inventory cost under absorption costing?
- What is the ending finished-goods inventory cost under variable costing?