**Chapter 6 - Variable Costing**

Corporation began operations on January 1, 2012, and produces a single product that sells for **$12.00** per unit. Winston uses an actual (historical) cost system. The company produced 100,000 units and 90,000 units were sold in 2012. There was no work-in-process inventory at December 31, 2012.   
Manufacturing costs and selling and administrative expenses for 2012 were as follows

|  |  |  |
| --- | --- | --- |
|  | **Fixed costs** | **Variable costs** |
| Raw materials (all variable) |  | $4.00 per unit produced |
| Direct labor (all variable) |  | $3.00 per unit produced |
| Variable factory overhead |  | $2.00 per unit produced |
| Fixed factory overhead | $100,000 |  |
| Variable Selling and administrative |  | $1.00 per unit sold |
| Fixed Selling and administrative | $60,000 |  |

What is the operating income for 2012 using the direct costing method?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $300,000 | **b.** | $290,000 | **c.** | $20,000 | **d.** | $30,000 | **e.** | Other |  |

Repeat the preceding question.What is the operating income using the absorption costing method?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $300,000 | **b.** | $210,000 | **c.** | $20,000 | **d.** | $30,000 | **e.** | Other |  |

The costing method that can be used most easily with break-even analysis and other cost-volume-profit techniques is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | variable costing. | **b.** | absorption costing. | **c.** | process costing | **d.** | job-order costing. |  |  |  |

Brown Corporation manufactures a gas barbecue grill. This information relates to Brown's last year:

|  |  |
| --- | --- |
| Cost per unit under absorption costing | $46 |
| Fixed manufacturing overhead cost for the year | $425,000 |
| Fixed selling and administrative cost for the year | $125,000 |
| Units (grills) produced and sold | 25,000 |

What is Brown's variable costing unit product cost?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $29 | **b.** | $34 | **c.** | $58 | **d.** | $63 | **e.** | Other |  |

A manufacturer (makes a single product) provided the   
following data concerning its most accounting period:

|  |  |
| --- | --- |
| Units in beginning inventory | 0 |
| Units produced | 6,500 |
| Units sold | 6,300 |
| Units in ending inventory | 200 |
| **Variable costs per unit** |  |
| Direct Materials | $26 |
| Direct labor | $55 |
| Variable manufacturing overhead | $6 |
| Variable selling and administrative | $7 |
| **Fixed Costs** |  |
| Fixed manufacturing overhead | $130,000 |
| Fixed selling and administrative | $69,300 |

What is the absorption costing unit product cost for the period?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $107 | **b.** | $94 | **c.** | $87 | **d.** | $114 | **e.** | Other |  |

**Solo Company** is a small manufacturing firm. It has the capacity to produce and sell between 800 units and 1,200 units of its single product without affecting its total fixed costs.

The company was organized and began business on May 1, 2012.   
During May 2012, the company expects to produce 1,200 units and sell 1,000 units of its single product.   
The company has the following revenue and cost structure:

|  |  |
| --- | --- |
| Selling price | $60 per unit |
| Variable manufacturing costs | $30 per unit |
| Variable selling expense | $15 per unit |
| Fixed manufacturing overhead | $3,000 per month |
| Fixed selling and administrative expense | $8,000 per month |

The company maintains no inventory of work in process. The company began the month of May with no finished goods on hand. It expects to have 200 finished units at the end of May.

The company has no revenue other than sales and no expense other than those identified above and income taxes. Under *absorption costing,* Solo’s net income before income taxes for May is:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $60,000 | **b** | $45,000 | **c.** | $37,500 | **d.** | $4,500 | **e.** | Other |

Use information in preceding question. Under *variable costing*, Solo’s inventory cost per unit is

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $20.00 | **b** | $30.00 | **c.** | $23.00 | **d.** | $38.00. | **e.** | Other |

Weber Company computes net operating income under both the absorption costing approach and the variable costing approach. For a given year the absorption costing net operating income was **less** than the variable costing net operating income. This fact suggests that:

|  |  |  |
| --- | --- | --- |
| **a.** | variable manufacturing costs were less than fixed manufacturing costs. |  |
| **b.** | more units were produced during the year than were sold. |
| **c.** | more units were sold during the year than were produced. |
| **d.** | common costs were greater than variable costs for the year. |

Schrick Inc. manufactures a variety of products. Variable costing net operating income was $86,800 last year and ending inventory increased by 1,900 units. Fixed manufacturing overhead cost was $6 per unit. What was the absorption costing net operating income last year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $86,800 | **b.** | $75,400 | **c.** | $98,200 | **d.** | $11,400 | **e.** | Other |  |