

ADVANCE PRODUCTS, INC. has just organized a new division to manufacture and sell specially designed tables using select hardwoods for personal computers. The division's monthly's costs are shown in the table below:

Manufacturing costs:		
Variable costs per unit		
Direct materials	\$	86
Variable manufacturing overhead	\$	4
Fixed manufacturing overhead costs (total)	\$	240,000
Selling and administrative costs:		
Variable (percentage of sales)		15%
Fixed (total)	\$	160,000

Activity:	
Units produced	4,000
Units sold	3,200
Selling price per unit	250

**1. Unit product cost**

	<b>Absorption Costing</b>	<b>Variable Costing</b>
Direct materials	\$ 86	\$ 86
Variable manufacturing overhead	\$ 4	\$ 4
Fixed manufacturing overhead	\$ 60	\$ -
Unit product cost	<u>\$ 150</u>	<u>\$ 90</u>

**2. Absorption Costing Income Statement**

Sales	\$ 800,000
Cost of goods sold	480,000
Gross margin	320,000
Selling and administrative expenses*	280,000
Net operating income	<u>\$ 40,000.00</u>

* Variable	120,000
Fixed	160,000
Total	<u>280,000</u>

**3. Variable Costing Income Statement**

Sales		\$ 800,000
Variable expenses:		
Variable cost of goods sold	288,000	
Variable selling and administrative expense	120,000	408,000
Contribution margin		\$ 392,000
Fixed expenses:		
Fixed manufacturing overhead	\$ 240,000	
Fixed selling and administrative expenses	\$ 160,000	\$ 400,000
Net operating income (loss)		<u>\$ (8,000)</u>

**Reconciliation:**

Variable costing net income (loss)	\$ (8,000)
Add: Fixed overhead deferred in inventory under absorption costing	48,000
Absorption costing net operating income	<u>\$ 40,000</u>