AC202 Management Accounting
Exercise # 8: Variable Costing & Absorption Costing

Q.1 Ranger Corporation began operations on January 1 of the current year. The following information pertains to the firm's only product:

Material cost per unit	$7.00	Labor cost per unit	$8.00
Variable MOH per unit	$2.50	Variable selling cost per unit	$1.00
Fixed MOH	$250,000	Fixed selling & admin costs	$40,000

During the year 50,000 units were produced (as planned) and 40,000 units were sold.

Required:

a. Compute the cost of Ranger's ending inventory by using variable costing.
b. Compute the cost of Ranger's ending inventory by using absorption costing.

Q. 2 The following information pertains to Mars Co. for the year 20x1.

Beginning inventory	30,000 unit
Production	600,000 unit
Units sold	540,000 unit
Ending inventory	90,000 unit
Selling price	$5 per unit
DM	$1 per unit
DL	$1 per unit
VMOH	$1 per unit
Variable selling & administrative expenses	$1 per unit sold

- Total fixed manufacturing overheads are $420,000 at a normal capacity of 600,000 units
- Fixed selling & administrative expenses are $120,000
- Actual costs at the end of the period were the same as budgeted costs.
- MOH is applied based on number of units produced.

Required:

a. Calculate operating income under variable costing using contribution margin format.
b. Calculate operating income under absorption costing using gross margin format.

Q. 3 TTF, Inc., which just began business this year, has the following information about JJI, the only product that it produces and sells. JJI sells for $25 per unit. During the current year, 20,000 units of JJI were sold. During the period, TTF manufactured 22,000 units of JJI. The following costs were available: variable costs per unit: direct materials = $8; direct labor = $4; variable manufacturing overhead = $3; variable marketing = $2. The indirect fixed costs for TTF were manufacturing costs $55,000 and marketing $33,000.

Required:

a. Calculate operating income under variable costing using contribution margin format.
b. Calculate operating income under absorption costing using gross margin format.