

Use the following to answer questions 1-3:

The Pacific Company manufactures a single product. The following data relate to the year just completed:

Variable cost per unit:

Production	\$43
Selling and administrative	\$15

Fixed costs in total:

Production	\$145,000
Selling and administrative	\$ 95,000

During the last year, 5,000 units were produced and 4,800 units were sold. There were no beginning inventories.

1. Under variable costing, the unit product cost would be:
 - A) \$91.00.
 - B) \$72.00.
 - C) \$58.00.
 - D) \$43.00.

2. The carrying value of finished goods inventory at the end of the year under variable costing would be:
 - A) \$8,800 greater than under absorption costing.
 - B) \$8,800 less than under absorption costing.
 - C) \$5,800 less than under absorption costing.
 - D) The same as absorption costing.

3. Under absorption costing, the cost of goods sold for the year would be:
 - A) \$206,400.
 - B) \$345,600.
 - C) \$278,400.
 - D) \$360,000.

4. An allocated portion of fixed manufacturing overhead is included in product costs under:

	<u>Absorption</u> <u>Costing</u>	<u>Variable</u> <u>costing</u>
A)	No	No
B)	No	Yes
C)	Yes	No
D)	Yes	Yes

5. 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.

6. Mahugh Company, which has only one product, has provided the following data concerning its most recent month of operations:

Selling price	\$122
Units in beginning inventory	0
Units produced	8,300
Units sold	8,200
Units in ending inventory	100
Variable costs per unit:	
Direct materials	\$27
Direct labor	46
Variable manufacturing overhead	4
Variable selling and administrative .	7
Fixed costs:	
Fixed manufacturing overhead	\$199,200
Fixed selling and administrative	106,600

Required:

(a.) What is the unit product cost for the month under variable costing?

(b.) What is the unit product cost for the month under absorption costing?

(c.) Prepare an income statement for the month using the contribution format and the variable costing method.

(d.) Prepare an income statement for the month using the absorption costing method.

(e.) Reconcile the variable costing and absorption costing net incomes for the month.

Answer Key -- Quiz Chapter 7 Fall 1999

1. D \$43.00.
 Format: Multiple Choice
 Difficulty: Easy
 Type: *(None)*
 Origin: Chapter 7, Variable Costing: A Tool70
 Refer To: Ref. 7-7

2. C \$5,800 less than under absorption costing.
 Format: Multiple Choice
 Difficulty: Medium
 Type: *(None)*
 Origin: Chapter 7, Variable Costing: A Tool71
 Refer To: Ref. 7-7

3. B \$345,600.
 Format: Multiple Choice
 Difficulty: Medium
 Type: *(None)*
 Origin: Chapter 7, Variable Costing: A Tool72
 Refer To: Ref. 7-7

4. C Yes No
 Format: Multiple Choice
 Difficulty: Easy
 Type: CPA adapted
 Origin: Chapter 7, Variable Costing: A Tool17

5. A variable costing.
 Format: Multiple Choice
 Difficulty: Easy
 Type: *(None)*
 Origin: Chapter 7, Variable Costing: A Tool29

6. (a.) &(b.) Unit product costs

Variable costing:	
Direct materials	\$27
Direct labor	46
Variable manufacturing overhead	<u>4</u>
Unit product cost	\$77
	aaa

Absorption costing:	
Direct materials	\$ 27

Direct labor	46
Variable manufacturing overhead	4
Fixed manufacturing overhead	<u>24</u>
Unit product cost	\$101
	aaa

Variable costing income statement	
Sales	\$1,000,400
Less variable expenses:	
Variable cost of goods sold:	
Beginning inventory	\$ 0
Add variable manufacturing costs	<u>639,100</u>
Goods available for sale	639,100
Less ending inventory	<u>7,700</u>
Variable cost of goods sold	631,400
Variable selling and administrative	<u>57,400</u> <u>688,800</u>
Contribution margin	311,600
Less fixed expenses:	
Fixed manufacturing overhead	199,200
Fixed selling and administrative	<u>106,600</u> <u>305,800</u>
Net income	\$ 5,800
	aaaaaaa

Absorption costing income statement	
Sales	\$1,000,400
Cost of goods sold:	
Beginning inventory	\$ 0
Add cost of goods manufactured	<u>838,300</u>
Goods available for sale	838,300
Less ending inventory	<u>10,100</u> <u>828,200</u>
Gross margin	172,200
Less selling and administrative expenses:	
Variable selling and administrative	57,400
Fixed selling and administrative	<u>106,600</u> <u>164,000</u>
Net income	\$ 8,200
	aaaaaaa

(e.) Reconciliation

Variable costing net income	\$5,800
Add fixed manufacturing overhead costs deferred in inventory under absorption costing	2,400
Deduct fixed manufacturing overhead costs released from inventory under absorption costing	<u>0</u>
Absorption costing net income	\$8,200

aaaaa

Format: Essay

Difficulty: Medium

Type: (*None*)

Origin: Chapter 7, Variable Costing: A Tool112