Chapter 6: Variable Costing

DeAnne Company produces a single product. The company's variable costing income statement for August appears below:

DeAnne Company
Income Statement
For the month ended August 31

Sales ($15 per unit)	$600,000
Variable expenses:	
Variable cost of goods sold	360,000
Variable selling expense	80,000
Total variable expenses	440,000
Contribution margin	160,000
Fixed expenses:	
Fixed manufacturing	105,000
Fixed selling and administrative	35,000
Total fixed expenses	140,000
Net operating income	$ 20,000

The company produced 35,000 units in August and the beginning inventory consisted of 8,000 units. Variable production costs per unit and total fixed costs have remained constant over the past several months.

102. The value of the company's inventory on August 31 under the absorption costing method is:
A. $27,000
B. $42,000
C. $36,000
D. $47,000

DeAnne Company produces a single product. The company's variable costing income statement for August appears below:

DeAnne Company
Income Statement
For the month ended August 31

Sales ($15 per unit)	$600,000
Variable expenses:	
Variable cost of goods sold	360,000
Variable selling expense	80,000
Total variable expenses	440,000
Contribution margin	160,000
Fixed expenses:	
Fixed manufacturing	105,000
Fixed selling and administrative	35,000
Total fixed expenses	140,000
Net operating income	$ 20,000

The company produced 35,000 units in August and the beginning inventory consisted of 8,000 units. Variable production costs per unit and total fixed costs have remained constant over the past several months.

103. Under absorption costing, for the month ended August 31, the company would report a:

A. $20,000 profit

B. $5,000 loss

C. $35,000 profit

D. $5,000 profit

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

Selling price	**$99**
Units in beginning inventory	**0**
Units produced	**2,900**
Units sold	**2,600**
Units in ending inventory	**300**
Variable costs per unit:	
Direct materials	**$27**
Direct labor	**$11**
Variable manufacturing overhead	**$6**
Variable selling and administrative	**$7**
Fixed costs:	
Fixed manufacturing overhead	**$104,400**
Fixed selling and administrative	**$13,000**

106. The total contribution margin for the month under the variable costing approach is:

A. $124,800

B. $49,400

C. $20,400

D. $143,000

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

Selling price	**$99**
Units in beginning inventory	**0**
Units produced	**2,900**
Units sold	**2,600**
Units in ending inventory	**300**
Variable costs per unit:	
Direct materials	**$27**
Direct labor	**$11**
Variable manufacturing overhead	**$6**
Variable selling and administrative	**$7**
Fixed costs:	
Fixed manufacturing overhead	**$104,400**
Fixed selling and administrative	**$13,000**

107. The total gross margin for the month under the absorption costing approach is:

A. $49,400
B. $18,200
C. $73,400
D. $124,800

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

Selling price	**$99**
Units in beginning inventory	**0**
Units produced	**2,900**
Units sold	**2,600**
Units in ending inventory	**300**
Variable costs per unit:	
Direct materials	**$27**
Direct labor	**$11**
Variable manufacturing overhead	**$6**
Variable selling and administrative	**$7**
Fixed costs:	
Fixed manufacturing overhead	**$104,400**
Fixed selling and administrative	**$13,000**

108. What is the total period cost for the month under the variable costing approach?

A. $31,200

B. $104,400

C. $117,400

D. $135,600

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

Selling price	**$99**
Units in beginning inventory	**0**
Units produced	**2,900**
Units sold	**2,600**
Units in ending inventory	**300**
Variable costs per unit:	
Direct materials	**$27**
Direct labor	**$11**
Variable manufacturing overhead	**$6**
Variable selling and administrative	**$7**
Fixed costs:	
Fixed manufacturing overhead	**$104,400**
Fixed selling and administrative	**$13,000**

109. What is the total period cost for the month under the absorption costing approach?

A. $104,400

B. $31,200

C. $13,000

D. $135,600

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

Selling price	**$100**
Units in beginning inventory	**300**
Units produced	**1,200**
Units sold	**1,400**
Units in ending inventory	**100**
Variable costs per unit:	
Direct materials	**$17**
Direct labor	**$59**
Variable manufacturing overhead	**$4**
Variable selling and administrative	**$8**
Fixed costs:	
Fixed manufacturing overhead	**$9,600**
Fixed selling and administrative	**$1,400**

The company produces the same number of units every month, although the sales in units vary from month to month. The company's variable costs per unit and total fixed costs have been constant from month to month.

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 a contribution format income statement for the month using variable costing.
d. Prepare an income statement for the month using absorption costing.
e. Reconcile the variable costing and absorption costing net operating incomes for the month.