

Product Costs		Selling and Administrative Expenses	
Direct materials	\$4 per unit	Variable	\$2 per unit
Direct labor	\$8 per unit	Fixed	\$200,000 per year
Variable overhead	\$3 per unit	Sales	
Fixed overhead	\$600,000 per year	Sales price	\$40 per unit

160,000 = 10/unit

UNITS PRODUCED	60,000	60,000	60,000
YEAR	1	2	3
SALES (UNITS SOLD)	60,000	40,000	80,000
	X \$40	X \$40	x40 / UNIT

INCOME	
-----COSTING METHOD-----	
ABSORPTION	VARIABLE
2,400,000	2,400,000

**NOTE:
INVENTORY ON
BALANCE SHEET -
(NOT EXPENSED)**

**ENDING INVENTORY -
ALL PRODUCTION WAS
SOLD**

**BLOCK OF ZERO UNITS
ABSORPTION**

DM	ZERO x \$4 = \$ ZERO
DL	ZERO x \$8 = ZERO
VOH	ZERO x \$3 = ZERO
FOH	ZERO x 10 = ZERO
TOTAL	ZERO x 25 = \$ ZERO

**ENDING INVENTORY -
ALL PRODUCTION WAS
SOLD**

**BLOCK OF ZERO UNITS
VARIABLE**

DM	ZERO x \$4 = \$ ZERO
DL	ZERO x \$8 = ZERO
VOH	ZERO x \$3 = ZERO
FOH	ZERO x 0 = NA ZERO
TOTAL	ZERO x 17 = \$ ZERO

**SALE CURRENT
PRODUCTION
BLOCK OF 60,000 UNITS
ABSORPTION**

DM	60000 x \$4 = \$ 240,000
DL	60000 x \$8 = 480,000
VOH	60000 x \$3 = 180,000
FOH	60000 x 10 = 600,000
V S&A	x 0 N/A
TOTAL	60000 x 25 = \$ 1,500,000

**SALE CURRENT
PRODUCTION
BLOCK OF 60,000 UNITS
VARIABLE**

DM	60000 x \$4 = \$ 240,000
DL	60000 x \$8 = 480,000
VOH	60000 x \$3 = 180,000
FOH	60000 x 0 = -0-
V S&A	60000 x \$2 = 120,000
TOTAL	60000 x 17 = \$ 1,020,000

COST OF GOODS SOLD
GROSS PROFIT GP

1,500,000
<u>900,000</u>

CONTRIBUTION MARGIN

N/A

SELLING AND ADMINISTRATIVE

FIXED 200,000
VARIABLE \$2 x 60,000 120,000

200,000
<u>120,000</u>

FIXED OH - PROD
NET INCOME

N/A -
<u>580,000</u>

PLUS FOH END INVENT ----->
LESS FOH BEGINNING INVENT ----->
= NET INCOME ABSORPTION

N/A
N/A

CM 1,380,000

200,000
N/A

600,000
580,000

~~0~~
~~0~~

580,000

YEAR: 1 (2) 3

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Product Costs		Selling and Administrative Expenses	
Direct materials	\$4 per unit	Variable	\$2 per unit
Direct labor	\$8 per unit	Fixed	\$200,000 per year
Variable overhead	\$3 per unit	Sales	
Fixed overhead	\$600,000 per year	Sales price	\$40 per unit

UNITS PRODUCED	60,000	60,000	60,000
YEAR	1	2	3
SALES (UNITS SOLD: 60,000	40,000,	80,000)	
X \$40	X \$40	x40 / UNIT	

INCOME	
-----COSTING METHOD-----	
ABSORPTION	VARIABLE
<u>1,600,000</u>	<u>1,600,000</u>

NOTE:
INVENTORY ON
BALANCE SHEET -
(NOT EXPENSED)

ENDING INVENTORY
CURRENT PRODUCTION
NOT SOLD.
BLOCK OF 20,000 UNITS
ABSORPTION

DM	20000 x \$ 4 = \$ 80,000
DL	20000 x \$ 8 = 160,000
VOH	20000 x \$ 3 = 60,000
FOH	20000 x 10 = 200,000
TOTAL	20000 x 25 = \$ 500,000

ENDING INVENTORY
CURRENT PRODUCTION
NOT SOLD
BLOCK OF 20,000 UNITS
VARIABLE

DM	20000 x \$ 4 = \$ 80,000
DL	20000 x \$ 8 = 160,000
VOH	20000 x \$ 3 = 60,000
FOH	20000 x 0 = N/A
	ZERO
TOTAL	20000 x 15 = \$ 300,000

SALE - PART OF CURRENT
PRODUCTION.
BLOCK OF 40,000 UNITS
ABSORPTION

DM	40000 x \$ 4 = \$ 160,000
DL	40000 x \$ 8 = 320,000
VOH	40000 x \$ 3 = 120,000
FOH	40000 x 10 = 400,000
V S&A	x 0 N/A
	-0-
TOTAL	40000 x 25 = \$ 1,000,000

COST OF GOODS SOLD
GROSS PROFIT GP

CONTRIBUTION MARGIN

SELLING AND ADMINISTRATIVE

FIXED 200,000
VARIABLE \$2 x 40,000 80,000

FIXED OH - PROD
NET INCOME

PLUS FOH END INVENT ----->
LESS FOH BEGINNING INVENT ----->
= NET INCOME ABSORPTION

SALE - PART OF CURRENT
PRODUCTION.
BLOCK OF 40,000 UNITS
VARIABLE

DM	40000 x \$ 4 = \$ 160,000
DL	40000 x \$ 8 = 320,000
VOH	40000 x \$ 3 = 120,000
FOH	40000 x 0 = -0-
V S&A	40000 x \$2 = 80,000
TOTAL	40000 x 17 = \$ 680,000

N/A
N/A

CM

920,000

200,000
N/A

600,000
120,000
200,000
0
320,000

YEAR: 1 2 3

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Product Costs		Selling and Administrative Expenses	
Direct materials	\$4 per unit	Variable	\$2 per unit
Direct labor	\$8 per unit	Fixed	\$200,000 per year
Variable overhead	\$3 per unit	Sales	
Fixed overhead	\$600,000 per year	Sales price	\$40 per unit

UNITS PRODUCED	60,000	60,000	60,000
YEAR	1	2	3
SALES (UNITS SOLD: 60,000	40,000,	80,000)	
X \$40	X \$40	x40 / UNIT	

INCOME COSTING METHOD	
ABSORPTION	VARIABLE
<u>3,200,000</u>	<u>3,200,000</u>

NOTE:
INVENTORY ON
BALANCE SHEET -
(NOT EXPENSED)

NONE
under
Absorption

SALE OF BEGINNING INVENTORY BLOCK OF 20,000 UNITS ABSORPTION		SALE CURRENT PRODUCTION BLOCK OF 60,000 UNITS ABSORPTION	
DM	20000 x \$4 = \$ 80,000	DM	60000 x \$4 = \$ 240,000
DL	20000 x \$8 = 160,000	DL	60000 x \$8 = 480,000
VOH	20000 x \$3 = 60,000	VOH	60000 x \$3 = 180,000
FOH	20000 x 10 = <u>200,000</u>	FOH	60000 x 10 = <u>600,000</u>
		V S&A	x 0 N/A
TOTAL	20000 x 25 = \$ 500,000	TOTAL	60000 x 25 = <u>\$1,500,000</u>

SALE OF BEGINNING INVENTORY BLOCK OF 20,000 UNITS VARIABLE	
DM	20000 x \$4 = \$ 80,000
DL	20000 x \$8 = 160,000
VOH	20000 x \$3 = 60,000
FOH	20000 x 0 = N/A
	ZERO
TOTAL	20000 x 15 = \$ 300,000
PLUS CURRET PERIOD V S&A	
V S&A	20000 x \$2 = <u>40,000</u>
	<u>340,000</u>

SALE CURRENT PRODUCTION BLOCK OF 60,000 UNITS VARIABLE	
DM	60000 x \$4 = \$ 240,000
DL	60000 x \$8 = 480,000
VOH	60000 x \$3 = 180,000
FOH	60000 x 0 = -0-
V S&A	60000 x \$2 = <u>120,000</u>
TOTAL	60000 x 17 = <u>\$ 1,020,000</u>

COST OF GOODS SOLD	<u>2,000,000</u>	N/A
GROSS PROFIT GP	<u>1,200,000</u>	N/A
CONTRIBUTION MARGIN	N/A	CM <u>1,840,000</u>
SELLING AND ADMINISTRATIVE		
FIXED	<u>200,000</u>	<u>200,000</u>
VARIABLE #2 x 80,000	<u>160,000</u>	N/A
FIXED OH - PROD	N/A	<u>600,000</u>
NET INCOME	<u>840,000</u>	<u>1,040,000</u>
PLUS FOH END INVENT	----->	<u>NONE</u>
LESS FOH BEGINNING INVENT	----->	<u><200,000></u>
= NET INCOME ABSORPTION		<u>840,000</u>