

Chapter 19– Johnson

Variable versus Absorption Costing

ABC Surfboard Company

We make and sell Surfboards.

In the past, the company has produced #10,000 boards. The following information has been gathered from the financial records:

Selling Price **\$50 per board**

Cost of product:

Direct Materials	\$ 12 Per Board	
Direct Labor	\$ 7 Per Board	
Variable OH	\$ 6 Per Board	
Fixed FOH	\$ 100,000	
Variable Selling Exp.	\$ 5 per unit	
Fixed Selling Exp.	\$ 50,000 (or \$5 per board)	

* If we produce and sell #10,000 boards, what will the income statement look like under traditional (Absorption) Costing and Variable Costing techniques.

* Same facts, except that we make #10,000 and we sell #8,000

Prepare an Income Statement using both Traditional or Absorption Costing as well as Variable costing.

Why the difference in the two results under the second scenario?

You should understand what caused this to happen.