Problem 5: [NU. BBA (Prof)– 2006]

The following particulars are obtained from the records of a manufacturing company:

Cost per unit of a product:

	Taka
Direct materials	1.50
Direct labor	1.80
Variable factory overhead	0.40
Fixed factory overhead	0.40

(Based on 1, 00,000 units for normal production)

Sale price per unit Tk. 5

Selling and Administrative expenses:

Fixed Tk. 22,000

Variable 10 % of sales

Production and sales units:

	Year – 1	Year – 2
Production	1, 10,000	95,000
Closing inventory	14,000	9,000

Required: Prepare cost statements for both the years under

(a) Absorption costing; and

(b) Variable costing.

Solution:

Workings:

1. **Manufacturing cost per unit under absorption costing:**

	Taka
Direct materials	1.50
Direct labor	1.80
Variable factory overhead	0.40
Fixed factory overhead	0.40
	4.10

2. **Manufacturing cost per unit under variable costing:**

	Taka
Direct materials	1.50
Direct labor	1.80
Variable factory overhead	0.40
	3.70

3. Under applied/absorbed fixed factory overhead for Year – 2:

= (Normal production – Actual production) × Fixed factory overhead per unit

= (1, 00,000 units – 95,000 units) × 0.40

= 5,000 × 0.40 = Tk. 2,000

4. Over applied/absorbed fixed factory overhead for Year – 1:

= (Actual production – Normal production) × Fixed factory overhead per unit

= (1, 10,000 units – 1, 00,000 units) × 0.40

= 10,000 × 0.40 = Tk. 4,000

Required: (a)

Income statement

Under the absorption costing method

Particulars	Year – 1		Year
	Taka	Taka	Taka
Sales (96,000 × 5), (1,00,000 × 5)		4,80,000	
Less: Cost of goods sold:			
Opening inventory (14,000 × 4.10)	0	0	57,400
Total manufacturing costs (1,10,000 × 4.10), (95,000 × 4.10)	4,51,000		3,89,500
	4,51,000		4,46,900
Less: Closing inventory (14,000 × 4.10), (9,000 × 4.10)	(57,400)		(36,900)
	3,93,600		4,10,000
Over / Under applied fixed factory OH	(4,000)		2,000
		(3,89,600)	
Gross profit		90,400	
Less:Selling and Administrative expenses:			
Fixed	22,000		22,000
Variable (10 % of sales)	48,000	(70,000)	50,000
Net Operating Income		**20,400**	