

converting/translating between absorption and marginal.

Have a go at this one.

Sales of 1,400 units at £20 each.  
 The variable cost is £10 per unit.  
 We planned to make 2,000 units.  
 Our budgeted factory overhead is £8,000.  
 We actually made 1,200 units.  
 The actual factory overhead was £9,000.  
 There are other overheads of £1,000

Q:// work out the absorption and marginal costing profits

Then look at the answers!

Answers:

- $$\begin{array}{r} \text{M A} \\ 10 \\ 10 \\ \hline \text{£8000} = \text{£4} \end{array}$$
- $$\begin{array}{r} \text{made } 1200 \\ \text{sold } 1400 \\ \hline \text{stock down } 200 \end{array}$$

∴ marginal costing profit higher.
- $$2000 \times \text{£4} = \text{£8000 higher}$$
- marginal costing

\* we charge the actual factory overhead of £9,000

GP  
 Factory Overhead  
 Other OH  
 Profit

Sales 1400 × £20 = £28,000  
 Cost 1400 × 10 = 14,000  
 GP 14,000  
 \* 9,000  
 Profit 5,000
- abs costing

Other OH

Sales 1400 × £20 = £28,000  
 Cost 1400 × 17 = 23,800  
 Profit 4,200

Budget prod = 2000  
 Actual prod = 1200  
 $\frac{800}{2000} \times \text{£4} = \text{£1.60}$  under

∴ Over under abs. = 9000 - 8000 = 1000 under
- Final calc

∴ what we are expecting

∴ Abs costing ∴ = £3,200

∴ Abs costing ∴ = £3,200 lower

∴ Final calc

∴ 1,400  
 - 1,000  
 = 400