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| --- | --- |
| **Part A Data** | |
| Budgeted and actual fixed costs | $1,000,000 |
| Budgeted unit volume to be produced | 10,000 |
| Budgeted unit volume sold | 10,000 |
| Actual variable costs | $500,000 |
| Actual unit volume sold | 9,000 |
| Beginning of year inventory | 0 |
| End of year inventory | 1,000 |

Using the Part A data:

**Under which method (variable or absorption costing), will reported profits be higher? Explain why.**

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| **Part B Data** | |
| **A firms cost structure is as follows:** | |
| Monthly fixed costs | $20,000 |
| Variable cost/unit | $80 |
| Selling price/unit | $100 |

Using the Part B data:

* **Calculate the firm's break-even point in units of production.**
* **Predict the firm's profitability if volume is 1,200 units.**

You are the accounting manager in a medium-sized manufacturing company. The company's first year just ended, and the accounting department is working on closing the books. You plan to present information about unit costs and profits, to the generalmanager (GM) in two different formats. One method uses variable costing, and the other uses absorption costing. The GM will need to choose one or the other for accounting purposes. Whatever method he chooses will have to remain the method going forward as the choice of the method could impact reported profitability and therefore taxes. (The IRS frowns on firms making accounting methodology changes that impact any period's profits.)

You explain to the GM that if you choose to use the absorptive method, it will not only impact the reported profits of the year that just ended but will have an impact on the reported profits of the upcoming year, too. He doesn't understand what this means and asks for a more detailed explanation.

Explain to him:

* **How absorption costing differs from variable costing**
* **How the absorptive method will not only impact the reported profits of the year that just ended but will also have an impact on the reported profits of the upcoming year**