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| *Compute product cost and prepare an income statement under variable and absorption costing*.(Polk Company builds custom fishing lures for sporting goods stores. In its first year of operations, 2012, the company incurred the following costs.

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| **Variable Cost per Unit** |   |
| Direct materials |    $7.50 |
| Direct labor |    $2.45 |
| Variable manufacturing overhead |    $5.75 |
| Variable selling and administrative expenses |    $3.90 |
| **Fixed Costs per Year** |   |
| Fixed manufacturing overhead | $234,650 |
| Fixed selling and administrative expenses | $240,100 |

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Polk Company sells the fishing lures for $25. During 2012, the company sold 80,000 lures and produced 95,000 lures.Instructions

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| (a)   | Assuming the company uses variable costing, calculate Polk's manufacturing cost per unit for 2012. |
| (b)   | Prepare a variable costing income statement for 2012. |

|  |  |
| --- | --- |
| (c)   | Assuming the company uses absorption costing, calculate Polk's manufacturing cost per unit for 2012. |
| (d)   | Prepare an absorption costing income statement for 2012. |

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