Prepare a contribution margin (behavioral, variable) income statement for Herrestad Company, compare net operating profit from a contribution margin income statement with net income from an absorption income statement, and explain why this difference happens. Prepare a second version assuming the selling price per unit increases to $270 per unit.

Use the original information to:

* Determine the number of units the company must sell to break even for the year?
* Compute break even assuming direct materials cost increase from $100 to $130, but all information remains the same.

|  |  |
| --- | --- |
| Product information |   |
|   |   |
| Beginning inventory | 0 |
| Units produced | 10,000 |
| Units sold | 8,000 |
|   |   |
| **Selling price per unit** | $250 |
| **Variable costs per unit** |   |
| Direct material | 100 |
| Direct labor | 50 |
| Variable overhead | 30 |
| Variable selling and administrative | 10 |
|   |   |
| **Fixed costs** |   |
| Fixed manufacturing overhead | 200,000 |
| Fixed selling and administrative | 100,000 |
|   |   |

|  |
| --- |
| Herrestad Company |
| Absorption Income Statement |
| For the period ending Dec. 31, 2011 |
|   |   |
| Sales | $2,000,000 |
| Cost of goods sold | 1,600,000 |
| Gross profit (margin) | $400,000 |
| Selling and administrative expenses | 180,000 |
| Net income | $220,000 |