|  |
| --- |
| Sammy Company manufactures and sells one product. The following information pertains to each of the company’s first two years of operations: |

|  |  |  |
| --- | --- | --- |
|   |   |   |
|   Variable costs per unit: |   |   |
|     Manufacturing: |   |   |
|         Direct materials |   | $ 20   |
|         Direct labor |   | $ 12   |
|         Variable manufacturing overhead |   | $ 4   |
|     Variable selling and administrative |   | $ 3   |
|   Fixed costs per year: |   |   |
|     Fixed manufacturing overhead | $ | 200,000   |
|     Fixed selling and administrative expenses | $ | 80,000   |
|  |

|  |
| --- |
| During its first year of operations, Sammy produced 50,000 units and sold 40,000 units. During its second year of operations, it produced 40,000 units and sold 50,000 units. The selling price of the company’s product is $50 per unit. |

|  |  |
| --- | --- |
| **1.** | Assume the company uses variable costing: |

|  |  |
| --- | --- |
| **a.** | Compute the unit product cost for year 1 and year 2. **(Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
|   |       Year 1 |       Year 2 |
|   Unit product cost | $   | $   |
|  |

|  |  |
| --- | --- |
| **b.** | Prepare an income statement for year 1 and year 2. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
|   |       Year 1 |       Year 2 |
|    | $   | $   |
|   |  |  |
|   Variable expenses: |   |   |
|         |   |   |
|         |   |   |
|   |  |  |
|   Total variable expenses |   |   |
|   |  |  |
|    |   |   |
|   |  |  |
|   Fixed expenses: |   |   |
|         |   |   |
|         |   |   |
|   |  |  |
|   Total fixed expenses |   |   |
|   |  |  |
|    | $   | $   |
|   |  |  |
|  |

|  |  |
| --- | --- |
| **2.** | Assume the company uses absorption costing: |

|  |  |
| --- | --- |
| **a.** | Compute the unit product cost for year 1 and year 2. **(Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
|   |       Year 1 |       Year 2 |
|   Unit product cost | $   | $   |
|  |

|  |  |
| --- | --- |
| **b.** | Prepare an income statement for year 1 and year 2. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
|   |       Year 1 |       Year 2 |
|    | $   | $   |
|    |   |   |
|   |  |  |
|    |   |   |
|    |   |   |
|   |  |  |
|    | $   | $   |
|   |  |  |
|  |

|  |  |
| --- | --- |
| **3.** | Reconcile the difference between variable costing and absorption costing net operating income in year 1 and year 2. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
|   |             Year 1 |             Year 2 |
|   Variable costing net operating income (loss) | $   | $   |
|   :  |   |   |
|   :  |   |   |
|   |  |  |
|   Absorption costing net operating income | $   | $   |
|   |  |  |