**BUS 630 (Managerial Accounting)**

Far North Telecom, Ltd., of Ontario, has organized a new division to manufacture and sell specialty cellular telephones.  The division’s monthly costs are shown in the table below.  Far North Telecom regards all of its workers as full-time employees and the company has a long-standing no layoff policy.  Furthermore, production is highly automated.  Accordingly, the company includes its labor costs in its fixed manufacturing overhead.  The cellular phones sell for $150 each.  During September, the first month of operations, the following activity was recorded: 12,000 units produced, 10,000 units sold.  Comment on the five questions below the table.  Respond to at least two of your fellow students’ postings.

|  |  |
| --- | --- |
| Manufacturing costs: |  |
| Variable costs per unit: |  |
| Direct Materials | $48 |
| Variable manufacturing overhead | $2 |
| Fixed manufacturing overhead costs (total) | $360,000 |
| Selling and administration costs: |  |
| Variable  | 12% of sales |
| Fixed (total) | $470,000 |

1. Compute the unit product cost under:
	* absorption costing
	* variable costing
2. Prepare an absorption costing income statement for September
3. Prepare a contribution format income statement for September using variable costing.
4. Assume that the company must obtain additional financing in order to continue operations.  As a member of top management, would you prefer to rely n the statement in (b) above or in (3) above when meeting with a group of prospective investors?
5. Reconcile the absorption costing and variable costing net operating incomes in (2) and (3) above.