

Handout 22-H1A***Absorption and variable costing income statements.***

During the first month of operations ended March 31, Matthew Company manufactured 80,000 units, of which 74,000 were sold. Operating data for the month are summarized as follows:

Sales			\$1,036,000
Manufacturing Costs:			
Direct materials	\$225,000		
Direct labor	175,000		
Variable manufacturing overhead	140,000		
Fixed manufacturing overhead	<u>100,000</u>	\$ 640,000	
Selling and administrative expenses:			
Variable	\$225,000		
Fixed	<u>125,000</u>	\$ 350,000	

Instructions:

Use the working papers available on D2L. Indicate the assignment number as Handout 22-H1A.

- 1) Prepare an income statement based on the absorption costing concept.
- 2) Prepare an income statement based on the variable costing concept.
- 3) Explain the reason for the difference in the amount of operating income reported in (1) and (2).