

Variable Costing vs. Absorption Costing Income Statements

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Variable (Direct) Costing

- Costs of *Direct Materials, Direct Labor, and Variable Overhead* are absorbed by units produced. These are the costs assigned to the units produced (CGM).
- *Fixed Overhead, Variable Selling & Administration, and Fixed Selling & Administration* are treated as period costs.

Absorption Costing

- Costs of *Direct Materials, Direct Labor, Variable Overhead, and Fixed Overhead* are absorbed by the units produced (CGM).
- *Variable Selling & Administration and Fixed Selling & Administration* are treated as period costs.

Absorption Costing

Sales	XX
Less: CGS	<u>XX</u>
Gross Margin	XX
Less: Operating Costs	<u>XX</u>
Net Income	XX

Cost of Goods Sold

Beginning FG	XX
Add: CGM	<u>XX</u>
Available for Sale	XX
Less: Ending FG	<u>XX</u>
CGS	XX

Variable (Direct) Costing

Sales	XX
Less: Variable Costs	<u>XX</u>
Contribution Margin	XX
Less: Fixed Costs	<u>XX</u>
Net Income	XX

Variable Costs

Beginning FG	XX
Add: CGM	<u>XX</u>
Available for Sale	XX
Less: Ending FG	<u>XX</u>
Variable CGS	XX
Add: Variable S & A	<u>XX</u>
Total Variable Costs	XX

Fixed Costs

■ Fixed Factory Overhead	XX
■ Add: Fixed S & A	<u>XX</u>
■ Total Fixed Costs	XX

Effects of Production & Sales on Net Income

- Production = Sales then ACNI = VCNI.
- Production > Sales then ACNI > VCNI.
- Production < Sales then ACNI < VCNI.

Reconciliation Schedule

VCNI	XX
Add: Fixed FOH deferred In Ending FG under Absorption Costing	XX
Deduct: Fixed FOH released From Beginning FG under Absorption Costing	<u>XX</u>
ACNI	XX