

25 Which statements about marginal costing are correct?

- 1 The marginal cost of a product includes an allowance for fixed overheads.
- 2 The marginal cost of a product represents the additional cost of making one extra unit.
- 3 If inventory decreases during a period, the profits under absorption costing will be lower than under marginal costing.

A 1 only **B** 1, 2 and 3 **C** 2 only **D** 2 and 3 only

26 A company absorbs overheads on machine hours which are budgeted at 11 250. The budgeted overhead is \$281 250.

Results show actual hours of 10 980 and overhead of \$276 652.

What is the under/over-absorption?

- A** overhead over-absorbed by \$2152
- B** overhead over-absorbed by \$4598
- C** overhead under-absorbed by \$2152
- D** overhead under-absorbed by \$4598

27 A company uses absorption costing and makes and sells one product. In the last month budgeted overheads totalled \$60 000. Budgeted production was 15 000 units and budgeted sales were 14 000 units.

The company now decides to apply marginal costing principles for the last month.

Which effect will this have on profits?

- A** \$3500 decrease
- B** \$4000 decrease
- C** \$4000 increase
- D** no effect