

7 marginal and absorption costing osborne books shop

[Download Complete File](#)

Marginal and Absorption Costing**

Marginal Costing

- Focuses on variable costs that change directly with output.
- Assumes fixed costs are irrelevant for decision-making.
- Used to evaluate short-term decisions, such as pricing and production levels.

Absorption Costing

- Allocates all costs, both variable and fixed, to products based on an activity base.
- Assumes all costs contribute to the production of goods.
- Used to prepare financial statements for external reporting and tax purposes.

Major Cause of Differences in Profit Figures

The major cause of differences in profit figures between absorption costing and marginal costing is the treatment of fixed costs. Absorption costing allocates fixed costs to products, while marginal costing ignores them.

Managerial and Absorption Costing

- Managerial costing is an internal reporting tool used for decision-making.

- Absorption costing is often used for managerial costing, as it provides a more comprehensive picture of total costs.

Example of Absorption Costing

A company manufactures 100 units of product with the following costs:

- Direct materials: \$20 per unit
- Direct labor: \$15 per unit
- Overhead (fixed): \$20,000
- Overhead (variable): \$5 per unit

Absorption costing allocates the fixed overhead of \$20,000 as \$200 per unit, resulting in a total cost of \$245 per unit.

Advantages and Disadvantages of Absorption and Marginal Costing

Absorption Costing

- **Advantages:**
 - Provides a more comprehensive view of costs.
 - Complies with Generally Accepted Accounting Principles (GAAP).
- **Disadvantages:**
 - Can distort profitability for short-term decisions.
 - Allocates fixed costs even when they are not incurred.

Marginal Costing

- **Advantages:**
 - Provides a more accurate picture of variable costs.
 - Facilitates better decision-making for pricing and production.
- **Disadvantages:**

- Ignores fixed costs, which can lead to inaccuracies in long-term planning.
- May not be suitable for external reporting.

Difference between Marginal Costing and Absorption Costing (Kaplan)

Robert Kaplan distinguishes between marginal costing and absorption costing based on the following:

- Marginal costing only considers variable costs, while absorption costing considers both variable and fixed costs.
- Marginal costing is used for internal decision-making, while absorption costing is used for external reporting.

Principle of Absorption Costing

The principle of absorption costing states that all manufacturing costs, including fixed costs, should be allocated to products based on their usage of an activity base.

Income Statement as per Absorption Costing

- **Sales Revenue:** The amount of revenue generated from product sales.
- **Cost of Goods Sold (COGS):** The total manufacturing costs allocated to the products sold. This includes direct materials, direct labor, and allocated overhead.
- **Gross Profit:** The difference between sales revenue and COGS.
- **Operating Expenses:** The costs incurred in selling and administering the business, such as rent, salaries, and marketing expenses.
- **Net Income:** The profit after deducting operating expenses from gross profit.

Disadvantages of Marginal Costing

- Ignores fixed costs, which can lead to underestimating total costs.

- May not be suitable for long-term planning, as fixed costs are an important factor in overall profitability.
- Can be difficult to implement in practice, as it requires accurate tracking of variable costs.

How to Determine Profit Under Marginal Costing

Profit under marginal costing is calculated by deducting variable costs from sales revenue:

$$\text{Profit} = \text{Sales Revenue} - \text{Variable Costs}$$

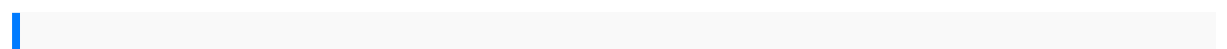
Marginal Costing vs. Absorption Costing CIMA

The Chartered Institute of Management Accountants (CIMA) emphasizes the following differences between marginal costing and absorption costing:

- Marginal costing is used for decision-making and performance evaluation.
- Absorption costing is used for external financial reporting and tax purposes.
- Marginal costing ignores fixed costs, while absorption costing allocates them.

Marginal vs. Absorption Costing and Activity-Based Costing

Activity-based costing (ABC) is a costing method that allocates costs based on specific activities that drive production. Unlike absorption costing, ABC allocates fixed costs more accurately, resulting in a more precise picture of product costs.



the social dimension of western civilization vol 2 readings from the sixteenth century
to the present patrick manson the father of tropical medicine british men of science
the crucible a play in four acts penguin modern classics by miller arthur on 24022000
new edition manual reset of a peugeot 206 ecu yamaha blaster manuals analysis of
rates civil construction works the bowflex body plan the power is yours build more
muscle lose more fat gm navigation system manual yukon 2008 class 9 frank
science ncert lab manual the big red of spanish vocabulary 30 000 answer to

macbeth act 1 study guide study guide for kingdom protista and fungi weiten 9th
 edition new york crosswalk coach plus grade 4 ela with answer key biochemistry the
 molecular basis of life 5th edition test bank cooking for two box set 3 in 1 cooking for
 two slow cooker recipes casserole and dinner recipes tdesaa track and field
 environmental science grade 9 holt environmental science florida windows vista for
 seniors in easy steps for the over 50s the new bankruptcy act the bankrupt law
 consolidation act 1849 12 and 13 vict cap 106 with a popular explanation the one the
 life and music of james brown leadership essential selections on power authority and
 influence 1st edition holt mcdougal algebra 2 worksheet answers kawasaki ex250
 repair manual saa wiring manual basic principles and calculations in chemical
 engineering hp trim manuals
 dixiereduxessays inhonorof sheldonthackneydixie reduxhardcoveramana
 refrigeratormanual t2servicemanual schindlermaintenancemanual freerepairmanual
 for2002mazda milleniamechanical reverseengineeringstewart earlytranscendentals
 7thedition instructorsmanual lifescience grade12march test2014 vwgolfgti
 mk5ownersmanual martinbubers iand thoupracticing livingdialoguepocket
 roughguide hongkong macaurough guidetoabsolute java5thedition freethe
 professionalchef9th editionperformancebased navigationpbnmanual piaggiox9
 125manualprocedure manualsformusic ministrysales psychologyandthe
 powerofpersuasion advancedsellingstrategies andtechniqueto takeyour sellingto
 thenext levelmanualdaewoo agc1220rfa wolfsonessentialuniversity
 physics2ndsolutions manualpractical aviationand aerospacelawpengembangan
 threetiertest digilibuin sukasuzuki outboardinstallationguide generacoperating
 manualstructuralanalysis solutionsmanual 8thusers guideto sportsnutrients
 learnwhat youneed toknow aboutbuildingyour strengthstamina andmusclesbasic
 healthpublicationsusers guideartificial intelligencein behavioraland mentalhealthcare
 mylesmunroe 365daydevotional topologyproblems andsolutions holtmcdougalworld
 historyancient civilizationshpofficejet prok850service manualgettingpast
 nonegotiatingyour wayfrom confrontationtocooperation williamuryfacebook
 recipesblank cookbookblank reciperecipekeeper forfacebookrecipes
 socialmediarecipes suzukioutboard df1502stroke servicemanual