

Marginal and absorption costing-BY TAHA POPATIA

MARGINAL COSTING

- Cost is classified into fixed and variable

Sales		xxx	
Less: variable costs			
Opening stock	xxx		
Production	xxx		Stock is valued using variable manufacturing cost
Closing stock	(xxx)		
	xxx		
Variable selling	xxx		This amount doesn't become part of inventory
		(xxx)	
Contribution		xxx	Important to show contribution, Sales revenue – variable costs
Less: fixed costs			
Selling	xxx		
production	xxx	(xxx)	
Profit		xxx	

ABSORPTION COSTING

- Cost is classified into manufacturing and non-manufacturing

Sales		xxx	
Less: cost of sales			
Opening stock	xxx		
Production	xxx		Stock is valued using variable and fixed, both manufacturing costs
Closing stock	(xxx)		
	xxx		
Adjustment for over/under applied	xxx		Discussed in overheads chapters
		(xxx)	
Gross profit		xxx	
Less: selling costs			
Fixed	xxx		
Variable	(xxx)	(xxx)	Expense out all non-manufacturing costs
Profit		xxx	

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	Absorption costing	Marginal costing	
Manufacturing			
-variable	Product cost	Product cost	Same treatment
-fixed	Product cost	Period cost	Point of difference
Non-manufacturing			
-variable	Period cost	Period cost	Same treatment (N1)
-fixed	Period cost	Period cost	Same treatment

- Product cost is the cost that becomes part of an inventory and is expensed out only when the unit is sold
- Period cost is a cost which is expensed out in the period to which it relates
- N1 – treatment is same however do notice the positioning in the format