

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

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