AC2620: Module 5 Cash Flow and Performance Evaluation

Discussion 5.1

Variable Costing

Variable costing separates fixed and variable costs, a necessary step in performing Cost-Volume-Profit (CVP) analysis and, relatedly, planning and decision making.

ClausenTube
Income Statements
For the Year Ended December 31, 2013

Full costing		
Sales ($2,000 × 4,800 units)		$9,600,000
Cost of goods sold ($1,100 × 4,800 units)		5,280,000
Gross margin		4,320,000
Less selling and administrative expense:		
Selling expense	$ 292,000	
Administrative expense	500,000	792,000
Net income		$3,528,000

Notes: 6,000 units produced and 4,800 units sold.
Selling expense = $100,000 + ($40 × 4,800 units).

Variable Costing		
Sales ($2,000 × 4,800 units)		$9,600,000
Less variable costs:		
Variable cost of goods sold ($900 × 4,800 units)	$4,320,000	
Variable selling costs ($40 × 4,800)	192,000	4,512,000
Contribution margin		5,088,000
Less fixed costs:		
Fixed production costs	1,200,000	
Fixed selling costs	100,000	
Fixed administrative costs	500,000	1,800,000
Net income		$3,288,000

Note: 6,000 units produced and 4,800 units sold.

Analyze the given full costing income statement of the Clausen Tube company and discuss the benefits of variable costing for its internal reporting purposes.