PROBLEM 5–21 Prepare and Reconcile Variable Costing Statements [LO 5–1, LO 5–2, LO 5–3]

Linden Company manufactures and sells a single product. Cost data for the product follow:

Variable costs per unit:	
Direct materials	$ 6
Direct labor	12
Variable factory overhead	4
Variable selling and administrative	3
Total variable costs per unit	$25
Fixed costs per month:	
Fixed manufacturing overhead	$240,000
Fixed selling and administrative	180,000
Total fixed cost per month	$420,000

The product sells for $40 per unit. Production and sales data for May and June, the first two months of operations, are as follows:

	Units Produced	Units Sold
May	30,000	26,000
June	30,000	34,000

Income statements prepared by the accounting department, using absorption costing, are presented below:

	May	June
Sales	$1,040,000	$1,360,000
Cost of goods sold	780,000	1,020,000
Gross margin	260,000	340,000
Selling and administrative expenses	258,000	282,000
Net operating income	$ 2,000	$ 58,000

Required:

1. Determine the unit product cost under:
   a. Absorption costing.
   b. Variable costing.
2. Prepare contribution format variable costing income statements for May and June.
3. Reconcile the variable costing and absorption costing net operating incomes.
4. The company's Accounting Department has determined the break-even point to be 28,000 units per month, computed as follows:

$$\frac{\text{Fixed cost per month}}{\text{Unit contribution margin}} = \frac{\$420{,}000}{\$15 \text{ per unit}} = 28{,}000 \text{ units}$$

Upon receiving this figure, the president commented, "There's something peculiar here. The controller says that the break-even point is 28,000 units per month. Yet we sold only 26,000 units in May, and the income statement we received showed a $2,000 profit. Which figure do we believe?" Prepare a brief explanation of what happened on the May income statement.

PROBLEM 5-22 Ab...