

Handout 22-H1C***Absorption and variable costing income statements.***

During the first month of operations ended June 30, Ana Clare Company manufactured 750,000 units, of which 690,000 were sold. Operating data for the month are summarized as follows:

Sales			\$6,900,000
Manufacturing Costs:			
Direct materials	\$260,000		
Direct labor	480,000		
Variable manufacturing overhead	385,000		
Fixed manufacturing overhead	<u>375,000</u>	\$1,500,000	
Selling and administrative expenses:			
Variable	\$680,000		
Fixed	<u>220,000</u>	\$ 900,000	

Instructions:

Use two sheets of two- or three-column paper intended for financial statement preparation. In the upper right corner of the sheet, indicate this assignment number: Handout 22-H1C.

- 1) Prepare an income statement based on the absorption costing concept.
- 2) Prepare an income statement based on the variable costing concept.
- 3) Explain the reason for the difference in the amount of operating income reported in (1) and (2).

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