Under variable costing approach, fixed manufacturing overhead is not treated as part of a unit cost. But rather as an expense and charged off against revenue.

Under absorption costing approach, fixed overhead is treated as product cost.

### Unit Product Cost

<table>
<thead>
<tr>
<th></th>
<th>Absorption</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Material</td>
<td>$35</td>
<td>$35</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Variable Mfg. O/H</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Fixed Mfg. O/H</td>
<td>11.25</td>
<td></td>
</tr>
<tr>
<td>[450,000 ÷ 40,000]</td>
<td>87.25</td>
<td></td>
</tr>
<tr>
<td>Unit Cost</td>
<td>76</td>
<td></td>
</tr>
</tbody>
</table>

### ABC Ltd.

Income Statement (Absorption) $3,600,000

Sales: $8,000,000

Less: COGS: Beginning Inventory 6

Add: (0 GIM [87.25×40000]) 3490,000

Less: Ending Inventory [10,000×87.25] 872500 (2617500)

Gross Profit 982500

Prepared by: Charanjit Singh
Less:

- Operating Expenses
  - Variable Selling & Admin (30,000x17) 510,000
  - Fixed Selling & Admin
  - Operating Income Loss

Income Statement (Variable)

Sales: 3,600,000

Less:

- Variable Costs:
  - OGS (30,000x17) 2,790,000
  - Selling & Admin (30,000x17) 2,280,000

Contribution Margin: 810,000

Less:

- Fixed Costs:
  - Fixed Mfg O/H 450,000
  - Fixed Selling & Admin 500,000

Operating Loss: 140,000

Prepared by: Charanjit Singh (2)