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CHAPTER 7

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Variable Costing
Vs
Absorption Costing

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- Two systems are used to produce ISs:
 - Absorption Costing
 - Variable Costing

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- Absorption Costing
 - All we have used so far
 - Cost of units
 - All factory costs
 - Factory costs expensed when inventory sold
 - COGS

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- Absorption Costing
 - Inventory costs:
 - DL
 - DM
 - MO/H
 - Both FO/H & VO/H
- Required by GAAP

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- Variable Costing
 - Alternative to Absorption Costing
 - Not GAAP
 - Separates VCs & FCs

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- Variable Costing
 - Problem with COGS
 - Both FC & VC
 - Need to change Inventory cost:
 - DL
 - DM
 - VO/H
 - Not FO/H

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- FO/H (Variable Costing)
 - Not inventory cost
 - “product cost”
 - Expensed
 - “period cost”
 - COGS is now a VC

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Different IS Formats
