Managerial Accounting - Alternative Inventory Cost Cheat Sheet

by Mely via cheatography.com/146378/cs/31654/

Absorption Costing

Product Cost = Variable + Fixed Manufacturing Costs

Production level impact COGS and inventory costs

Operating Income fluctuates with production levels

Used in financial accounting (follows GAAP)

Net Income higher if units produced > units sold
Net Income lower if units produced < units sold
Net Income equal if units produced = units sold

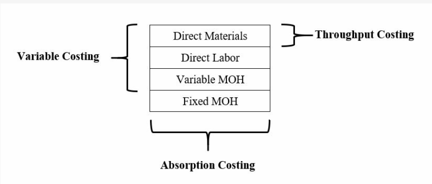
Normal Costing

Advantages:
- More timely information than actual costing
- Application of OH cost is simple

Disadvantages:
- Requires solid forecast numbers for cost and driver
- Sometimes difficult to find a correlating cost driver

See Inventory Methods Sheet

Costing Method Product Costs



The rest is period costs

Throughput Costing

Criteria to implement throughput costing:
1 - Conversion Costs are fixed costs and do not vary with production levels
2 - Management needs cost information for short term decisions

Gross profit and CM replaced with Throughput Margin

Inventory at the cost of DM (eliminates incentive to produce excess inventory)

Advantages:
- Reduces build up of excess inventories
- Encourages managers to reduce operating costs

Disadvantages:
- Useful only in certain industries/organizations

Variable Costing

Product Cost = Variable Manufacturing Costs

Production level have no impact on COGS and cost inventory

Operating income fluctuates with sales levels

Used in managerial accounting

Improves pricing decisions

Net Income Effects

No change in inventory: production = sales
Absorption net income = Variable net income
Fixed MOH flows through Income Statement
- Variable Costing is a period cost
- Absorption Costing is part of COGS

Increase in inventory: production > sales
Absorption net income > Variable net income
Absorption: portion of fixed MOH remains on balance sheet's inventory

Decrease in inventory: production < sales
Absorption net income < Variable net income
Absorption: units manufactured previously are sold, so current fixed MOH flowing to COGS is higher

Normal Costing Variance

When actual production deviates from production level

Happens only when absorption costing is used

Written off to COGS

Actual production > Budgeted production
Favorable, variance reduces COGS

Actual production < Budgeted production
Unfavorable, variance increases COGS

Throughput vs. Variable

Production = Sales	Variable = Throughput
Production > Sales	Variable > Throughput
Production < Sales	Variable < Throughput