

# Participation exercise #8

Finance



Participation Exercise#8 Both absorption costing and variable costing provides good costing methods to businesses. The two provide different costing approaches that distinguish them. The absorption costing system is more acceptable under the Generally Acceptable Accounting Systems due to its efficiency in accounting for costs in a business. Absorption costing is a system of accounting that takes into account the all costs incurred in the production process ranging from direct costs of labor, and materials. It also considers the fixed and variable costs referred to as manufacturing overheads incurred providing it with a more conclusive approach to providing for costs in the manufacture of goods. The system of costing assumes that all costs of the business need absorbing in the provision of a price to provide for total coverage of costs to have realistic profits. The system of accounting registers the costs on each sale and allows management to push forward the costs of unsold products to next period until when the products are sold (Kaplan Financial Limited). These mark the major differences between it and variable costing that only considers the cost of the products during the time when they are produced. These explain why the absorption costing system is supported by the GAAP while variable costing is applicable for internal purposes majorly.

One of the major efficiencies of absorption costing is its ability to provide for inventory valuation purposes since all stocks that are sold are covered in the cost of sales while those unsold remain accounted for until their point of sale.

Work cited:

Kaplan Financial Limited, Marginal and Absorption Costing, Costing. Kaplan Financial Knowledge Bank 2012. Viewed on May 07, 2015 from <https://assignbuster.com/participation-exercise-8/>

<http://kfknowledgebank.kaplan.co.uk/KFKB/Wiki%20Pages/Marginal%20and%20absorption%20costing.aspx?mode=none>