ACCA MA absorption and marginal costing reconciliation checklist

Before you start

1. Check the units: opening inventory + production sales = closing inventory.
2. Find the fixed overhead absorption rate: budgeted fixed production overhead ÷ budgeted production.
3. Check whether opening and closing inventory use the same rate. If not, value each inventory's overhead separately.
4. Note any under- or over-absorbed overhead. It goes in the absorption statement only.

Absorption costing statement

- Sales (units sold × price)
- Less production cost of sales at full cost (opening inventory + production closing inventory)
- Add under-absorbed overhead, or deduct over-absorbed overhead
- Gross profit
- Less selling and administration costs (variable and fixed)
- Profit or loss

Marginal costing statement

- Sales (units sold × price)
- Less variable production cost of sales (opening inventory + production closing inventory, at variable cost)
- Less variable selling costs (units sold × rate)
- Contribution
- Less actual fixed production overhead
- Less fixed selling and administration costs
- Profit or loss

Reconciliation layout

Line	$
Marginal costing profit	X
Less fixed overhead in opening inventory	(X)
Add fixed overhead in closing inventory	X
Absorption costing profit	X

Sign rules

Starting from	Opening inventory overhead	Closing inventory overhead
Marginal profit	Deduct	Add
Absorption profit	Add	Deduct

The shortcut (same rate in both inventories)

Absorption profit Marginal profit = (Closing units Opening units) × absorption rate per unit

- Inventory up: absorption profit higher.
- Inventory down: marginal profit higher.
- No change: profits equal.

Final checks

- Does your reconciled figure match the other method's profit?
- Does the reverse reconciliation bring you back to where you started?
- Did you use fixed overhead in inventory, not the total inventory value?
- Did you treat a loss as a negative number?
- Did you leave under- or over-absorption out of the reconciliation?