

Fixed Overhead Budget		
	<u>Annual Budget</u>	<u>November—Actual</u>
Supervisory salaries	\$ 430,000	\$ 37,200
Insurance	140,000	11,500
Property taxes	60,000	5,000
Depreciation	245,000	21,300
Utilities	225,000	18,000
Quality inspection	250,000	22,400
Total	<u>\$1,350,000</u>	<u>\$115,400</u>

Required

- Calculate the direct materials price and quantity variances for November.
- Calculate the direct labor rate and efficiency variances for November.
- Calculate the variable overhead spending and efficiency variances for November.
- Calculate the fixed overhead spending variance for November.
- Provide a plausible cause for each variance you calculated. Note: The variance definition is not a plausible cause.
- Which of these variances should Sandy be held responsible for? Why?

Cases

C&C Sports Continuing Case

6.33 (LO 3, 5) Interpreting variances As discussed in Units 6.2 and 6.3, C&C Sports experienced direct materials and direct labor variances as a result of purchasing lower-quality jacket lining from a new vendor. Review Exhibits 6.10 and 6.13 to refresh your understanding of these variances.

Required

Consider each scenario independently.

- Assume that after experiencing the variances associated with the lower-quality lining, C&C Sports decides to purchase lining from its previous vendor. Based on past experience, C&C's inventory manager, Bradley Austin, does not anticipate any problems with the previous vendor providing an adequate supply of lining at the appropriate quality level. Provided that C&C's standards are current, what effect would you anticipate this move to have on the direct materials price variance? On the direct materials quantity variance? On the direct labor rate variance? On the direct labor efficiency variance?
- Assume that after investigating the recent variances arising from the lower-quality lining purchase, C&C Sports decides to continue purchasing this lining and to focus on training its workers to improve their ability to cut and sew the lining. Those workers who had never worked on jackets and were pulled into service to meet the production schedule are also included in this training effort. What effect would you anticipate this move to have on the direct materials price variance? On the direct materials quantity variance? On the direct labor rate variance? On the direct labor efficiency variance?
- After completing the December production rush, C&C Sports' sales budget does not require any award jacket production in the first quarter. When production resumes at a low level in April, what effect would you anticipate the lack of recent production experience to have on the direct materials price variance? On the direct materials quantity variance? On the direct labor rate variance? On the direct labor efficiency variance?

6.34 (LO 1) Flexible budgeting (CMA Adapted) Spitzer Specialty Furniture manufactures furniture for specialty shops throughout the Southwest. With annual sales of \$12 million, the company has four major product lines—bookcases, magazine racks, end tables, and bar stools—each of which

is managed by a different production manager. Since production is spread fairly evenly over the year, controller Sara Massey has prepared an annual budget that is divided into 12 monthly reporting periods.

Spitzer uses a standard cost system and applies variable overhead on the basis of machine hours. Fixed manufacturing overhead is allocated to the product lines based on the square footage they occupy using a predetermined plantwide rate. The size of the occupied space varies considerably across product lines. At the monthly meeting to review June's results, Ken Ashley, manager of the bookcase line, received the following performance report.

Spitzer Specialty Furniture Bookcase Production Performance Report For the Month Ended June 30			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Units	3,000	2,500	500 F
Sales Revenue	\$161,000	\$137,500	\$ 23,500 F
Variable production expenses:			
Direct material	23,100	20,000	3,100 U
Direct labor	18,300	15,000	3,300 U
Overhead	60,200	51,250	8,950 U
Fixed production expenses:			
Indirect labor	9,400	6,000	3,400 U
Depreciation	5,500	5,500	
Taxes	2,400	2,300	100 U
Insurance	4,500	4,500	
Administrative expense	12,000	9,000	3,000 U
Marketing expense	8,300	7,000	1,300 U
Research & development	6,000	4,500	1,500 U
Operating income	<u>\$ 11,300</u>	<u>\$ 12,450</u>	<u>(\$ 1,150 U)</u>

While distributing the performance report at the meeting, Sara remarked to Ken, "We need to talk about getting your division back on track. See me after the meeting."

Ken had been so convinced that his division did well in June that Sara's remark surprised him. He spent the balance of the meeting avoiding eye contact with his fellow managers and trying to figure out what could have gone wrong. The monthly performance report was no help to him.

Required

- Identify at least three weaknesses in the June production performance report.
- Discuss the behavioral implications of Sara's remark to Ken.
- Prepare a more informative production performance report for June to assist in the evaluation of Ken's division.
- Discuss how your recommended changes in reporting are likely to affect Ken's behavior.

6.35 (LO 2, 3, 4, 5) Ethics; responsibility for direct materials and direct labor variances (CMA Adapted) Taylor Jenkins jumped out of his chair. Harrington Chemicals, a sales lead that Taylor had been working on for six months, had just placed its first order for 10,000 bottles of Omnigar. To get the order, Taylor had had to promise a delivery date of May 20. Though he didn't take the time to check with the production scheduler, he was sure the company wouldn't have any problems filling an order for this important new customer. Harrington's order was more than enough to push Taylor over the April bonus threshold. Since Taylor was retiring at the end of April, it would be a satisfying way to end his 30-year career. If the company missed the delivery date, he would be long gone by the time it happened.

Harrington's order was not met with much enthusiasm when it reached the desk of production scheduler Missy Price. "What was Jenkins thinking when he promised a May 20 delivery date?" she complained. "He knows I have to approve all the delivery dates. We've already scheduled all our available labor for May on the Omnigar line." Purchasing agent Pat Melton's reaction was similar. "I don't know where I'll get the raw materials for those extra 10,000 bottles. Our supplier is running low and only has enough material for the 12,000 bottles already scheduled for May."

In response to these concerns, Omnigar's production manager, Charles Elliot, called a meeting to decide how to handle the Harrington order without disrupting the schedule. Pat Melton reported, "Another supplier of raw materials is willing to ship to us, but we have to commit to buy 20,000 pounds at a total cost of \$150,000. He promises that the materials are the same quality as those we normally