

Application & Analysis

Mini Cases

A11-61 Analyzing Variances and Potential Causes

Go to YouTube.com and search for clips from the show *Unwrapped* on Food Network or *How It's Made* on the Discovery Channel. Watch a clip for a product you find interesting. Companies are not likely to disclose everything about their production process and other trade secrets. When you answer the following questions, you may have to make reasonable assumptions or guesses about the manufacturing process, materials, and labor.

Basic Discussion Questions

1. Describe the product that is being produced. Briefly outline the production process.
2. What direct materials are used to make this product? In general, what has happened to the cost of these materials over the past year? To find information about the price of materials, you might try one of these sources (or a combination of these sources):
 - a. Go to the *New York Times* website (<http://nytimes.com/>) or to *USA Today* (<http://www.usatoday.com/>) and search for each of the materials.
 - b. Find the company's annual report on its website and read its discussion about its cost of production.
3. Given what you have discovered about the cost of materials for this product, were the price variances for each material likely to be favorable or unfavorable (answer separately for each individual material)?
4. In general, what has probably occurred to the cost of direct labor for this company? Again, to find clues about its labor costs, you might try one of the options listed in question 2. If you cannot find anything specific about this company, then discuss what has happened to the cost of labor in general over the past year.
5. Given what you have discovered about the cost of labor, was the labor rate variance likely to be favorable or unfavorable?
6. It is unlikely that the company has released information about its quantity (efficiency) variances. In general, though, what could cause this company's material quantity variances to be favorable? What could cause these material quantity variances to be unfavorable?
7. In general, what could cause this company's labor efficiency variances to be favorable? What could cause these labor efficiency variances to be unfavorable?