

PROBLEM 10-20 Activity and Spending Variances [LO 10-1, LO 10-2, LO 10-3]

You have just been hired by SecuriDoor Corporation, the manufacturer of a revolutionary new garage door opening device. The president has asked that you review the company's costing system and "do what you can to help us get better control of our manufacturing overhead costs." You find that the company has never used a flexible budget, and you suggest that preparing such a budget would be an excellent first step in overhead planning and control.

After much effort and analysis, you determined the following cost formulas and gathered the following actual cost data for April:

	Cost Formula	Actual Cost in April
Utilities	\$16,500 plus \$0.15 per machine-hour	\$21,300
Maintenance	\$38,600 plus \$1.80 per machine-hour	\$68,400
Supplies	\$0.50 per machine-hour	\$9,800
Indirect labor	\$94,300 plus \$1.20 per machine-hour	\$119,200
Depreciation	\$68,000	\$69,700

Chapter 10

During April, the company worked 18,000 machine-hours and produced 12,000 units. The company had originally planned to work 20,000 machine-hours during April.

Required:

1. Prepare a report showing the activity variances for April. Explain what these variances mean.
2. Prepare a report showing the spending variances for April. Explain what these variances mean.