Which of the following are used to calculate the standard quantity per unit of direct materials?

- Direct materials requirements per unit of finished product
- Allowance for waste and spoilage
- Allowance for rejects

The standard price per unit of an input should reflect the expected cost of the raw materials less any discounts taken.

True or false: All variances should be investigated to determine their root cause.

Standards are:

- Benchmarks for measuring performance.
- Set for each major production input.
- Compared to the actual quantities and costs of inputs.

To calculate a price variance, multiply the actual quantity times the actual price and compare it to the actual quantity times the standard price.

The most difficult standard to determine is probably the:

- Standard hours per unit.

Insignificant variances:

- Should not be investigated.

The predetermined overhead application rate is calculated by dividing the estimated total manufacturing overhead cost by the estimated total amount of the allocation base.

Which of the following are used in the calculation of the budget variance?

- Budgeted fixed overhead
- Actual fixed overhead

Use the following information to calculate the labor efficiency variance for Adkinson Company.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual hours used</td>
<td>5,500</td>
</tr>
<tr>
<td>Standard hours allowed</td>
<td>5,800</td>
</tr>
<tr>
<td>Actual labor rate</td>
<td>$14.75 per hour</td>
</tr>
<tr>
<td>Standard rate</td>
<td>$14.00 per hour</td>
</tr>
</tbody>
</table>

$4,200 Favorable

A price standard indicates how much should be paid for an input.
Which of the following are advantages to using a standard cost system?

>>Standard costs can simplify bookkeeping.

>>Standards can provide benchmarks that can be used by individuals to judge their own performance.

The materials quantity variance reflects the difference between the actual materials used in production and the standard amount allowed for the actual output.

Calculate the predetermined overhead rate using machine-hours as the allocation base.

<table>
<thead>
<tr>
<th>Budgeted overhead</th>
<th>$350,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted production</td>
<td>28,000 units</td>
</tr>
<tr>
<td>Total budgeted machine-hours</td>
<td>70,000 hours</td>
</tr>
<tr>
<td>Actual production</td>
<td>20,000 units</td>
</tr>
<tr>
<td>Standard machine-hours allowed for actual production</td>
<td>50,000 hours</td>
</tr>
<tr>
<td>Actual machine-hours used for production</td>
<td>52,000</td>
</tr>
</tbody>
</table>

>> $5.00 per machine-hour

Which of the following are used in calculating the materials price variance?

>>Actual quantity of the input purchased

>>Standard price of the input

>>Actual price of the input

A normal cost system applies overhead to production on the basis of the actual level of activity, while a standard costing system applies overhead on the basis of standard hours allowed for the actual output.

When using standard cost journal entries, the entry for direct labor:

>>records both the labor rate and the labor efficiency variance

Ideal standards are problematic because:

>>they demand peak effort at all times.

>>they tend to discourage the most diligent workers.

When standard cost variances are closed:

>>unfavorable variances increase cost of goods sold and favorable variances decrease cost of goods sold

Quantity standards specify how much input should be used to produce a product or provide a service.

When recording the standard cost journal entry for the purchase of raw materials:

>>accounts payable is credited for the actual cost of materials.

>>the raw materials account is debited for the standard cost of materials.
When recording the standard cost journal entry for direct labor, unfavorable labor variances are debited and favorable labor variances are credited.

The formula for the materials quantity variance is \( \text{SP}(\text{AQ}-\text{SQ}) \).

Practical standards:

>>can assist in the identification of abnormal operating conditions.

>>allow for normal machine downtime.

The direct labor rate variance reflects the difference between the standard and the actual direct labor rates.

A quantity variance:

>>is calculated using the standard price of the input

The fixed overhead volume variance:

>>occurs because the costing system assumes fixed costs behave as if they were variable.

>>is the error that occurs when the level of activity is incorrectly estimated.

Ideal standards do not allow for any work interruptions or machine breakdowns.

The materials price variance is the difference between the actual price of materials and the standard price for materials with the difference multiplied by the actual quantity of materials.

Setting price and quantity standards:

>>may be based on input from production workers.

>>should be designed to encourage future efficient operations.

A(n) favorable materials price variance occurs when the standard price is higher than the actual price.

The amount of an input that should have been used to produce the actual output is known as the standard quantity or hours allowed.

Given the following information, calculate the variable overhead efficiency variance.

<table>
<thead>
<tr>
<th>Actual hours</th>
<th>1,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard hours allowed</td>
<td>1,350</td>
</tr>
<tr>
<td>Actual variable overhead rate</td>
<td>$3.00 per hour</td>
</tr>
<tr>
<td>Standard variable overhead rate</td>
<td>$3.50 per hour</td>
</tr>
</tbody>
</table>

>>$525 Unfavorable

In a standard cost system, overhead is applied on the basis of the standard hours allowed for the actual output of the period.
The standard rate per direct labor-hour includes:

>> the employer share of payroll taxes
>> the base rate per hour
>> fringe benefits

Which of the following are reasons that the materials price variance is calculated at the time the materials are purchased?

>> Management can generate more timely variance reports.
>> It allows materials to be carried in the inventory accounts at standard cost.
>> This practice simplifies bookkeeping.

Based on the following information, calculate the variable overhead rate variance.

<table>
<thead>
<tr>
<th>Actual variable overhead cost</th>
<th>$15,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual hours used</td>
<td>4,200</td>
</tr>
<tr>
<td>Standard hours allowed</td>
<td>4,000</td>
</tr>
<tr>
<td>Standard variable overhead rate</td>
<td>$3.75 per hour</td>
</tr>
</tbody>
</table>

>> $250 Favorable

Unfavorable labor rate variances may occur as a result of:

>> skilled workers being assigned to jobs requiring little skill.
>> overtime premiums being charged to the direct labor account.

The volume variance = the fixed component of the predetermined overhead rate x (Denominator hours – the standard hours allowed for the actual output).

Use the following information to calculate the labor rate variance for Adkinson Company.

<table>
<thead>
<tr>
<th>Actual hours used</th>
<th>5,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard hours used</td>
<td>5,800</td>
</tr>
<tr>
<td>Actual labor rate</td>
<td>$14.75 per hour</td>
</tr>
<tr>
<td>Standard labor rate</td>
<td>$14.00 per hour</td>
</tr>
</tbody>
</table>

>> $4,125 Unfavorable

The materials price variance is calculated using the actual quantity of the input purchased.

The materials price variance is computed when materials are purchased and the materials quantity variance is computed when materials are used.

When direct materials are placed into production, the standard cost journal entry:

>> records the material quantity variance only

Which of the following formulas is correct?

>> Volume variance = Budgeted fixed overhead – Fixed overhead applied to work in process

http://mgmt027.wordpress.com
Valuing inventories and cost of goods sold at standard costs eliminates the need to track the actual cost of each unit.

Management by exception:

>> attempts to find the causes of problems and correct them.

>> investigates significant discrepancies between standard and actual inputs.

Which of the following statements are true?

>> The production manager is most often responsible for the materials quantity variance.

>> Material quantity variances due to inferior materials are the responsibility of the purchasing department.

The production supervisor is generally responsible for controlling the labor rate variance.

An unfavorable labor efficiency variance can result from:

>> poorly motivated workers

>> inaccurate standards

>> faulty equipment

Direct material standards:

>> should be based on input from production and purchasing managers.

>> are based on standard price and quantity.

The purchasing manager is generally responsible for the material price variance, and the production manager is generally responsible for the material quantity variance.

Standard costs may:

>> be used to compute both flexible budget activity and spending variances

The standard cost for variable manufacturing overhead is computed the same way as the standard cost for direct labor.

Given the following standards for the production of widgets, compute the standard cost per widget.

| Direct materials per unit: | 4 pounds |
| Direct material cost: | $1.25 per pound |
| Direct labor per unit: | 1.5 hours |
| Direct labor rate: | $10.00 per hour |
| Variable overhead rate: | $4.00 per hour |

>> $26.00
Based on the following information, calculate the amount of overhead to be applied to production using a standard cost system.

<table>
<thead>
<tr>
<th>Budgeted variable overhead</th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted fixed overhead</td>
<td>$150,000</td>
</tr>
<tr>
<td>Estimated total machine-hours</td>
<td>25,000</td>
</tr>
<tr>
<td>Standard machine-hours for actual production</td>
<td>20,000</td>
</tr>
<tr>
<td>Actual machine hours used</td>
<td>20,500</td>
</tr>
</tbody>
</table>

>>$280,000

The production manager may be held responsible for materials price variances due to rush orders placed to satisfy customer orders.

Which of the following statements are true?

>>Managers should not use standards to assign blame.

>>Standard costs offer several advantages and disadvantages.

The direct material spending variance:

>>explains what was spent on materials and what should have been spent.

>>needs to be decomposed for analysis.

>>can be broken down into quantity variance and the price variance.

Management by exception is a system in which standards are set and significant deviations from the standards are flagged for investigation.

When using a standard cost system, the over or under applied overhead equals the sum of the overhead variances for the period.

When using a standard cost system:

>>the information in the variance reports may be too old to be useful.

>>an undue emphasis on labor efficiency variances can create pressure to build excess inventory.

Which of the following statements are true?

>>Changes in activity have no impact on actual fixed costs within the relevant range.

>>Treating fixed costs as if they are variable can lead to bad decisions.

>>A fixed overhead volume variance results from treating fixed manufacturing costs as if they are variable.

The production manager is usually responsible for controlling the labor efficiency variance.

When should variances be isolated and brought to management’s attention?

>>As soon as possible
Direct labor variances:

>>are computed in the same way as material variances

The predetermined overhead rate:

>>includes both fixed and variable overhead

When setting direct labor standards:

>>the production manager should be consulted

>>time and motion studies may be used

>>some companies use rates based on an expected mix of workers

Standard costs:

>>may be used in every type of organization

The purchasing manager is generally responsible for the materials price variance.