

Section 5 -G4

1. Nicholas Company manufactures TVs. Some of the company's data was misplaced. Use the following information to replace the lost data:

Analysis	Actual Results	Flexible Variances	Flexible Budget	Sales-Volume Variances	Static Budget
Units Sold	112,500		112,500		103,125
Revenues	\$42,080	\$1,000 F	(A)	\$1,400 U	(B)
Variable Costs	(C)	\$200 U	\$15,860	\$2,340 F	\$18,200
Fixed Costs	\$8,280	\$860 F	\$9,140		\$9,140
Operating Income	\$17,740	(D)	\$16,080	(E)	\$15,140

Required:

- What are the respective flexible-budget revenues (A)?
- What are the static-budget revenues (B)?
- What are the actual variable costs (C)?
- What is the total flexible-budget variance (D)?
- What is the total sales-volume variance (E)?
- What is the total static-budget variance?

Answer:

- $\$42,080 - \$1,000 = \$41,080$
- $\$41,080 + \$1,400 = \$42,480$
- $\$15,860 + \$200 = \$16,060$
- $\$17,740 - \$16,080 = \$1,660$ favorable
- $\$16,080 - \$15,140 = \$940$ favorable
- $\$17,740 - \$15,140 = \$2,600$ favorable

2. The actual information pertains to the month of June. As part of the budgeting process, Colonial Fencing Company developed the following static budget for September. Colonial is in the process of preparing the flexible budget and understanding the results.

	<u>Actual Results</u>	<u>Flexible Budget</u>	<u>Static Budget</u>
Sales volume (in units)	<u>19,000</u>	<u> </u>	<u>20,500</u>
Sales revenues	\$510,000	\$ _____	\$615,000
Variable costs	<u>256,000</u>	\$ _____	<u>300,000</u>
Contribution margin	\$254,000	\$ _____	315,000
Fixed costs	<u>235,000</u>	\$ _____	<u>228,000</u>

Operating profit	<u>\$19,000</u>	\$ _____	<u>\$87,000</u>
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The flexible budget for sales revenues will be?

- A) \$615,000
- B) \$510,000
- C) \$635,500
- D) \$570,000

Answer: D

3. The actual information pertains to the third quarter. As part of the budgeting process, the Duck Decoy Department of Paralith Incorporated had developed the following static budget for the third quarter. Duck Decoy is in the process of preparing the flexible budget and understanding the results.

	<u>Actual Results</u>	<u>Flexible Budget</u>	<u>Static Budget</u>
Sales volume (in units)	<u>15,000</u>	_____	<u>11,000</u>
Sales revenues	\$245,000	\$ _____	\$235,000
Variable costs	<u>139,000</u>	\$ _____	<u>184,000</u>
Contribution margin	106,000	\$ _____	51,000
Fixed costs	<u>42,000</u>	\$ _____	<u>31,000</u>
Operating profit	<u>\$64,000</u>	\$ _____	<u>\$20,000</u>

The flexible budget will report _____ for variable costs.

- A) \$101,933
- B) \$250,909
- C) \$45,000
- D) \$184,000

Answer: B

Explanation: $15,000 \text{ units} \times \$184,000 / 11,000 = \$250,909$

4. The actual information pertains to the third quarter. As part of the budgeting process, the Duck Decoy Department of Paralith Incorporated had developed the following static budget for the third quarter. Duck Decoy is in the process of preparing the flexible budget and understanding the results.

	<u>Actual Results</u>	<u>Flexible Budget</u>	<u>Static Budget</u>
Sales volume (in units)	<u>15,000</u>	_____	<u>13,000</u>
Sales revenues	\$236,000	\$ _____	\$234,000
Variable costs	<u>166,000</u>	\$ _____	<u>182,000</u>
Contribution margin	70,000	\$ _____	52,000
Fixed costs	<u>41,000</u>	\$ _____	<u>31,000</u>
Operating profit	<u>\$29,000</u>	\$ _____	<u>\$21,000</u>

The flexible budget will report _____ for the fixed costs.

- A) \$73,923
- B) \$31,000 Favorable
- C) \$31,000

D) \$10,000 Unfavorable

Answer: C

Explanation: \$31,000, given in the static budget

5. The actual information pertains to the third quarter. As part of the budgeting process, the Duck Decoy Department of Paralith Incorporated had developed the following static budget for the third quarter. Duck Decoy is in the process of preparing the flexible budget and understanding the results.

	Actual Results	Flexible Budget	Static Budget
Sales volume (in units)	<u>10,000</u>	<u> </u>	<u>8,000</u>
Sales revenues	\$239,000	\$	\$235,000
Variable costs	<u>167,000</u>	\$	<u>184,000</u>
Contribution margin	72,000	\$	51,000
Fixed costs	<u>38,000</u>	\$	<u>33,000</u>
Operating profit	<u>\$34,000</u>	\$	<u>\$18,000</u>

The flexible-budget variance for variable costs is _____. (Round the final answer to the nearest dollar.)

- A) \$17,000 favorable
 B) \$33,400 unfavorable
 C) \$17,000 unfavorable
 D) \$63,000 favorable

Answer: D

Explanation: $[(10,000 \times \$184,000 / 8,000)] - \$167,000 = \$63,000 \text{ F}$

6. The sales-volume variance is sometimes due to _____.

- A) the difference between selling price and budgeted selling price
 B) quality problems leading to customer dissatisfaction
 C) unexpected increase in manufacturing labor time
 D) unexpected increase in the use of quantities of inputs of raw material

Answer: B

7. An unfavorable sales-volume variance could result from _____.

- A) an inappropriate assignment of labor or machines to specific jobs
 B) competitors taking market share
 C) an inefficiency of a purchasing manager in bargaining with suppliers
 D) a decrease in actual selling price compared to anticipated selling price

Answer: B

8. If a sales-volume variance was caused by poor-quality products, then the _____ would be in the best position to explain the variance.

- A) production manager
 B) sales supervisor
 C) financial supervisor
 D) logistic manager

Answer: A

9. Classic Products Company manufactures colonial style desks. Some of the company's data was misplaced. Use the following information to replace the lost data:

	Actual Results	Flexible Budget Variances	Flexible Budget	Sales-Volume Variances	Static Budget
Units sold	490,000		490,000		448,350
Revenues	\$187,250	\$5,000 F	(A)	\$6,260 U	(B)
Variable costs	(C)	\$890 U	\$71,260	\$10,800 F	\$82,060
Fixed costs	\$36,670	\$3,740 F	\$40,410	0	\$40,410
Operating income	\$78,430	(D)	\$70,580	(E)	\$66,040

What amounts are reported for revenues in the flexible-budget (A) and the static-budget (B), respectively?

- A) \$192,250; \$175,990
 B) \$182,250; \$188,510
 C) \$187,250; \$185,990
 D) \$180,990; \$188,510

Answer: B

Explanation: $\$187,250 - \$5,000 = \$182,250$; $\$182,250 + \$6,260 = \$188,510$

10. Classic Products Company manufactures colonial style desks. Some of the company's data was misplaced. Use the following information to replace the lost data:

	Actual Results	Flexible Budget Variances	Flexible Budget	Sales-Volume Variances	Static Budget
Units sold	490,000		490,000		448,350
Revenues	\$187,950	\$4,900 F	(A)	\$6,260 U	(B)
Variable costs	(C)	\$850 U	\$72,070	\$10,400 F	\$82,470
Fixed costs	\$36,670	\$3,700 F	\$40,370	0	\$40,370
Operating income	\$78,360	(D)	\$70,610	(E)	\$66,470

What are the actual variable costs (C)?

- A) \$71,220
 B) \$72,920
 C) \$72,070
 D) \$82,470

Answer: B

Explanation: $\$72,070 + \$850 = \$72,920$

- 11) Classic Products Company manufactures colonial style desks. Some of the company's data was misplaced. Use the following information to replace the lost data:

	Actual Results	Flexible Budget Variances	Flexible Budget	Sales-Volume Variances	Static Budget
Units sold	490,000		490,000		448,450
Revenues	\$186,850	\$5,000 F	(A)	\$6,460 U	(B)
Variable costs	(C)	\$870 U	\$70,870	\$10,300 F	\$81,170

Fixed costs	\$36,710	\$3,780 F	\$40,490	0	\$40,490
Operating income	\$78,400	(D)	\$70,490	(E)	\$66,650

What is the total flexible-budget variance (D)?

A) \$11,750 favorable

B) \$0

C) \$3,840 favorable

D) \$7,910 favorable

Answer: D

Explanation: $\$78,400 - \$70,490 = \$7,910$