Section 6 – G4

1) The flexible-budget variance for direct cost inputs can be further subdivided into a _____.
A) static-budget variance and a sales-volume variance
B) sales-volume variance and an efficiency variance
C) price variance and an efficiency variance
D) static-budget variance and a price variance
Answer: C

2) An efficiency variance reflects the difference between _____.
A) actual input quantities used last period and current period
B) an actual input quantity and a budgeted input quantity
C) an actual input quantity used in a company and its main competitors
D) a standard input quantity in a company and its main competitors
Answer: B

3) Which of the following is the correct formula for the materials price variance?
A) (Actual price of input - Budgeted price of input) x Budgeted quantity of input
B) (Actual quantity of input used - Budgeted quantity of input allowed for actual output) x Budgeted price of input
C) (Actual price of input - Budgeted price of input) x Actual quantity of input
D) (Actual quantity of input used - Budgeted quantity of input allowed for actual output) x Actual price of input
Answer: C

4) Which of the following is a disadvantage of using the standards developed by a firm itself to develop a budget?
A) A firm's inefficiencies will be part of the data.
B) They are not based on realized benchmarks and can be unrealistic
C) The expected future changes are not included in the standards.
D) The flexible-budget amounts are difficult to determine.
Answer: B

5) J.C Coats Inc. carefully develops standards for its coat making operation. Its specifications call for 2 square yards of wool per coat. The budgeted price of wool is $44 per square yard. The actual price for the wool was $36 and the usage was only 1.70 yards of wool per coat. What would be the standard cost per output for the wool?
A) $61.20 per coat
B) $72.00 per coat
C) $88.00 per coat
D) $74.80 per coat
Answer: D
Explanation: 44 × $1.70 = $74.80

6) Standard cost per output unit for each variable direct cost input is calculated by multiplying _____.
A) standard input allowed for one output unit by standard price per input unit
B) standard input allowed for one output unit by actual price per input unit
C) actual input allowed for one output unit by standard price per input unit
D) actual input allowed for one output unit by actual price per input unit
Answer: A
7) Standard material cost per kg of raw material is $6.50. Standard material allowed per unit is 5 Kg. Actual material used per unit is 6.00 Kg. Actual cost per kg is $6.00. What is the standard cost per output unit?
A) $30.00
B) $36.00
C) $32.50
D) $39.00
Answer: C
Explanation: Standard cost per output unit = Standard material cost per kg × standard material allowed per unit = $6.50 × 5 kg = $32.50

8) Standard labor rate is $7.50 per hour. Standard labor allowed per unit is 0.7 hours. Actual cost per labor hour is $7.00 and actual labour hour per unit is 1 hours. What is the standard labor cost per output unit?
A) $4.90
B) $5.25
C) $7.50
D) $7.00
Answer: B
Explanation: Standard cost per output unit = Standard labor allowed per unit × Standard labor rate = $7.50 × 0.7 hours = $5.25 per unit

9) A standard price is the minimum price a company will have to pay for a unit of input.
Answer: FALSE
Explanation: A standard price is a carefully determined price a company expects to pay for a unit of input.

10) To prepare budgets based on actual data from past periods is preferred since past inefficiencies are EXCLUDED.
Answer: FALSE
Explanation: A deficiency of using budgeted input quantity information based on actual quantity data from past periods is that past inefficiencies are included.

11) A firm's inefficiencies, such as the wastage of direct materials, are incorporated in past data. Hence the data represents the ideal performance of a firm.
Answer: FALSE
Explanation: A firm's inefficiencies, such as the wastage of direct materials, are incorporated in past data. Hence the data does not represent the ideal performance of a firm.
12) A standard is attainable through efficient operations but allows for normal disruptions such as machine breakdowns and defective production.
Answer: TRUE

13) One advantage of using standard times to develop a budget is they are simple to compile, are based solely on the past actual history, and do not require expected future changes to be taken into account.
Answer: FALSE
Explanation: An advantage of using standard times is they aim to take into account changes expected to occur in the budget period.

14) The textbook discusses three levels of variances, Level 0, Level 1, Level 2, and Level 3. Briefly explain the meaning of each of those levels and provide an example of a variance at each of those levels.
Answer: A Level 0 variance is simply the difference between actual operating income and planned operating income in the static budget.

A Level 1 variance would be any of the differences between the static budget and the actual results that make up operating income. Examples of such differences could include the following items:

Units sold	(Static budget - actual)
Revenues	(Static budget - actual)
Material costs	(Static budget - actual)
Direct manufacturing labor	(Static budget - actual)
Variable manufacturing overhead	(Static budget - actual)
Contribution margin	(Static budget - actual)
Fixed costs	(Static budget - actual)

A Level 2 variance subdivides the level 0 variance (which is the total of the Level 1 variances) into a sales volume variance and a flexible-budget variance. The sales volume variance is the difference between the flexible budget amount and the corresponding static budget amount. The flexible budget variance is an actual result and the corresponding flexible budget amount based on the actual output level in the budget period. Specific examples of Level 2 variances could include any of the items shown in the list of Level 1 variances.

A Level 3 variance would include price variances that reflect the difference between the actual input price and a budgeted input price, such as the direct material price variance, the direct labor rate variance, and the variable overhead rate variance. Level 3 variances would also include efficiency variances that reflect the difference between an actual input quantity and a budgeted input quantity. Examples would include material quantity variances, labor efficiency variances, and variable overhead efficiency variances.