

50 minutes

The Lee Corporation produces one product, Aminex using one type of raw material and one type of labor. Aminex is a stable compound and inventories of Aminex can be held. But the raw material is unstable and so the company never holds raw materials. The overhead costs vary with, and are applied based on direct labor hours. The production manager has prepared the statements for 2000 using budgeted variable costing approach as in exhibit 3. Though the company uses variable costing, it had computed absorption costs using the budgeted materials and labor costs as in exhibit 1. The actual results from operations for 2000 is given in exhibit 2.

Exhibit 1	Needed per unit		Cost per Unit	
Budgeted Standards:	of Output		of input	
Materials	3.00	lbs.	\$ 10.00	per lb.
Labor	0.50	hour	\$ 40.00	per hour
Total overhead	0.50	hour	\$ 80.00	per hour
Total full absorption costs per unit of output				

Exhibit 2	Actual Data for 2000		Rate	Cost
Materials Purchased and used	3,500	lbs.	\$ 12.00	\$ 42,000
Direct Labor Hours employed	600	hours	\$ 50.00	\$ 30,000
Actual variable overhead				\$ 13,000
Actual fixed overhead				\$ 31,000
Total material and labor costs spent				\$ 116,000

Units produced in 2000 1,100

Q1 Compute

Materials	Price	Variance
Materials	Efficiency	Variance
Labor	Price	Variance
Labor	Efficiency	Variance

Exhibit 2: Income statement: 2000 budgeted variable costing	
Revenue	\$ 108,000
Budgeted variable cost of goods sold	\$ (54,000)
Gross contribution margin	\$ 54,000
Materials and labor variances	\$ (19,000) ¹
Variable overhead variances	\$ (2,000)
Budgeted fixed overhead	\$ (30,000)
Fixed overhead spending variance	\$ (1,000)
Gross margin	\$ 4,000

¹ Includes materials purchase price and efficiency variances, labor rate and efficiency variances

Use total variable overhead variances and the actual variable overhead

Q2 Compute the flexible budget for variable overhead

Use the flexible budget for variable overhead and the budgeted labor hours allowed for actual outputs achieved.

Q3 Compute The budgeted variable overhead rate per direct labor hour

Q4 Compute the total budgeted variable manufacturing cost per unit.

Q5 Compute Efficiency variance for Variable overhead

Compute Spending variance for Variable overhead

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Q6 Compute Spending variance for fixed overhead

Compute the Production volume variance under absorption costing

Q7 Prepare:

Income statement	Standard Absorption Costing
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Gross margin

Standard Absorption Costing

Q8 Explain the difference between the income using the standard absorption costing approach and the income using the standard variable costing approach.