

The NovoSimple Division produces one product requiring one type of raw material. The division uses a standard absorption costing system. All the production cost variances are expensed in the period of production. The standards for materials, labor and overhead costs are enclosed. There is no work in process, accounts payable or accounts receivable. The beginning and the ending balances of the two inventory accounts are also given. In the last table, the actual cash flow is given. cash flow is given.

Standard costs			
	Units of input needed per unit of output	Cost per input unit	Cost per output unit
Materials	2 units	\$ 10.00	\$ 20.00
Labor	4 hours	\$ 15.00	\$ 60.00
Variable overhead	4 hours	\$ 5.00	\$ 20.00
Fixed overhead	4 hours	\$ 25.00	\$ 100.00
Standard absorption cost per unit of output			\$ 200.00
Denominator volume in units			1,000

Inventory accounts		
All at standard costs	Raw Materials	Finished Goods
31-Dec-99	\$4,000	\$70,000
31-Mar-00	\$2,000	\$110,000

Actual Cash Flow, 1993, 1st quarter			
Revenue (all cash)	900 × \$ 225.00		\$ 202,500
Materials Purchases	1,800 × \$ 12.00	\$ 21,600	
Labor	4,800 × \$ 14.50	\$ 69,600	
Overhead		\$ 129,000	
Costs spent (Assume all cash)			\$ 220,200
Actual cash flow from operations			\$ (17,700)

Questions

- 1 Prepare a complete variance table for materials (two variances), labor (two variances) and total overhead costs (three variances).
- 2 Compute the income for the first quarter of 2000, using the standard absorption costing method.
- 3 Why is the actual cash flow from operations, different from the income that you computed ?