

Toddler Treasures, Inc.

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What factors might have contributed to the CFO's decision to adopt a standard costing system?

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- There was sufficient information regarding demand.
- There wasn't a danger of incorporating past inefficiencies as this was the first year of operation.
- The company wanted to have a comprehensive planning and control system.

Identify the business reasons that might have led the company's product manager to change to the new and more expensive blanket material.

- The material would improve the texture and appearance of the company's product.
- The material would extend the useful life of the product.
- The material would result in increased sales and greater customer loyalty.

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Does the purchasing decision made by the product manager appear to be a good one?

Yes it does:

Budgeted revenue per blanket = \$26.00
Total budgeted revenue = 20,000 x \$26.00
= \$520,000

Actual revenue per blanket = \$30.50
Total actual revenue = 20,000 x \$30.50
= \$610,000

Total gain = 142,200

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Determine the price variance for the 220,000 square yards of blanket material purchased.

Materials price variance = AQ(AP - SP)
= 220,000 (\$8.25 - \$8.00)
= \$55,000 U

Determine the quantity variance for the 100,000 square yards of blanket material used.

Materials quantity variance = SQ(AQ - SQ)
= 100,000 (\$8.25 - \$8.00)
= \$25,000 U

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Determine the manufacturing overhead variances for May.

Variable overhead efficiency variance = SR(AQ - SQ)
= \$5.50 (100,000 - 98,000)
= \$11,000 U

Fixed overhead budget variance = Actual fixed overhead - Budgeted fixed overhead
= 120,000 - 125,000
= \$5,000 F

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Determine the labor rate variance for May.

Labor rate variance = AH(AR - SR)
= 9,000 (\$6.50 - \$6.00)
= \$9,000 U

Determine the labor efficiency variance for May.

Labor efficiency variance = SR(AH - SH)
= 16,000 (\$6.00 - 9,000)
= 0 (no variance)

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Determine the quantity variance for the 100,000 square yards of blanket material used.

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= \$11,000 U

Fixed overhead budget variance = Actual fixed overhead - Budgeted fixed overhead
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= \$5,000 F

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Determine the labor rate variance for May.

Labor rate variance = AH(AR - SR)
= 90,000 (\$16.00 - \$15.00)
= \$9,000 U

Determine the labor efficiency variance for May.

Labor efficiency variance = SR(AH - SH)
= 16,000 (\$15.00 - \$15.00)
= 0 (no variance)

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Determine the price variance for the 220,000 square yards of blanket material purchased.

$$\begin{aligned}\text{Materials price variance} &= AQ (AP - SP) &&= AQ (AP - SP) \\ &= 220,000 (8.25 - 8.00) &&= 110,000 (8.25 - 8.00) \\ &= \$55,000 \text{ U} &&= \$27,500\end{aligned}$$

Determine the quantity variance for the 110,000 square yards of blanket material used.

$$\begin{aligned}\text{Materials quantity variance} &= SP (AQ - SQ) \\ &= 8 (110,000 - 108,000) \\ &= \$16,000 \text{ U}\end{aligned}$$

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Determine the labor rate variance for May.

$$\begin{aligned}\text{Labor rate variance} &= \text{AH} (\text{AR} - \text{SR}) \\ &= 9,000 (16.90 - 16.00) \\ &= \$8,100 \text{ U}\end{aligned}$$

Determine the labor efficiency variance for May.

$$\begin{aligned}\text{Labor efficiency variance} &= \text{SR} (\text{AH} - \text{SH}) \\ &= 16.00 (9,000 - 9,000) \\ &= 0 \text{ (no variance)}\end{aligned}$$

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Determine the manufacturing overhead variances for May.

$$\begin{aligned}\text{Variable overhead efficiency variance} &= \text{SR (AQ - SQ)} \\ &= 8.50 (110,000 - 108,000) \\ &= \$17,000 \text{ U}\end{aligned}$$

$$\begin{aligned}\text{Fixed overhead budget variance} &= \text{Actual fixed overhead} - \text{Budgeted fixed overhead} \\ &= 170,000 - 171,000 \\ &= \$1,000 \text{ F}\end{aligned}$$

Identify the business reasons that might have led the company's product manager to change to the new and more expensive blanket material.

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- The material would result in increased sales and greater customer loyalty.

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*Does the purchasing decision
made by the product manager
appear to be a good one?*

Yes it does:

Budgeted revenue per blanket = \$26.00
Total budgeted revenue = $26.00 \times 18,000$
= \$468,000

Actual revenue per blanket = \$30.51
Total actual revenue = $30.51 \times 20,000$
= \$610,200

Total gain = 142,200

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Actual revenue per blanket = \$30.50
Total actual revenue = 20,000 x \$30.50
= \$610,000

Total gain = 142,000

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Determine the quantity variance for the 100,000 square yards of blanket material used.

Materials quantity variance = SQ(AQ - SQ)
= 100,000 (8.25 - 8.00)
= \$25,000 U

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Determine the labor efficiency variance for May.

Labor efficiency variance = SR(AH - SH)
= 16,000 (9,000 - 9,000)
= 0 (no variance)