Question 1 - CMA 1295 H5 - Variance Analysis Concepts

The difference between the actual amounts and the flexible budget amounts for the actual output achieved is the

A. Flexible budget variance.
B. Production volume variance.
C. Sales volume variance.
D. Standard cost variance.

A. The flexible budget variance is the difference between the actual results and the flexible budget amount based on the actual level of activity achieved in the budget period.

B.

The production volume variance is the difference between the budgeted fixed overhead and the fixed overhead applied, based on the standard rate × the standard input of the fixed overhead allocation base allowed for the actual level of output.

C. The sales volume variance is the difference between the flexible budget amount and the static budget amount.

D. The term "standard cost variance" is not a specific variance calculation. It may be used to refer to variance analysis in general, for example "standard cost variance analysis."

Question 2 - CMA 693 3-16 - Variance Analysis Concepts

In analyzing company operations, the controller of the Jason Corporation found a $250,000 favorable flexible-budget revenue variance. The variance was calculated by comparing the actual results with the flexible budget. This variance can be wholly explained by

A. The total flexible budget variance.
B. Changes in unit selling prices.
C. The total static budget variance.
D. The total sales volume variance.

A. This answer is incorrect. See the correct answer for a complete explanation.

B. The simple formula to calculate revenue is Revenue = Quantity × Price. Variances in revenue come from either variances in quantity of product sold or variances in selling price. Since the actual results are being compared with the flexible budget, there will be no difference between the numbers of actual sales volume and budgeted sales volume. The difference between the actual revenue and the flexible budget revenue can be caused only by a difference between the actual and budgeted selling prices.

C. This answer is incorrect. See the correct answer for a complete explanation.

D. The sales volume variance measures the impact of difference between actual and budgeted sales volume. Since the actual results are being compared with the flexible budget, there will be no difference between numbers of actual sales volume and budgeted sales volume. The total sales volume variance is zero.

Question 3 - CMA 1293 3-25 - Variance Analysis Concepts

A manufacturing firm planned to manufacture and sell 100,000 units of product during the year at a variable cost per unit of $4.00 and a fixed cost per unit of $2.00. The firm fell short of its goal and only manufactured 80,000 units at a total incurred cost of $515,000. The firm’s manufacturing cost variance was

A. $5,000 unfavorable.
B. $5,000 favorable.
The total manufacturing cost variance is the difference between all actual incurred manufacturing costs (direct materials, direct labor, variable overhead and fixed overhead) and the direct materials, direct labor, variable overhead and fixed overhead manufacturing budgeted costs in the flexible budget. To answer this question, we need to first calculate what the total budgeted manufacturing cost is in the flexible budget, including all variable manufacturing costs and all fixed manufacturing costs. Then, we need to compare the total actual costs incurred ($515,000) with that total budgeted amount.

The budgeted variable cost per unit was $4, and that included direct materials, direct labor, and variable overhead. Therefore, the flexible budget amount for total variable costs (including direct materials, direct labor and variable overhead) would have been $4 multiplied by the 80,000 units actually produced, or $320,000.

Budgeted fixed overhead is exactly the same in the flexible budget as it is in the static budget, because total fixed overhead costs do not change with changes in the production level the way variable costs do. Therefore, the budgeted fixed overhead in the flexible budget will be the budgeted $2 per unit multiplied by the 100,000 units planned. When we do that, we get $200,000. By doing that, we are “backing into” the total fixed overhead amount that management expected when it made up the budget. Taking that total and dividing it by the expected production level of 100,000 does not make it a variable cost. Fixed costs do not change with changes in the production level, so the fact that fewer units were manufactured than planned will not cause fixed costs in the flexible budget to change.

So we have total budgeted manufacturing costs in the flexible budget of $320,000 + $200,000, which is $520,000. Actual incurred manufacturing costs totaled $515,000. $515,000 – $520,000 = $(5,000) favorable variance.

C. This answer is incorrect. See the correct answer for a complete explanation.

D. This amount is based on the assumption of 100,000 units of output. See the correct answer for a complete explanation.

Question 4 - CMA 1291 3-17 - Variance Analysis Concepts

Folsom Fashions sells a line of women’s dresses. Folsom’s performance report for November follows.

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dresses sold</td>
<td>5,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Sales</td>
<td>$235,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Variable costs</td>
<td>(145,000)</td>
<td>(180,000)</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>90,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>(84,000)</td>
<td>(80,000)</td>
</tr>
<tr>
<td>Operating income</td>
<td>$6,000</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

The company uses a flexible budget to analyze its performance and to measure the effect on operating income of the various factors affecting the difference between budgeted and actual operating income.

The fixed cost variance for November is

A. $4,000 unfavorable.
B. $5,000 favorable.
C. $4,000 favorable.
D. $5,000 unfavorable.

A. In this question we are asked to calculate the fixed cost variance. It is simply the difference between the budgeted fixed costs and the actual fixed costs. For Folsom, the fixed cost variance is $4,000 unfavorable ($80,000 – $84,000). The actual fixed cost was greater than the budgeted fixed cost, which means that the variance is unfavorable.

B. This is the variable cost variance, not the fixed cost variance. See the correct answer for a complete explanation.

C. The budgeted amount of fixed cost was less than actual amount of fixed cost incurred. This means that the variance is unfavorable. See the correct answer for a complete explanation.

D. This answer is incorrect. See the correct answer for a complete explanation.

Question 5 - IMA 08-P2-228 - Variance Analysis Concepts

The following performance report was prepared for Dale Manufacturing for the month of April.

<table>
<thead>
<tr>
<th></th>
<th>Actual Results</th>
<th>Static Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales units</td>
<td>100,000</td>
<td>80,000</td>
<td>20,000 F</td>
</tr>
<tr>
<td>Sales dollars</td>
<td>$190,000</td>
<td>$160,000</td>
<td>$30,000 F</td>
</tr>
<tr>
<td>Variable costs</td>
<td>$125,000</td>
<td>$96,000</td>
<td>29,000 U</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>$45,000</td>
<td>$40,000</td>
<td>5,000 U</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>$20,000</td>
<td>$24,000</td>
<td>$4,000 U</td>
</tr>
</tbody>
</table>

Using a flexible budget, Dale's total sales-volume variance is

A. $6,000 favorable.
B. $20,000 unfavorable.
C. $4,000 unfavorable.
D. $16,000 favorable.

A. This answer results from adjusting the fixed costs in the static budget to a flexible budget amount that reflects the difference between the static budget sales units and the actual sales units. However, fixed costs do not change with changes in sales or manufacturing volume, and so the fixed costs in the flexible budget should be the same as the fixed costs in the static budget.

B. This is the total flexible budget variance, or actual operating income minus flexible budget operating income.

C. This is the total static budget variance.

D. The sales volume variance is the flexible budget amount minus the static budget amount. A sales volume variance can be calculated for every line on an income statement. The total sales volume variance is the flexible budget operating income minus the static budget operating income. In this problem, the flexible budget amounts are not given and must be calculated. The flexible budget for sales dollars is the static budget amount of $160,000 divided by the static budget sales units of 80,000 and multiplied by the actual sales units of 100,000, which is $200,000. The flexible budget for variable costs is calculated the same way and is $120,000. The fixed cost in the flexible budget is the same as the fixed cost in the static budget: $40,000. The flexible budget operating income is therefore $200,000 – $120,000 – $40,000, which equals $40,000. The sales volume variance is the flexible budget operating income of $40,000 minus the static budget operating income of $24,000, which is $16,000. Because the variance is positive on a net income line, it is a favorable variance.
Question 6 - CMA 1295 3-3 - Variance Analysis Concepts

The variance that arises solely because the quantity actually sold differs from the quantity budgeted to be sold is

A. Sales volume variance.
B. Master budget increment.
C. Static budget variance.
D. Sales mix variance.

A. The sales volume variance measures the impact of the difference between actual sales volume and budgeted sales volume. It is the difference between the flexible budget and the static budget.

B. The master budget increment is an increase of budgeted amount of company's master budget.

C. The static budget variance is the difference between budgeted costs and revenues and the actual results.

D. The sales mix variance arises when the actual mix of products sold differs from the budgeted mix, even though the total quantity of products sold may be the same as budgeted.

Question 7 - CMA 1291 3-16 - Variance Analysis Concepts

Folsom Fashions sells a line of women's dresses. Folsom's performance report for November follows.

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</table>

The company uses a flexible budget to analyze its performance and to measure the effect on operating income of the various factors affecting the difference between budgeted and actual operating income.

The variable cost flexible budget variance for November is

A. $4,000 favorable.
B. $5,000 unfavorable.
C. $5,000 favorable.
D. $4,000 unfavorable.

A. This is the difference between the actual and budgeted fixed cost. However, the question asks for the variable cost flexible budget variance.

B. The actual cost incurred was lower than the budgeted amount for the actual activity, so the variance is favorable.

C. The flexible budget variance for variable costs is the difference between the actual variable cost incurred and the budgeted amount for the actual activity. The budgeted variable cost per unit sold is $180,000 in budgeted total variable costs ÷ 6,000 budgeted units sold, or $30 per unit. Since 5,000 dresses were sold, the budgeted amount for the actual activity is $30 × 5,000, or $150,000.

The actual total variable cost incurred was $145,000. Therefore, the flexible budget variance for variable costs is the difference between $150,000 and $145,000, or $5,000. The variance is favorable because the
actual cost incurred ($145,000) was lower than the budgeted amount for the actual activity ($150,000).

D. This is the fixed cost variance. However, the question asks for the **variable** cost variance.