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Chapter 10
Standard Costs and Variances

Solutions to Questions

10-1 A quantity standard indicates how much of an input should be used to make a unit of output. A price standard indicates how much the input should cost.

10-2 Ideal standards assume perfection and do not allow for any inefficiency. Ideal standards are rarely, if ever, attained. Practical standards can be attained by employees working at a reasonable, though efficient pace and allow for normal breaks and work interruptions.

10-3 Under management by exception, managers focus their attention on results that deviate from expectations. It is assumed that results that meet expectations do not require investigation.

10-4 Separating an overall variance into a price variance and a quantity variance provides more information. Moreover, price and quantity variances are usually the responsibilities of different managers.

10-5 The materials price variance is usually the responsibility of the purchasing manager. The materials quantity and labor efficiency variances are usually the responsibility of production managers and supervisors.

10-6 The materials price variance can be computed either when materials are purchased or when they are placed into production. It is usually better to compute the variance when materials are purchased because that is when the purchasing manager, who has responsibility for this variance, has completed his or her work. In addition, recognizing the price variance when materials are purchased allows the company to carry its raw materials in the inventory accounts at standard cost, which greatly simplifies bookkeeping.

10-7 This combination of variances may indicate that inferior quality materials were purchased at a discounted price, but the low-quality materials created production problems.

10-8 If standards are used to find who to blame for problems, they can breed resentment and undermine morale. Standards should not be used to find someone to blame for problems.

10-9 Several factors other than the contractual rate paid to workers can cause a labor rate variance. For example, skilled workers with high hourly rates of pay can be given duties that require little skill and that call for low hourly rates of pay, resulting in an unfavorable rate variance. Or unskilled or untrained workers can be assigned to tasks that should be filled by more skilled workers with higher rates of pay, resulting in a favorable rate variance. Unfavorable rate variances can also arise from overtime work at premium rates.

10-10 If poor quality materials create production problems, a result could be excessive labor time and therefore an unfavorable labor efficiency variance. Poor quality materials would not ordinarily affect the labor rate variance.

10-11 If overhead is applied on the basis of direct labor-hours, then the variable overhead efficiency variance and the direct labor efficiency variance will always be favorable or unfavorable together. Both variances are computed by comparing the number of direct labor-hours actually worked to the standard hours allowed. That is, in each case the formula is:

Efficiency variance = SR(AH − SH)

Only the "SR" part of the formula, the standard rate, differs between the two variances.

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