

Sara Hall is the production manager of a specialty toy manufacturer. The business has grown significantly over the past several years. As the company grows, Hall has found it more difficult to manage all the various activities of purchasing, production, and quality control. In addition, the accounting department requires more and more feedback each month as costs rise in the growing business. Hall attended a manufacturing conference where she heard about budgeting. The toy manufacturer does not have a formal budgeting process and Hall thinks it might help the growing business. She is not an accountant but is putting together a report to discuss the topic of budgeting with accounting.

Hall has done some studies on the current production processes. She has found that the company can produce a maximum number of toys each month, but never actually reaches that level of production. One of the areas that has become a significant issue in the growing business is stock-outs. Although Hall has been increasing the number of units produced each month, the toy manufacturer's sales department complains that they run out of toys at the beginning of each month. The sales department has provided the following projections for sales over the next quarter.

#### **Anticipated Toy Sales in Units**

October	10,000
November	12,000
December	15,000

Hall has determined that the production should reach a level so that there will be an ending inventory equal to 30% of the next month's sales.

\*Source: Retired ICMA CMA Exam Questions.

### **Question 1.1 of 11**

Identify and explain four characteristics that could make this company's budgeting process successful.

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### **Question 1.2 of 11**

Describe how this business should differentiate between ideal standards and currently attainable standards.

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### **Question 1.3 of 11**

Identify and explain two possible reasons why the production process in this scenario regularly fails to meet its maximum quantity.

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**Question 1.4 of 11**

Identify and explain two benefits of reducing the incidence of stock-outs.

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**Question 1.5 of 11**

Define budgetary slack. Identify and explain two ways this business can reduce the incidence and effect of budgetary slack.

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**Question 1.6 of 11**

Based on the information provided, prepare the toy company's production budget for the month of November. Show your calculations.

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Maxwell Mechanical Inc. specializes in servicing central air conditioning units. Maxwell Mechanical employs licensed HVAC technicians and apprentices. Each service call requires a combination of both types of labor.

Maxwell's standard time and cost for each service call are as follows.

	<u>Time</u>	<u>Wage</u>
HVAC Technician	1.0 hour	\$30/hour
Apprentice	3.0 hours	\$14/hour

During the month of May, Maxwell serviced 1,500 air conditioning units. HVAC technicians worked a total of 1,900 hours with a total labor cost of \$60,800.

Apprentices worked a total of 4,000 hours with a total labor cost of \$52,000. The service calls require a certain amount of direct materials. For the month of May, Maxwell experienced a favorable direct materials price variance of \$5,000 and an unfavorable direct materials usage variance of \$8,000.

\*Source: Retired ICMA CMA Exam Questions.

### **Question 2.1 of 11**

Explain how Maxwell could use management by exception.

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### **Question 2.2 of 11**

Calculate Maxwell's total direct labor rate variance for the month of May. Show your calculations.

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### **Question 2.3 of 11**

Calculate Maxwell's total direct labor efficiency variance for the month of May. Show your calculations.

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### **Question 2.4 of 11**

Without performing any calculations, explain how Maxwell could further analyze the labor efficiency variance.

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## Question 2.5 of 11

Identify one possible cause and one corrective action for the combination of a favorable direct materials price variance and an unfavorable direct materials usage variance experienced by Maxwell in May.

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