

Armando Corporation manufactures a product with the following standard costs:

Direct materials	20 yards @ \$1.35 per yard	\$27
Direct labor	4 hours @ \$9.00 per hour	36
Factory overhead	applied at five-sixths of direct labor. Ratio of variable costs to fixed costs: 2 to 1	<u>30</u>
Total standard cost per unit of output		<u>\$93</u>

Standards are based on normal monthly production involving 2,400 direct labor hours (600 units of output).

The following information pertains to the month of July 1981:

Direct materials purchased	18,000 yards @ \$1.38 per yard	\$24,840
Direct materials used	9,500 yards	
Direct labor	Direct labor - 2,100 hours @ \$9.15 per hour	19,215
Actual factory overhead		16,650

500 units of the product were actually produced in July 1981.

Required:

- a. Prepare the following schedules computing:
 1. Variable factory overhead rate per direct labor hour.
 2. Total fixed factory overhead based on normal activity.

- b. Prepare the following schedules for the month of July 1981, indicating whether each variance is favorable or unfavorable:
 1. Materials Price variance (based on purchases).
 2. Materials usage variance.
 3. Labor rate variance.
 4. Labor efficiency variance.
 5. Controllable factory overhead variance.
 6. Capacity (volume) factory overhead variance.