

# \*AP11-5A (a-c)

Farm Labs, Inc. provides mad cow disease testing for both state and federal governmental agricultural agencies. Because the company's customers are governmental agencies, prices are strictly regulated. Therefore, Farm Labs must constantly monitor and control its testing costs. Shown below are the standard costs for a typical test.

Direct materials (2 test tubes @ \$1.95 per tube)	\$3.90
Direct labor (1 hour @ \$28.00 per hour)	28.00
Variable overhead (1 hour @ \$6.00 per hour)	6.00
Fixed overhead (1 hour @ \$10.00 per hour)	10.00
Total standard cost per test	<u>\$47.90</u>

The lab does not maintain an inventory of test tubes. Therefore, the tubes purchased each month are used that month. Actual activity for the month of November 2008, when 1,520 tests were conducted, resulted in the following:

Direct materials (3,150 test tubes)	\$ 5,733
Direct labor (1,620 hours)	38,880
Variable overhead	7,380
Fixed overhead	14,050

Monthly budgeted fixed overhead is \$14,050. Revenues for the month were \$75,000, and selling and administrative expenses were \$4,000.

Compute the price and quantity variances for direct materials and direct labor. *(Round computations and final answers to 0 decimal places, e.g. 125.)*

Materials price variance	\$		
Materials quantity variance	\$		
Labor price variance	\$		
Labor quantity variance	\$		

Compute the total overhead variance.

\$

Prepare an income statement for management. *(List amounts from largest positive to smallest positive followed by most negative to least negative, e.g. 15, 14, 10, -17, -5, -1. For negative numbers use either a negative sign preceding the number eg -45 or parentheses eg (45).)*

**FARM LABS, INC.**  
**Income Statement**  
**For the Month Ended November 30, 2008**

<input type="text"/>		\$ <input type="text"/>
<input type="text"/>		<input type="text"/>
Gross profit (at standard)		<input type="text"/>
Variations		
<input type="text"/>	\$ <input type="text"/>	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	
Total variance - <input type="text"/>		<input type="text"/>
Gross profit (actual)		<input type="text"/>
<input type="text"/>		<input type="text"/>
Net income		\$ <input type="text"/>