**PROBLEM 1-4. Performance Reports [LO 3]**

A performance report that compares budgeted and actual profit in the sporting goods department of Maxwell's Department Store for the month of December follows:

**Maxwell's Department Store**

**Sporting Goods**

**Performance Report**

**December 2008**

 **Budget Actual Difference**

Sales $600,000 $675,000 $75,000

Less:

Cost of merchandise 300,000 375,000 75,000

Salaries of sales staff 60,000 68,000 8,000

Controllable profit $240,000 $232,000 ($8,000)

**Required**

**a.** Evaluate the department in terms of its increases in sales and expenses. Do you believe it would be useful to investigate either or both of the increases in expenses?

**b.** Consider storewide electricity cost. Would this cost be a controllable or a noncontrollable cost for the manager of sporting goods? Would it be useful to include a share of storewide electricity cost on the performance report for sporting goods?

**PROBLEM 1-5. Performance Reports [LO 3, 5]**

At the end of 2011, Cyril Fedako, CFO for Fedako Products, received a report comparing budgeted and actual production costs for the company's plant in Forest Lake, Minnesota:

**Manufacturing Costs**

**Forest Lake Plant**

**Budget versus Actual 2008**

 **Difference**

 **Budget Actual (Actual Minus Budget)**

Materials $3,000,000 $3,300,000 $300,000

Direct labor 2,100,000 2,300,000 200,000

Supervisory salaries 375,000 400,000 25,000

Utilities 75,000 85,000 10,000

Machine maintenance 250,000 280,000 30,000

Depreciation of building 50,000 50,000 -0-

Depreciation of equipment 200,000 205,000 5,000

Janitorial 120,000 135,000 15,000

Total $6,170,000 $6,755,000 $585,000

His first thought was that costs must be out of control since actual costs exceed the budget by $585,000. However, he quickly recalled that the budget was set assuming a production level of 50,000 units. The Forest Lake plant actually produced 55,000 units in 2008.

***Required***

**a.** Given that production was greater than planned, should Cyril expect that all actual costs will be greater than budgeted? Which costs would you expect to increase, and which costs would you expect to remain relatively constant?

**b.** Cyril is extremely busy—the company has six other plants. Therefore, he cannot spend time investigating every departure from the budget. With this in mind, which cost(s) should Cyril concentrate on in his investigation of budget differences?