

BTN 23-4 The reason we use the words *favorable* and *unfavorable* when evaluating variances is made clear when we look at the closing of accounts. To see this, consider that (1) all variance accounts are closed at the end of each period (temporary accounts), (2) a favorable variance is always a credit balance, and (3) an unfavorable variance is always a debit balance. Write a half-page memorandum to your instructor with three parts that answer the three following requirements. (Assume that variance accounts are closed to Cost of Goods Sold.)

COMMUNICATING IN PRACTICE

P5 C2



Required

1. Does Cost of Goods Sold increase or decrease when closing a favorable variance? Does gross margin increase or decrease when a favorable variance is closed to Cost of Goods Sold? Explain.

2. Does Cost of Goods Sold increase or decrease when closing an unfavorable variance margin increase or decrease when an unfavorable variance is closed to Cost of Goods?
3. Explain the meaning of a favorable variance and an unfavorable variance.

TAKING IT TO THE NET

BTN 23-5 Access **iSixSigma's** website (iSixSigma.com) to search for and read information on benchmarking to complete the following requirements. (Hint: Look in the "dictionary" link.)

C1



Required

1. Write a one-paragraph explanation (in layperson's terms) of benchmarking.
2. How does standard costing relate to benchmarking?