

Investor Report for SafetyPaws

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Introduction

Overview

Here at SafetyPaws our mission is to produce safe and affordable collars, leashes, and harnesses that are built to protect your pets for years to come. This month we began our initial efforts to manufacture our products in a standard style and size, and so far, the consumer demand for our products has far outweighed our initial projections. Over the course of the next year we intend to grow our array of styles and sizes to allow our customers to consider our products not just a means for safety, but an interchangeable color coordinated accessory for their cherished pets. Our vision is that within the next five years our customers will consider SafetyPaws their primary choice for safe, affordable, and fashionable collars, leashes, and harnesses.

Purpose

In the spirit of transparency, the purpose of this investors report is to paint a clear image of the performance SafetyPaws has seen during this past month. It's important for us to share this information with you because we want our investors to have a deep level of insight into our organization and the unique challenges it faces. We intend to issue these reports monthly so that our investors can fully understand their investment in SafetyPaws. We wish to be upfront and honest with our investors that they can understand the strategy behind our costing system, selling prices, contribution margin, and target profits. We desire for our investors to understand the significance behind the dips and spikes of the KPIs behind our cost of goods sold, income statement, our variances, and their significance. We believe that this information is necessary to empower our investors to guide us with well-informed advice. We would like for SafetyPaws and its investors to continue to experience successful outcomes for years to come, and we

Report for SafetyPaws

recognize that this can only occur only through visibility into our business decisions and their outcomes (Krepp, 2016).

Methods and Approach

Within the AICPA code of professional conduct, we find 0.300 principles of professional conduct. Throughout this section we intend to elaborate on how each of these principals have been utilized throughout our methods and approach. To begin, we started out considering principal 0.300.020, responsibilities by ensuring SafetyPaws was self-governing by acting responsibly and recording its accounting information accurately. To attain the desired results for this principal we collaborated internally regarding the costs and commitments that are associated with running our business so that we could accurately report each cost for our investors (American Institute of Certified Public Accountants, Inc, 2016).

During our planning phase, SafetyPaws established a base set of costs such as: salary - collar maker, salary - leash maker, salary - harness maker, salary – receptionist, high-tensile strength nylon webbing, polyester/nylon ribbons, buckles made of cast hardware, depreciation on sewing machines, rent, utilities and insurance, scissors, thread, and cording, price tags, office supplies, other business equipment, loan payment, and salary to self. We took this information and organized it via cost classification until we reached the following break-down for the costs associated with our direct material, direct labor, overhead, period costs, fixed and variable costs.

Report for SafetyPaws

Milestone One - Cost Classification						
INSTRUCTIONS:						
Putting an X in the appropriate spot, classify the costs as: Direct Material, Direct Labor, Overhead, or Period Costs. The Fixed and Variable cost classifications have been provided for you.						
Item/Cost	Direct Material	Direct Labor	Overhead	Period Costs	Fixed	Variable
Salary - Collar maker		X				X
Salary - Leash maker		X				X
Salary - Harness maker		X				X
Salary - Receptionist				X		
High-tensile strength nylon webbing	X					X
Polyester/nylon ribbons	X					X
Buckles made of cast hardware	X					X
Depreciation on sewing machines				X	X	
Rent				X	X	
Utilities and insurance				X	X	
Scissors, thread, and cording			X		X	
Price tags			X			X
Office supplies				X		
Other business equipment				X		
Loan payment				X	X	
Salary to self				X	X	

In the spirit of principal 0.300.030, the public interest, SafetyPaws then took this information and acted, “with integrity, objectivity, due professional care, and a genuine interest in serving [our investors].” Having classified each cost associated with manufacturing our products, we then investigated product costing and valuation by separating out the variable and fixed costs for each product. This information helped us better understand the expenses associated with manufacturing our products and allowed us to arrive at the following information relating to the total fixed and variable costs per collar, leash, and harness (American Institute of Certified Public Accountants, Inc, 2016).

Report for SafetyPaws

Milestone One - Variable and Fixed Costs			
Collars			
Item	Variable Cost/Item	Item	Fixed Costs
High-tensile strength nylon webbing	\$ 4.00	Collar maker's salary (monthly)	\$ 2,773.33
Polyester/nylon ribbons	\$ 3.00	Depreciation on sewing machines	\$ 55.00
Buckles made of cast hardware	\$ 2.00	Rent	\$ 250.00
Price tags	\$ 0.10	Utilities and insurance	\$ 200.00
		Receptionist Salary	\$ 650.00
		Office supplies	\$ 66.67
		Depreciation on other business equipment	\$ 11.11
		Scissors, thread, and cording	\$ 400.00
		Loan payment	\$ 183.33
		Salary to self	\$ 166.67
Total Variable Costs per Collar	\$ 9.10	Total Fixed Costs	\$ 4,756.11
Leashes			
Item	Variable Cost/Item	Item	Fixed Costs
High-tensile strength nylon webbing	\$ 6.00	Leash maker's salary (monthly)	\$ 2,773.33
Polyester/nylon ribbons	\$ 4.50	Depreciation on sewing machines	\$ 55.00
Buckles made of cast hardware	\$ 1.50	Rent	\$ 250.00
Price tags	\$ 0.10	Utilities and insurance	\$ 200.00
		Receptionist Salary	\$ 650.00
		Office supplies	\$ 66.67
		Depreciation on other business equipment	\$ 11.11
		Scissors, thread, and cording	\$ 400.00
		Loan payment	\$ 183.33
		Salary to self	\$ 166.67
Total Variable Costs per Leash	\$ 12.10	Total Fixed Costs	\$ 4,756.11
Harnesses			
Item	Variable Cost/Item	Item	Fixed Costs
High-tensile strength nylon webbing	\$ 6.00	Harness maker's salary	\$ 2,946.67
Polyester/nylon ribbons	\$ 4.50	Depreciation on sewing machines	\$ 55.00
Buckles made of cast hardware	\$ 4.00	Rent	\$ 250.00
Price tags	\$ 0.10	Utilities and insurance	\$ 200.00
		Receptionist Salary	\$ 650.00
		Office supplies	\$ 66.67
		Depreciation on other business equipment	\$ 11.11
		Scissors, thread, and cording	\$ 400.00
		Loan payment	\$ 183.33
		Salary to self	\$ 166.67
Total Variable Costs per Harness	\$ 14.60	Total Fixed Costs	\$ 4,929.45

SafetyPaws then considered principal 0.300.040, integrity. For us, integrity means always doing the right thing, no matter what. The principal of integrity beacons us to be honest, open, fair, and just. When applying this principle we held our investors confidentiality in high regards and kept service and trust in the forefront of our thoughts. To accomplish this we made sure that all decisions and deeds associated with our organization and this report were evaluated against

Report for SafetyPaws

this principal. When establishing our variable and fixed costs for each product, we were able to better understand the costs associated with the production of our collars, leashes, and harnesses. Having an accurate baseline for our product costs enabled us to continue to report our information with integrity through accuracy (American Institute of Certified Public Accountants, Inc, 2016).

During this next phase we considered principal 0.300.050, objectivity and independence, by ensuring we were reporting our information objectively so that we were acting responsibly with regards to our investors and our organization. We accomplished this by understanding exactly how much the factory overhead, materials, and labor was costing us so we could plan our prices accordingly. Doing so helped us become good stewards of our organization, its investors, and our customers. This information later allowed us to perform a contribution margin analysis to analyze and record the projected impact of the profits associated with each of our three products (American Institute of Certified Public Accountants, Inc, 2016).

Having this data later helped us to execute a break-even analysis to determine the sales volume necessary for SafetyPaws gross sales to equal our total expense. This sort of planning allows us to consider principal 0.300.060, due care. For us, this principal requires that we take the proper precautions to allow our organization and its investors to succeed. Having the proper information helped enable us to be able to act competently and ethically as an organization. This information also allows us to project the potential profit we could accumulate through price valuation and projection through researching and analyzing the potential sales for each of the products we will be manufacturing dependent upon the prices we were selecting (American Institute of Certified Public Accountants, Inc, 2016).

Report for SafetyPaws

When we considered principal 0.300.070, scope and nature of services, SafetyPaws considered the public interest of our investors and our customers. As an organization we desire to ensure we only produce safe and trusted products that align with our mission and vision. To do this requires our organization to continue to create and monitor the quality of these controls. Doing so will enable us to effectively evaluate our business on an ongoing monthly basis, and we consider this information important for our success and the success of our investors. When SafetyPaws officially launched, the management accounting methods we utilized for generating the information contained within the remainder of this report were cost of goods sold (COGS), income statement, and variances.

This report, and the data it represents adheres to industry standards and the AICPA code of ethics by considering each of the principals we have outlined within this section. To the best of our knowledge our financial information has been accurately recorded and represented within this report, and we will continue to monitor and assess this representation on an ongoing monthly basis. As an organization, SafetyPaws aims to hold itself accountable with integrity, in the interest of public trust. Establishing the information contained within this report helps us evaluate if our organization has enough liquid assets to cover our immediate short-term commitments, and this is important to us because we desire to succeed as an organization for years to come. As we dive deeper into this report, we will review this information so we can understand the reality of our financial situation. We firmly desire for SafetyPaws and its investors to continue to experience success as an organization and a team (Tuovila, 2020).

Financial Strategy

Costing System

After research and planning, we received estimates for the various operating costs for SafetyPaws and we chose to utilize the job order costing system to record these costs. Although the job order and process costing methods are similar in that they capture and summarize product costs, classify costs as direct material, direct labor, and factory overhead. They also both allocate factory overhead costs to products, use a perpetual inventory method to capture the direct materials, work in progress, and finished goods. They also both provide product cost information that can be used for decision making. However, the job order and process costing methods differ in the way that they report costs (Warren, 2020).

Under the process costing method, the direct material, direct labor, and factory overhead would be reported for each process and the total would be divided by the number of units produced. Whereas, under the job order costing method each job order would be broken down for the direct material, direct labor, and factory overhead so that the specific total associated with each product could be captured. When comparing these costing methods to the needs of SafetyPaws, the job order costing method was found to be the most efficient due to the variability of the direct materials included in our collars, leashes, and harnesses which causes our variable costs per product to differ as the components vary from one product to another. The process costing method is great for creating costs associated with products that are indistinguishable from one another. However, since this is not the case for SafetyPaws this method would not work for us. To illustrate these variable cost differences let's consider all three of the SafetyPaws products as the materials used in each product can vary (Warren, 2020).

Report for SafetyPaws

When we consider this case, we see that variable costs for collars were \$9.10, leashes were \$12.10, and harnesses were \$14.60. If we were to combine these costs and average them using product costing, we would establish a combined variable cost of \$11.93. This is because under the process costing method the direct material, direct labor, and factory overhead would be standardized to account for all products but would not consider the difference in the types of work, materials, or floorspace involved in manufacturing each of the products. While this variable cost might seem fair for one unit, when we consider the cost of producing at a grander scale the variable cost increases exponentially. For example, a quantity of 1000 collars under job costing are \$9100. This cost would be compared to the cost of 1000 leashes which is \$12100, and 1000 harnesses which is \$14600.

Reflecting upon the differences in the prices, collars are smaller, so they use less materials than the leashes and harnesses. Leashes are longer than collars, but they require fewer buckles than collars or harnesses. Harnesses are also longer than collars, and they require 50% more buckles that collars require and 62.5% more buckles than leashes require. Additionally, due to the need for added materials and a higher level of hand eye coordination, harness makers are paid \$1 more per hour than collar and leash makers. Under the process costing method these costs would be absorbed within the combined costs of our products, but by utilizing the job costing method our costs can be broken down for each product so we can charge a more accurate price per manufactured good. If SafetyPaws were simply producing collars, leashes, or harnesses than process costing may be a viable option. However, with the differing costs for production and the specialized resources required for harnesses, using process costing for multiple models would wind up producing a standard price for all three products, but this price would not

Report for SafetyPaws

consider the additional material, labor, or factory overhead involved in customizing the other two products.

With job order costing, each products' variable costs can be considered depending on the added material, labor, or factory overhead involved in creating each product. While the process costing method is effective for companies producing one standard product, SafetyPaws currently has three products to choose from and as mentioned harnesses require more customization. To produce an exact cost for each product, and to justify additional labor required for manufacturing these units SafetyPaws chose to utilize the job costing method. Although the job costing method requires much more data entry, it also allows us to accurately charge our customers for the work performed to create the product they are purchasing. Additionally, the job costing method helps us determine the need for additional workers within each department utilized throughout the job (Accounting Tools, 2020).

Selling Prices

After conducting market research on the style and size of the products we wished to use, our research indicated that there were three optimal sales prices per product that would be appropriate for our location. During the process of generating our contribution margin analysis the selling prices of \$28 per collar, \$30 per leash, and \$35 per harness were selected. We chose these sales prices after determining they would be the best prices that we could select to maximize the profits we would receive from each product we manufactured. To determine these prices we first multiplied the price by the expected quantity that would be demanded at each given price and this provided us with a subtotal. We then multiplied the variable cost (VC) by the expected quantity that would be demanded at each given price, which gave us the total variable costs. Finally, we deducted the total variable costs from the subtotal to establish our total profits.

Report for SafetyPaws

Although different price selections may have provided us with a greater subtotal, the prices that we chose that are highlighted in yellow below provide us with the highest total profit per product.

Collars						
Price	Quantity	Subtotal	Total VC	Total Profit (Subtotal - VC)	Notes	
20	30	\$600.00	\$273.00	\$327.00	Greater Subtotal, but higher VC	
24	25	\$600.00	\$227.50	\$372.50	Greater Subtotal, but higher VC	
28	20	\$560.00	\$182.00	\$378.00	Highest Total Profit	
Leashes						
Price	Quantity	Subtotal	Total VC	Total Profit (Subtotal - VC)	Notes	
22	28	\$616.00	\$338.80	\$277.20	Greater Subtotal, but higher VC	
26	23	\$598.00	\$278.30	\$319.70	Greater Subtotal, but higher VC	
30	18	\$540.00	\$217.80	\$322.20	Highest Total Profit	
Harnesses						
Price	Quantity	Subtotal	Total VC	Total Profit (Subtotal - VC)	Notes	
25	25	\$625.00	\$365.00	\$260.00	Higher VC	
30	22	\$660.00	\$321.20	\$338.80	Higher VC	
35	20	\$700.00	\$292.00	\$408.00	Highest Total Profit	

Contribution Margin

Milestone Two - Contribution Margin Analysis			
	COLLARS	LEASHES	HARNESSES
Sales Price per Unit	\$ 28.00	\$ 30.00	\$ 35.00
Variable Cost per Unit	9.10	12.10	14.60
Contribution Margin	\$ 18.90	\$ 17.90	\$ 20.40

When performing our contribution margin analysis, we took the sales price per unit that we selected earlier and subtracted the variable cost per unit to determine our contribution margin for each product. We performed this calculation on each of our products and as seen below we found that with a sales price of \$28 and a variable cost of \$9.10 per unit collars would provide us with a contribution margin of \$18.90. Likewise, with a sales price of \$30 and a variable cost of \$12.10 per unit leashes would provide us with a contribution margin of \$17.90. As well, with a sales price of \$35 and a variable cost of \$14.60 harnesses would provide us with a contribution margin of \$20.40.

Report for SafetyPaws

If we consider the cost-volume profit analysis that we performed earlier we can see that if we had selected a price point of \$20 per collar and had a variable cost of \$9.10 per unit, our contribution margin would have only been \$10.90 per unit. Likewise, if we had selected a price point of \$22 per leash and had a variable cost of \$12.10 per unit, our contribution margin would have only been \$9.90 per unit. As well, if we had selected a price point of \$25 per harness and had a variable cost of \$14.60 per unit, our contribution margin would have been \$10.40 per unit. Although the estimated sales per day would have increased at the lower sales price, we can clearly see that the contribution margins would have declined for each product. Therefore, lowering our sales price would have forced us to have to sell more units to generate a higher profit.

Target Profits

Milestone Two - Break-Even Analysis			
	<u>COLLARS</u>	<u>LEASHES</u>	<u>HARNESSES</u>
Sales Price	\$ 28.00	\$ 30.00	\$ 35.00
Fixed Costs	\$ 4,756	\$ 4,756	\$ 4,929
Contribution Margin	\$ 18.90	\$ 17.90	\$ 20.40
Break-Even Units (round up)	252.00	266.00	242.00
<hr/>			
Target Profit	\$ 300.00	\$ 400.00	\$ 500.00
Break-Even Units (round up)	268.00	289.00	267.00
<hr/>			
Target Profit	\$ 500.00	\$ 600.00	\$ 650.00
Break-Even Units (round up)	279.00	300.00	274.00

When generating our break-even analysis, we took the fixed costs for each product that was established under variable and fixed costs and divided this number by the contribution margin that we determined based on the sales price for each product. We performed this

Report for SafetyPaws

calculation on each of our products and as seen below we found that with a sales price of \$28, a fixed cost of \$4756, and a contribution margin of \$18.90, the projected number of collars we would need to sell to break-even was 252. Likewise, with a sales price of \$30, a fixed cost of \$4756, and a contribution margin of \$17.90, the projected number of leashes we would need to sell to break-even was 266. As well, with a sales price of \$35, a fixed cost of \$4929, and a contribution margin of \$20.40, the projected number of harnesses we would need to sell to break-even was 242.

We then targeted profits of \$300 & \$500 for collars, \$400 & \$600 for leashes, and \$500 & \$650 for harnesses. To determine these target profits, we took the fixed costs for each product that was established under our variable and fixed costs worksheet, added the target profit, and divided this number by the contribution margin that we determined based on the sales price for each product. We performed this calculation on each of our products and as seen below we found that with a sales price of \$28, a fixed cost of \$4756, target profits of \$300 & \$500, and a contribution margin of \$18.90; the projected number of collars we would need to sell to earn a \$300 profit was 268 & 279 for \$500 profit. Likewise, with a sales price of \$30, a fixed cost of \$4756, target profits of \$400 & \$600, and a contribution margin of \$17.90; the projected number of leashes we would need to sell to earn a \$400 profit was 289 & 300 for \$600 profit. As well, with a sales price of \$35, a fixed cost of \$4929, target profits of \$500 & \$650, and a contribution margin of \$20.40; the projected number of harnesses we would need to sell to earn a \$500 profit was 267 & 274 for \$650 profit.

Again, if we consider the cost-volume profit analysis that we performed earlier we can see that had we selected a price point of \$20 per collar our contribution margin would have been \$10.90, and we would have needed to sell 437 units to break-even, 464 units to make a \$300

Report for SafetyPaws

profit, and 483 units to make a \$500 profit. Likewise, if we had selected a price point of \$22 per leash our contribution margin would have been \$9.90, and we would have needed to sell 481 units to break-even, 521 units to make a \$400 profit, and 542 units to make a \$600 profit. As well, if we had selected a price point of \$25 per harness our contribution margin would have been \$10.40, and we would have needed to sell 474 units to break-even, 523 units to make a \$500 profit, and 537 units to make a \$650 profit. Although the estimated sales per day would have increased at the lower sales price, we can clearly see that the quantities demanded would have nearly doubled. This would surely have forced us to hire additional resources to manufacture our products and this would have led to additional fixed costs for salaries which would have further reduced profits.

Financial Statements

Statement of Cost of Goods Sold

Milestone Three - Statement of Cost of Goods Sold		
Beginning Work in Process Inventory		0
Direct Materials:		
Materials: Beginning	0	
Add: Purchases for month of January	\$ 20,000	
Materials available for use	20,000	
Deduct: Ending materials	4,000	
Materials Used		\$ 16,000
Direct Labor		8,493
Overhead		3,765
Total Costs		\$ 28,258
Deduct: Ending Work in Process Inventory		0
Cost of Goods Sold		\$ 28,258.33

Report for SafetyPaws

When generating our Statement of Cost of Goods Sold, we started with no beginning balance for work in progress or materials, and at the beginning of the month we purchased \$20,000 in materials but consumed 80% of those materials. This left us with a balance of \$4,000 worth of materials, so we subtracted that balance from the \$20,000 worth of materials we purchased, and this shows us that we used \$16,000 worth of materials throughout the course of the month to manufacture our products. We added the materials used to the cost of our direct labor \$8,493.33 and overhead costs of \$3,765, and this gave us our total costs of \$28,258.33. We had no ending work in process inventory to deduct from this figure, so in the end our final figure for our cost of goods sold was \$28,258.33.

Initially we projected that our fixed costs per month would be \$14,442 for all three products, and our variable costs would be \$9.10 per collar, \$12.10 per leash, and \$14.60 per harness. Throughout the course of the month, we experienced twenty business days and sold 23 collars, 18 leashes, and 20 harnesses per day. This means we sold 460 collars, 360 leashes, and 400 harnesses during the month. This implies that our total variable costs were \$4186 for collars, \$4356 for leashes, \$5840 for harnesses, and if we add the fixed costs of \$14,442 our total projected budget was \$28,824. If we subtract our cost of goods sold (\$28,258.33) from our projected budget (\$28,824) this indicates that we were under budget by \$565.67, and this is great news for us.

Income Statement

Report for SafetyPaws

Milestone Three - Income Statement		
Revenue:		
Collars	\$	12,880
Leashes	\$	10,800
Harnesses	\$	14,000
Total Revenue:		\$ 37,680
Cost of goods sold		28,258
Gross profit		<u>\$ 9,422</u>
Expenses:		
General and administrative salaries	\$	2,450
Depreciation		165
Rent		750
Utilities and insurance		600
Scissors, thread, and cording	\$	1,200.00
Loan		550
Total Expenses		<u>\$ 5,715.00</u>
Net Income/Loss		<u>\$ 3,706.67</u>

In generating our Income Statement, we started with our sales revenue which consisted of 460 collars, 360 leashes, and 400 harnesses sold throughout the course of the month. We multiplied 460 times \$28 to arrive at \$12,880 in revenue for collars, 360 times \$30 to arrive at \$10,800 in revenue for leashes, and 400 times \$35 to arrive at \$14,000 in revenue for harnesses. When we added this revenue it indicated that we received \$37,680 in total revenue for the month. Next, we subtracted the cost of goods sold \$28,258.33 to determine that \$9,421.67 was our gross income for the month. From this we added the following expenses: general and administrative salaries of \$2,450.00 (\$1950 receptionist salary & \$500 owner salary), depreciation on the sewing machines of \$165.00, rent of \$750.00, utilities and insurance of \$600.00, scissors, thread,

Report for SafetyPaws

and cording of \$1,200.00, and loan repayment of \$550.00. This gave us \$5,715.00 in total expenses for the month. We then deducted this from the \$9,421.67 in gross income, which indicated that we received \$3,706.67 in net income for the month.

The \$3,706.67 in net income was \$1,956.67 over our initial projections made during our break-even analysis for our largest target profits of \$500 for collars, \$600 for leashes, and \$650 for harnesses. These projections indicated that we would need to sell 279 collars for a \$500 profit, 300 leashes for a \$600 profit, and 274 harnesses for a \$650 profit. However, we sold 460 collars, 360 leashes, and 400 harnesses during the month. Ultimately, we exceeded our projections for collar sales by 181, leash sales by 60, and harness sales by 126. Overall, this was a remarkably successful first month for us.

Variiances

Milestone Three - Variance Analysis				
Data for Variance Analysis:				
	Budgeted (Standard) Hours/Qty	Budgeted (Standard) Rate	Actual Hours/Qty	Actual Rate
Labor	160	\$ 16.00	180	\$ 16.50
Materials	400	\$ 9.10	460	\$ 10.00
Variances for Collar Sales				
Direct Labor Time Variance (Actual Hours - Standard Hours) x Standard Rate			Variance	Favorable/ Unfavorable
			\$ 320.00	Unfavorable
Direct Labor Rate Variance (Actual Rate - Standard Rate) x Actual Hours			\$ 90.00	Unfavorable
Direct Materials Quantity/Efficiency Variance (Actual Quantity - Standard Quantity) x Standard Price			\$ 546.00	Unfavorable
Direct Materials Price Variance (Actual Price - Standard Price) x Actual Quantity			\$ 414.00	Unfavorable

Report for SafetyPaws

When generating and analyzing our variances, we found that we budgeted 8 hours work per day for our collar maker and we experienced twenty business days throughout the course of the month. This means that in total we budgeted 160 hours for our collar maker, and under these circumstances we predicted there would only be a need for 400 collars. However, due to the increased demand of 460 collars we needed to produce 60 extra collars. This meant that our collar maker had to work 9 hours per day during those 20 business days, and this caused our collar maker to work 180 hours rather than the 160 hours that were budgeted. Additionally, this was overtime pay so our collar maker who typically earns \$16 per hour received a salary of \$16.50 per hour. Also, the variable costs per collar was expected to be \$9.10, but it was \$10 per collar so there was an increase in the variable costs associated with producing our collars.

To calculate our direct labor time variance we took the actual hours (180) and subtracted the standard hours (160) and multiplied this by the standard rate (\$16), which produced a \$320 variance. To calculate our direct labor rate variance we took the actual rate (\$16.50) and subtracted the standard rate (\$16) and multiplied this by the actual hours (180), which produced a \$90 variance. To calculate our direct materials quantity/efficiency variance we took the actual quantity (460) and subtracted the standard quantity (400) and multiplied this by the standard price (\$9.10), which produced a \$546 variance. To calculate our direct materials price variance we took the actual price (\$10) and subtracted the standard price (\$9.10) and multiplied this by the actual quantity (460), which produced a \$414 variance.

Significance of Variances

The direct labor time variance produced a \$320 unfavorable outcome, direct labor rate variance produced a \$90 unfavorable outcome, direct materials quantity/efficiency variance produced a \$546 unfavorable outcome, and direct materials price variance produced a \$414

Report for SafetyPaws

unfavorable outcome. To put these variances into perspective we need to understand that at the end of the month, our collar maker's work hours and the materials used to manufacture our collars were different from what we expected. Our collar maker worked a nine hour a day instead of eight due to an increased demand for collars, and this was a total of 20 hours more than we projected. To realize what this means we need to see that those 20 extra hours for our collar maker represent a 12.5% increase in the hours we are requiring our collar maker to work. These additional hours allowed our collar maker to earn an increase of 3.13% in wages, but we need to be mindful of the increased demand and monitor our collar maker's well-being.

Overall, we had a very profitable month, so these variances had negligible impact on our bottom line. However, we recognize that working overtime on a frequent basis can lead to burnout. It is our belief that if we take care of our employees, they will take care of our customers, and as a new business our customers are extremely important to us. We plan to ensure that our customers have the absolute best experience possible, and for that to happen it requires us to make sure that our employees well-being is protected, therefore we will continue to monitor this KPI. If the demand for additional collars increases in the upcoming month, we must consider upgrading our equipment, streamlining our processes, or hiring a part-time collar maker to assist with manufacturing by the end of the quarter. In closing, SafetyPaws appreciates and values any feedback our investors might have, so please reach out if you have any insights or questions, thank you.

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