“Midwest Ice Cream” Questions

(1) Make sure you understand the variance analysis shown at the bottom of page 7.

(2) After step 1 is clear, make sure you understand the volume and mix variances at the bottom of page 6.

(3) Once steps 1 and 2 are clear, move to the numbers in Exhibit 1 (page 12). Review the variance analysis shown on the bottom of page 12. This is the same idea as step 1 above.

(4) Calculate the mix variance for Midwest Ice Cream for 1973 using the same approach as in step 2 above.

(5) Assume the role of Frank Roberts, marketing vice president. Revise the proposed analysis at the top of page 11 to incorporate Peterson’s suggestions. Remember that the schedule should not be “too technical” for the board of directors.

(6) Assume the role of the manufacturing manager in attendance at the board meeting. What comments and questions does the revised schedule raise in your mind?

(7) Assume the role of Jim Peterson, president of Midwest.

(a) Based on this profit variance analysis, indicate which variances deserve further investigation. Why?

(b) For each variance that you think is important, indicate which functional manager (marketing or manufacturing) should bear primary responsibility.

(c) Indicate those areas where 1973 performance deserves commendation.

In your responses to the above questions, assume that milk and sugar are commodities whose prices fluctuate from period to period. All ice cream producers buy these products at the same price from a marketing board. The principal determinant of market demand for ice cream in a year is the weather. Ice cream sales are very high in hot weather.

There are minor, but confusing, typos on page 13 of the case. Actual and budget dairy ingredients (not Variable Costs) are $3,679,900 and $3,648,500, respectively. Actual and budget Labor – cartonizing and freezing (not Fixed Costs) are $425,200 and $390,800, respectively.