

What is Material Price Variance?

Worksheet

Material price variance equals the actual quantity purchased times the difference between actual price and standard price: $MPV = AQ (AP - SP)$. A positive result is unfavorable (paid more than standard); a negative result is favorable.

$$\text{MPV} = (\text{SP} - \text{AP}) \times \text{AQ}$$

Questions

1. The formula for material price variance is...

- A) $AQ (SP - AP)$
- B) $AQ (AP - SP)$
- C) $SQ (AP - SP)$
- D) $AP (AQ - SQ)$

2. 5,000 units bought at \$3.10 actual vs \$3.00 standard price. What is the variance?

- A) \$50 Favorable
- B) \$500 Unfavorable
- C) \$50 Unfavorable
- D) \$500 Favorable

3. A negative material price variance is considered...

- A) Unfavorable
- B) Favorable
- C) Always an error
- D) Irrelevant

4. Material price variance is typically controlled by...

- A) The sales department
- B) The purchasing department
- C) The HR department
- D) The shipping carrier

5. A company buys 5,000 kg of material at an actual price of \$4.20 per kg. The standard price is \$4.00 per kg. Find the material price variance.

6. 10,000 units of material are purchased at \$2.85 each; standard price is \$3.00. Find the material price variance.

7. A factory buys 2,500 liters of chemical at \$12.50 per liter versus a \$12.00 standard. Find the material price variance.

8. Define: What is material price variance?

9. Define: What is the material price variance formula?

10. Define: What does a positive MPV mean?

Answer Key

1. B) $AQ (AP - SP) - MPV = \text{Actual Quantity (Actual Price - Standard Price)}$.
2. C) \$50 Unfavorable - $5,000 (\$3.10 - \$3.00) = 5,000 \$0.10 = \50 Unfavorable.
3. B) Favorable - Negative means actual price was below standard - favorable.
4. B) The purchasing department - Purchasing negotiates supplier prices, driving the price variance.
5. $MPV = AQ (AP - SP)$ $MPV = 5,000 (\$4.20 - \$4.00)$ $MPV = 5,000 \$0.20 = \$1,000$ Unfavorable
6. $MPV = AQ (AP - SP)$ $MPV = 10,000 (\$2.85 - \$3.00)$ $MPV = 10,000 (-\$0.15) = -\$1,500$, so \$1,500 Favorable
7. $MPV = AQ (AP - SP)$ $MPV = 2,500 (\$12.50 - \$12.00)$ $MPV = 2,500 \$0.50 = \$1,250$ Unfavorable
8. The difference between what was actually paid and what should have been paid for materials purchased, at actual quantity.
9. $MPV = \text{Actual Quantity (Actual Price - Standard Price)}$.
10. Unfavorable - the company paid more per unit than the standard price.

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