## Review Classmates: Module 3 Mini-Project

Review by August 19, 09:59 PM PDT

|  |  |
| --- | --- |
| **Reviews** | 2 left to complete |

Flatland Inc Operational Analysis



by John Lodoen

Submitted on May 3, 2016

like Flag this submission

### Part 1: Cost Variances

Using the information provided in the Assignment Details section of the **Instructions** tab, respond to the following:

1. For both direct material and direct labor costs, calculate the spending, efficiency, and activity variances. Please provide supporting calculations, label your variances by name, and designate them as favorable or unfavorable. Note: If the given information is insufficient for answering any part of the above question, please denote that clearly, and identify the piece of information you are missing.
2. Provide a brief statement demonstrating your knowledge of the difference between a favorable and an unfavorable variance.
3. Provide at least two potential explanations for each of the variances (i.e., six) that you calculate. If you were to investigate these variances, who would you speak to in order to collect information relevant to your investigation?

**1A. Material Variances**  
  
1. Calculate Budgeted Price Per Material Unit. 6000\*1.5 = 9,000 kilos , $23,400/9,000 = $2.60 per kilo of direct materials

2. Calculate Actual Price Per Material Unit. 22,275/8,250 = $2.70 per kilo of direct materials actual  
3. Calculate Variances

Actual: $2.70 x 1.5 x 5,500 = $22,275  
Standard Price: $2.60 x 1.5 x 5,500 = $21,450  
Flex: $2.60 x 1.5 x 5,500 = $21,450  
Static: $2.60 x 1.5 x 6,000 = $23,400

**Spending Variance**: $21,450 - $22,275 = $825 Unfavorable  
**Efficiency Variance**: $21,450-$21,450 = 0  
**Activity Variance**: $23,400 - $21,450 = $1,950 Favorable  
  
**1B. Direct Labor Variances**  
  
1. Calculate Actual Cost per hour. $20,805/2,850 = $7.30 per hour actual  
2. Calculate Variances

Actual: $7.30 x (2,850/5,500) x 5,500 = 20,800  
Standard Price: $7 x (2,850/5,500) x 5,500 = 19,945  
Flex: $7 x .5 x 5,500 = 19,250  
Static: $7 x .5 x 6,000 = 21,000

**Spending Variance**: $19,945 - $20,800 = $855 Unfavorable  
**Efficiency Variance**: $19,945-$19,250 = $695 Favorable  
**Activity Variance**: $21,000 - $19,250 = $1,750 Favorable  
  
2.   
**Spending Variance** is favorable if the actual amount is lower than the SP amount. If the actual amount is higher than the SP amount the variance is unfavorable.  
**Efficiency Variance** is favorable if the SP amount is higher than the Flex amount. If the Flex amount is higher than the SP amount, the variance is unfavorable.  
**Activity variance** is favorable if the Static amount is higher than the Flex amount. If the Flex amount is higher than the Static amount, the variance is unfavorable.   
  
3.   
**Material Variances**  
Spending Variance: Supplier raised prices due to increased demand in raw materials. A preferred supplier is no longer selling materials they used to supply forcing the business to buy from a more expensive supplier.   
  
**Efficiency Variance**: Their was no efficiency variance which means the company used the projected amount of raw materials for each item made.  
  
**Activity Variance**: Process improvements lead to more production efficiency requiring less labor. The company produced fewer items than budgeted leading to lower cost and less activity.  
  
I would like to speak with the purchasing director or the sourcing department.  
  
**Direct Labor Variances**  
**Spending Variance**: Company was forced to hire labor at higher rate than expected. Company hired large number of workers working less than full time and benefit costs were higher since more people needed them.  
  
**Efficiency Variance**: Even though labor was more expensive, employees were experienced and were able to work more efficiently. A process improvement, suggested by an employee, ended up saving some labor hours.  
  
**Activity Variance**: Demand for the finished product was lower than expected which led to less labor hours. One employee quit which limited production and made the activity variance favorable.   
  
I would like to speak with the HR manager to discuss local labor markets, experience mix of the workers and any trends the past few weeks/months.

Read the response to Part 1 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient answer, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* **9 pts - 9 points: Well above average, exceeds expectations.**
* 10 pts - 10 points: Superior performance, excellent.

### Part 2: Revenue Variances

Using the information provided in the Assignment Details section of the **Instructions** tab, respond to the following:

1. Calculate the revenue variances (sales price, sales mix, and sales activity) for both the Standard and Super models. Please provide supporting calculations, label your variances by name, and designate them as favorable or unfavorable. Note: If the given information is insufficient for answering any part of the above question, please denote that clearly, and identify the piece of information you are missing.
2. Provide at least two potential explanations for each of the variances (i.e., six) that you calculate. If you were to investigate these variances, who would you speak to in order to collect information relevant to your investigation?

**1.** **Standard**  
Actual: $325 x .7 x 5,000 = $1,137,500  
Budget Price: $300 x .70 x 5,000 = $1,050,000  
Flex Price: $300 x .8 x 5,000 = $1,200,000  
Budgeted: $300 x .8 x 4,000 = $960,000  
  
**Selling Price Variance:** $87,500 Favorable  
**Budget Price Variance:** $75,000 Unfavorable  
**Sales Activity Variance:** $225,000Favorable  
  
**Super**  
Actual: $840 x .3 x 5,000 = $1,260,000  
Budget Price: $850 x .3 x 5,000 = $1,275,000  
Flex: $850 x .2 x 5,000 = $850,000  
Budgeted: $850 x .2 x 4,000 = $680,000  
  
**Selling Price Variance:** $15,000 Unfavorable  
**Budget Price Variance:** $425,000 Favorable  
**Sales Activity Variance:** $170,000 Favorable  
  
**2.**  
**Standard**  
**Selling Price Variance:** Last minute pricing change increased price to be higher than budgeted. Demand for the product was so high, managers decided to raise the price to capitalize on demand.  
  
**Budget Price Variance:** Product Mix changed so even though the price increased and they sold more than expected, higher than expected Super sales made this unfavorable. A key machine in the factory broke, limiting the number of standard products that could be produced.  
  
**Sales Activity Variance:** Company sold more Standard items than expected due to a series of commercials on a popular TV station.   
  
I would like to speak with someone in the pricing department and possibly the factory floor manager. I'd also like to speak with someone in marketing to determine why demand increased so much.   
  
**Super:**   
**Selling Price Variance**: Product was sold for less than expected due to a last minute savings on materials the company wanted to pass on to employees. Company decided to run a $10 off advertisement to increase demand. Demand increased, but they could not cover their costs by a small margin.  
**Budget Price Variance**: Product mix increased in Super's favor. Super model was much more popular than anticipated.  
**Sales Activity Variance**: Quantity sold increased due to higher than expected output. Purchasing got a volume deal on Super materials and demand met the higher production levels.  
  
I would want to talk with the marketing manager and the head designer of the super product.

Read the response to Part 2 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient answer, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* **9 pts - 9 points: Well above average, exceeds expectations.**
* 10 pts - 10 points: Superior performance, excellent.

Please provide any overall feedback that you have for the author of this assignment. What is one strength of the submission? What is one area of improvement that you would like to suggest?

Submit Review

### Good job!

Visible to classmates

