## Review Classmates: Module 3 Mini-Project

Review by August 19, 09:59 PM PDT

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Variance Analysis



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### 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?

1.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Direct Materials | Actual | Standard Price | Flexible | Budgeted |
| Rate ($ / kg) | $2.70 | $2.60 | $2.60 | $2.60 |
| Quantity (Kg/unit) | 1.5 | 1.5 | 1.5 | 1.5 |
| No of units | 5,500 | 5,500 | 5,500 | 6,000 |
|  |  |  |  |  |
| Cost $ | $22,275 | $21,450.00 | $21,450.00 | $23,400 |
| Quantity kg | 8250 | 8250 | 8250 | 9000 |
| Variance | $825.00 | $0.00 | ($1,950.00) |  |
| Spending Variance | $825.00 Unfavorable |  |  |  |
| Efficiency Variance |  | None |  |  |
| Activity Variance |  |  | $1950 Favorable |  |
|  |  |  |  |  |
|  | Spending | Efficiency | Activity |  |
|  |  |  |  |  |
| Direct Labor | Actual | Standard Price | Flexible | Budgeted |
| Labor Wages ($ /DL hour) | $7.30 | 7 | 7 | 7 |
| Direct Labor (DL hour/Unit) | 0.52 | 0.52 | 0.5 | 0.5 |
| No of units | 5,500 | 5,500 | 5,500 | 6,000 |
|  |  |  |  |  |
| Wages $ | $20,805 | $19,950.00 | $19,250.00 | $21,000 |
| DL hours | 2850 | 2850 | 2750 | 3000 |
|  |  |  |  |  |
| Variance | $855.00 | $700.00 | ($1,750.00) |  |
| Spending Variance | $825.00 Unfavorable |  |  |  |
| Efficiency Variance |  | $700 Unfavorable |  |  |
| Activity Variance |  |  | $1750 Favorable |  |

2. A favorable variance is that which, when all else equal increases the net income. An unfavorable variance on the other hand reduces net income. Favorable variance does not necessarily mean good and unfavorable does not necessarily mean bad.   
  
3.   
**Direct Materials**  
**Activity variance** - The favorable activity variance is due to the lower number of units produced than budgeted. It could be due to increased competition taking away the company's sales. It could also be due a shortage for raw materials that has limited its availability.  
  
**Efficiency Variance** - There is no efficiency variance in this case. This could be because a new technology is being used that minimizes wastage. Also the raw materials could be high quality thus minimizing wastage.  
  
**Standard price variance** - There is an unfavorable sales price variance. There might be a shortage of raw materials that resulted in higher prices. It could also mean that due to increased competition, demand for the raw materials have gone up and so suppliers are demanding higher prices.  
  
**Direct Labor**  
  
**Activity variance** - The favorable activity variance is due to the lower number of units produced than budgeted. It could be due to increased competition taking away the company's sales. It could also be due a shortage for raw materials that has limited its availability.  
  
**Efficiency Variance** - There is an unfavorable efficiency variance. This could be because of a new production process which takes more time. It could also be because the mix of workers is mostly untrained..   
  
**Standard price variance** - There might be a shortage of workers resulting in higher wages. It could also be the result of a new labor contract that increased wages.   
  
To investigate activity variance we need to speak to both sales and production manager. To understand efficiency variance we need to speak with the production team and purchasing team. To understand sales price variance we may speak to the HR and purchase team.

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 | Budgeted Price | Flexible | Budget |
|  |  |  |  |  |
| Price per unit | $325 | $300 | $300 | $300 |
| Sales Mix | 70% | 70% | 80% | 80% |
| Total Units | 5,000 | 5,000 | 5,000 | 4,000 |
| No of units | 3,500 |  |  | 3,200 |
|  |  |  |  |  |
| Total Revenue | $1,137,500 | $1,050,000 | $1,200,000 | $960,000 |
|  |  |  |  |  |
| Variance | $87,500 | ($150,000) | $240,000 |  |
|  |  |  |  |  |
| Sales Price Variance | $87,500 Favorable |  |  |  |
| Sales Mix Variance |  | $150,000 Unfavorable |  |  |
| Sales Activity Variance |  |  | $240,000 Favorable |  |
|  |  |  |  |  |
|  | Super |  |  |  |
|  | Actual | Budgeted Price | Flexible | Budget |
|  |  |  |  |  |
| Price per unit |  |  |  |  |
| Sales Mix | $840 | $850 | $850 | $850 |
| Total Units | 30% | 30% | 20% | 20% |
| No of units | 5,000 | 5,000 | 5,000 | 4,000 |
|  | 1500 |  |  | 800 |
| Total Revenue |  |  |  |  |
|  | $1,260,000 | $1,275,000 | $850,000 | $680,000 |
| Variance |  |  |  |  |
|  | ($15,000) | $425,000 | $170,000 |  |
| Sales Price Variance |  |  |  |  |
| Sales Mix Variance | $15,000 Unfavorable |  |  |  |
| Sales Activity Variance |  | $425,000 Favorable |  |  |
|  |  |  | $170,000 Favorable |  |

**2. Standard**  
**Sales activity variance:** The favorable activity variance in this case is due to the higher number of units sold compared to the budget. This could be because of a booming economy that helped more families afford a vacuum cleaner. This could also be the result of better features in Standard model compared to competition that brought in new customers.  
**Sales Mix Variance:** The sales mix variance was unfavorable as the percentage of total unit sales attributable to Standard has reduced. This could be due to customers upgrading from Standard to Super models. It could be due to an increase in price for Standard model.  
**Sales Price Variance:** There was a favorable price variance. The higher demand for Standard could have resulted in the company raising prices for Standard model. There could have been improvements in features that helped Standard command a higher price.  
  
**Super**  
**Sales activity variance:** The favorable activity variance in this case is due to the higher number of units sold compared to the budget. This could be because of a reduction in price for Super. This could also be the result of better features in Super model compared to competition that brought in new customers.  
**Sales Mix Variance:** The sales mix variance was favorable as the percentage of total unit sales attributable to Super has increased. This could be due to customers upgrading from Standard to Super models. This could also be due to the reduction in price for Super model.  
**Sales Price Variance:** There was a unfavorable price variance. The competition in market could have resulted in lowering price for Super. There could have been a promotional program implemented this month that resulted in a reduction in sales price.  
  
We should speak to the sales manager and promotions team to understand these variances.

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?

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### Comments

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