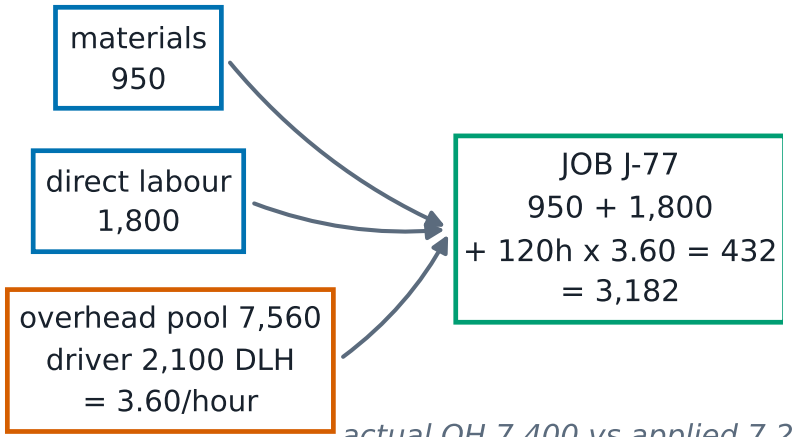
Exercise walk-through

6.5
Variance analysis

University Business

Costing systems: choose your question

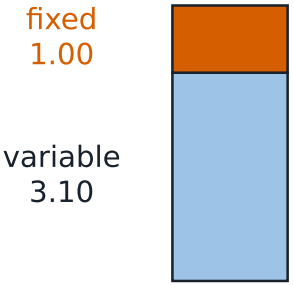
Job J-77: trace, then allocate



actual OH 7,400 vs applied 7,236: under-applied 164

Absorption vs variable

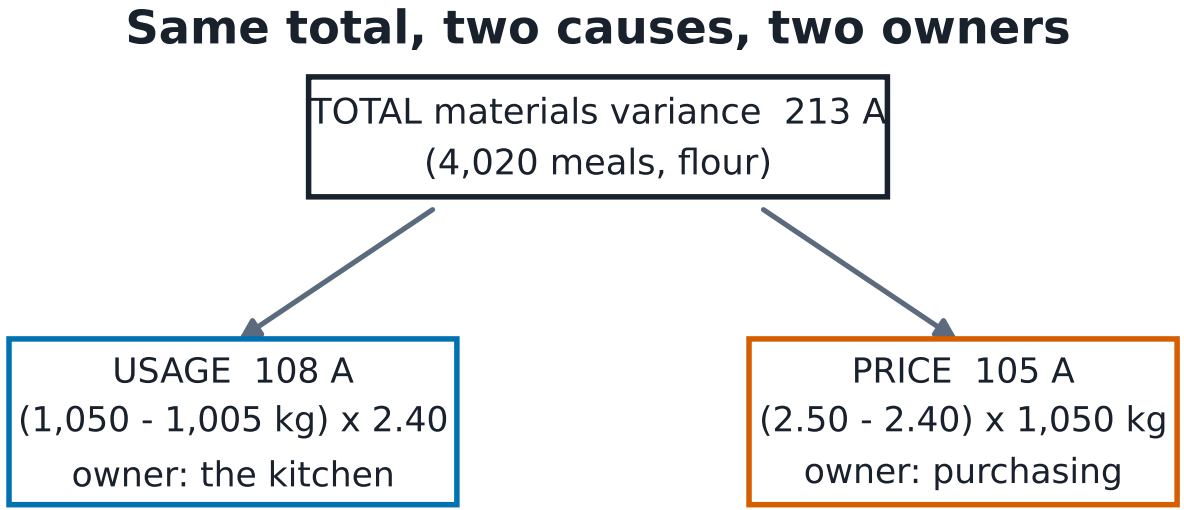
absorption unit 4.10



sell 3,000 of 4,200 made:
absorption 7,200 vs variable 6,000:
1,200 x 1.00 parked

Job J-77 costs 3,182; absorption parks 1,200 of fixed cost in stock.

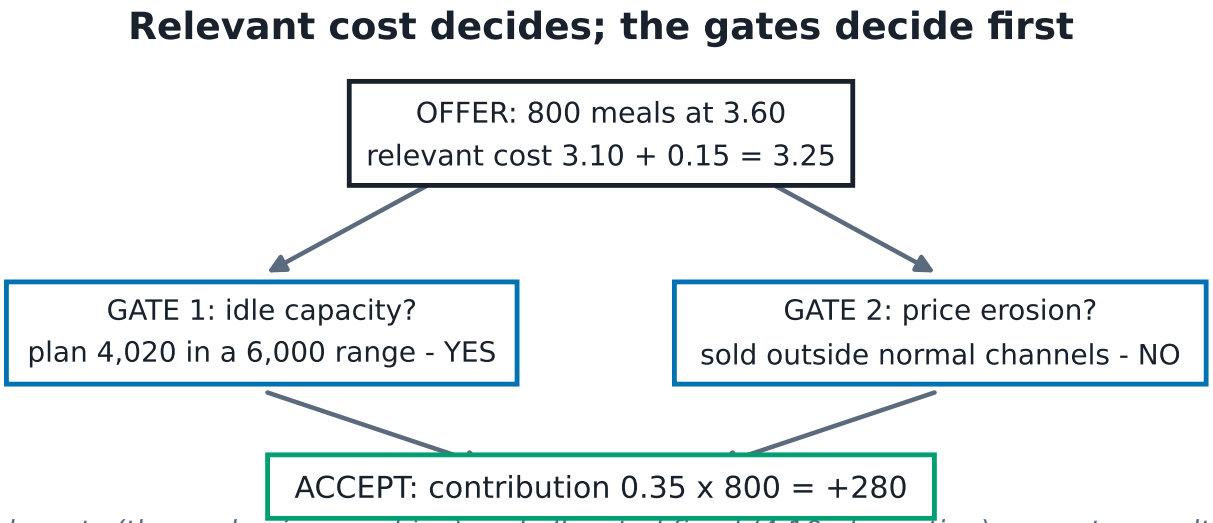
Variance analysis: the agenda, not the verdict



the leaves sum to the total by identity - the decomposition is an agenda, not a verdict

A 213 adverse **variance** splits into usage 108 and price 105.

Relevant costs: only changes get a vote



Pass both gates, then **relevant cost** 3.25 against 3.60 earns +280.

Exercises 2.1–2.2

2.1 Compute the standard kilograms allowed and the usage variance. [3]

2.2 Compute the actual price per kg and the price variance. [3]

Exercises 2.1·2.2

2.1 Compute the standard kilograms allowed and the usage variance. [3]

2.1

- $SQ = 5{,}100 \times 0.40 = 2{,}040$ kg.
- Usage $= (2{,}140 - 2{,}040) \times 1.80$.
- $=$ £180 adverse.

2.2 Compute the actual price per kg and the price variance. [3]

2.2

- $AP = 4{,}066/2{,}140 =$ £1.90/kg.
- Price $= (1.90 - 1.80) \times 2{,}140$.
- $=$ £214 adverse.

Exercises 2.3·2.4

2.3 Verify the leaves sum to the total materials cost variance. [2]

2.4 Sales: 4,900 trays against a 5,200 budget at CM £6.00. Compute the volume variance, then write ONE sentence of honest interpretation given a two-week supplier ban halved output capacity. [3]

Exercises 2.3·2.4

2.3 Verify the leaves sum to the total materials cost variance. [2]

2.3

- Total $= 180 + 214 =$ £394 adverse.
- Direct check: actual £4,066 − flexible £$(2{,}040 \times 1.80)$ = £3,672 → £394 ✓.

2.4 Sales: 4,900 trays against a 5,200 budget at CM £6.00. Compute the volume variance, then write ONE sentence of honest interpretation given a two-week supplier ban halved output capacity. [3]

2.4

- $(4{,}900 - 5{,}200) \times 6.00 =$ £1,800 adverse.
- Honest read: the supplier ban removed capacity – mostly a diagnosis, not performance; flex the budget and judge what execution controlled.

Exercise 2.5

2.5 The buyer switches to a cheaper grade: price variance £190 favourable, usage rises by £150 adverse, customer refunds £80. In two lines: net effect, and the lesson about reading leaves singly. [3]

Exercise 2.5

2.5 The buyer switches to a cheaper grade: price variance £190 favourable, usage rises by £150 adverse, customer refunds £80. In two lines: net effect, and the lesson about reading leaves singly. [3]

2.5

- Net: $-190 + 150 + 80 = £40$ adverse once refunds count.
- Lesson: leaves trade – a favourable price BOUGHT adverse usage plus quality cost; read the tree together, never one leaf alone.