

MANAGEMENT ACCOUNTING

Assessment 2

Module code: LCBB5002

Desislava Hristova

Student ID: 1813113

Tutor: Winifred Soribe

Table of Contents

INTRODUCTION.....	3
Part A.....	3
1.Calculation of Sales Price Variance and Sale Volume contribution variance.....	3
2. Material Price Planning variance and Material price operation variance.....	4
Merits and demerits of using Variance in assessing the performance of managers performance.....	4
Part B.....	7
Impact of importing material from Brazil.....	7
CONCLUSION.....	9
REFERENCES.....	10

INTRODUCTION

The current Management accounting report gives the emphasis on sales price variance and material price variance. The significance of the current study is that it helps the company like XLG to take decisions regarding cost control and performance measurement and how the manager of company can take advantages of analysis of variance and how it provides demerits to managers for using variance technique. The report also differentiates reasons for which the company should focus on importing the material from Brazil or it should produce it by itself. Strategies to provide the final product X and Y is also stated in report by mentioning proper usage of material.

Part A

1. Calculation of Sales Price Variance and Sale Volume contribution variance

Sales Price Variance

Sales price variance is the difference between the amount of money the XLG wishes to sales its product and services and the amount at which its sales is called the sales price variance, it occurs due to several causes and analysis of variance helps to determine the reasons for which it had occurred (Zimmermann and et.al.,2018).

Particulars	formula	x	y
Actual prices		45	37
Budgeted prices		35	30
Actual sales		850	750
Sales price variance	(actual price-budgeted price) *actual sales	8500	5250

Sales Volume Contribution Variance

sales volume variance is the variance in the sales volume that the XLG wishes to supply to its customers and the actual products that have been supplied by the company due to its demand, there are various elements that forces the changes in sales volume that result in sales volume contribution variance (Sohl,Vroomnd and Fitza, 2020).

Particulars	Formula	x	y
Actual Volume		850	750
Budgeted Volume		595	595
Standard Margin Contribution		25	20
Sales Volume contribution Variance	(Actual volume-budgeted volume) * Standard Margin Contribution	6375	3100

2. Material Price Planning variance and Material price operation variance

Material Price planning Variance:

Every company makes decision-making regarding its material and make budget that how much the estimated material can be used in production, comparison in difference between standard and actual material used it called material variance and changes in estimated and actual price is called material price variance.

Particulars	formula	x	y
Actual sales volume		850	750
Standard price		2.5	2.5
Increased price or Revised price		3.7	3.7
Material price Planning variance	(standard price-revised price) * actual usage	-1020	-900

Material price operational variance:

Material price operational variance is distinguished between the actual price of operation and the estimated operation price of material. Analysis of this variance helps the manager to control and reduce the irrelevant cost.

Particulars	Formula	x	y
Actual sales volume		850	750
Increased price or Revised price		3.7	3.7
Prevailing price		4.5	4.5
Material price Operational variance	(actual volume * actual price) – (actual usage * prevailing price)	-680	-600

Merits and demerits of using Variance in assessing the performance of managers performance

From the above calculation it can be interpreted that changes in actual price and standard price occurred to various reasons that are changing in the factors that determine the price of product or material. Changes in operation like budgeted sales was on 595 but due to rise in demand sales of X and Y increased that held in increase in cost of production of the goods and it also impacted the selling price of goods as demand as being market force

increased the price of products in market. And due to change in price of material the famaQ whose cost has increased due to variation in transportation method of the material (Fang and Perng, 2020). There are many demerits and merits of calculating and analysing sales and material variance for the organization as it helps XLG company to check and compare the profit and cost of product with respect to prior period.

Variance is used to determine how business is performing and how actual cost differ from the estimated cost. Sales price variance is difference e between estimated and actual sales price and material variance operation variance is how much it was budgeted to produce and how much it is used to produced respective units.

Merits

Helps In making Forward looking, efficient and details decisions:

Variance is usually used by various firms to take the advantage of variance by managers to make the detailed decisions and how the procedures of operation can be made more efficient and variance help the firm to make budgets to so that it can control the estimated cost by comparing previous data and using the other factors that influence the cost (Zhang and Feng, 2017). It makes assure that mangers do not deviate from budgeted plans and use this detail plan to record the variation that can increase the cost and deduct depending upon the demand and supply of goods.

Act as a control system:

It is used as an effective tool for controlling the cost in accounting and it is also used in economics to control the cost incurring. It also assists the organization to know the causes due to which the price has raised for products in market.

Used To facilitate Delegating responsibilities and Management in departments:

Analysis of variance is used by XLG's mangers to delegate the responsibilities and duties of employees to recover the fluctuation in cost and it used by mangers to know the departmental performance and how execution can be measure and control. The term Variance is used to represent the meaning the deviation. So, it is used to evaluate and analyse the difference between budgeted and actual. So, it is mostly utilized by managers to keep control and things according to desired objectives and goals. With respect to material variance the management draw their attention to the standard price as they want to reduce the COGS and make margin profit maximization.

Tool To measure Risk:

Managers of different sector put-upon it to measure the risk involved in business. In investments sector no one take decision without consulting with variance managers as it help them to check the Market expected price and actual price to analyse that they are investing in volatile or non-volatile business. In equation form it studies the difference in profit return capacity of firm.

Demerits

Standards can be different depending upon different perception:

Standards are calculated by managers as they determine that which material is required in which product so every manager have different way of working so it can result in different amount of standard by several managers that can be reason for mismanagement as the conflict can happen in managers as this is the issue of authority of delegation so it can also confuse the workers to carry forward their processes (PHORN LAPHATRACHAKORN and Khajit, 2020). So, managers need to decide the standard bases on various factors that can influence the actual quantity.

Investigation is required

With respect to Business processes the managers are expected to keep proper record of transactions so for that purpose the managers are needed to keep conduct the investigation of cost and performance for control mechanism of organization. So that relevant reason for variance can be known so that important actions can be taken so it is a very time-consuming that result in loss of focus as it need to investigate for causes or reasons for which the variance has taken place.

Lack of efficiency in workers performance and quality of product:

Compliance control on workers so that they do not exceed the material or other elements like technology so that the cost can be reduced it affects the workers' performance as it interrupts them to focus on the production of quality product rather than worker tend to focus on limited usage of technology and material so that they can cope up with standards decided. It decreases their efficiency of working.

Excessive Expenditure:

To investigate and keep control on variance the management need to incur more cost on service of enquiry and compliance control that managers can easily evaluate and analyse the performance. It is the biggest disadvantage that variance analysis provides to the management of structure. There are several disadvantages that make the manager to interpretate less accurate data for the direction of XLG firm so the decision maker need to focus on other factors also that can lead to change in price.

The variance analysis may not be useful activity because focuses not on actual figures but it distracts the management to make standards that lead to avoid other factors that are important for system growth and success and that are essential for administration of any firm's success so the decision-making member should consider all factors that can help the business to determine the actual justification that can be considered as important for profit maximizations and cost reduction (Mahajan and Deobagkar, 2020). Above stated benefits and drawbacks of variance analysis can differ from industry to industry as this strategy is more useful for manufacturing organization rather than service firm. However, it is used by both sectors to evaluate but it has its own advantages and disadvantages.

Part B

Impact of importing material from Brazil

Among the various strategic decisions taken, active actions for the supply chain management are also essential as they determine the future growth and performance of the organisation. Management must make decisions that will help the company in its future growth and development. Companies are required to decide after properly analysing whether purchasing the products would be beneficial or in-house production will be cost effective for the company (Kruskal and Wallis, 2019). These decisions are to be analysed using the different information available related to the decisions. Advantages and Disadvantages of making in house production and outsourcing some of the processes. In the current report XLG has proposed to make the in-house production of the FamaQ as importers after pandemic has risen from Brazil. The management wants to assess the more beneficial decisions for company for producing the FamaQ on own of making imports from Brazil at higher costs.

In- House production

The in-house production refers to manufacturing the materials used for the final products in the company. It may be separate process or could be manufacture along with main products depending on the industry or nature of materials being used. In self production XLG will have all control over processes from beginning to end that is from purchase of raw materials to finished products. This is beneficial for the company where it must respond in the market more quickly without considering the overall costs. In such cases there are consumer led changes to products without going through other external party or company. House production will provide company in having quick and extended processes of engineering, production design and the product development of products. Company will have direct control over the processes of material produced and they could be monitored more effectively. After knowing the actual process of production, it could also implement new practices and processes to enhance the speed of production. They can implement more cost-effective processes or advanced techniques that produce the materials in more cost-effective manner (Bock and Moore, 2020.). The management could develop strategies for reducing the costs and can have strong monitoring over the processes to reduce the wastage or resources and materials. This will also reduce the costs and provide competitive advantage. It would not require negotiating with suppliers for purchasing the materials and could produce as per their demand. This action will also reduce the costs that occur between the different processes and purchasing like transportation expenses and taxes.

On the other there is increase in the responsibilities of managers and staff. Company must look over two operations simultaneously ensuring that every process is working effectively. Establishing a completely new production process would require considerable amount of funds and resources for the company. It would also draw considerable attention of the managers from the main products to the production of raw materials. It has to be considered that company may not be able to manage the operations of business and may result in increased costs (Pfeffer, 2017). The shift of focus from the main products can affect their quality and profitability of the company.

Management of XLG company has observed that the material FamaQ gives the competitive advantage to the firm it has enabled the company to win the market and it has also enhanced the demand of product X and Y because of the usage of famaQ the company has come on the top position that its sales has increased as compared to its estimated sales volume. The management need to assess that firm should import the chemical or product in their own firm for sound production.

From importing FamaQ from Brazil the cost per unit for XLG will be 3.7 which is less than the amount that the firm can bear while producing the material in organization. From cost point of view importing from outside would be non-beneficial for the organization. As the way of transportation has also changed that has phenomenon in rise in the price of material. But actual cost that has been stated is 4.5 per unit but in actual rice in which is it bought is 3.7 which is still higher than standard price. That has outcome in change in material price variance which can lead to is management so bring from outside can be drawback for the company as it can produce the same amount of quantity that is required for operation in business with less cost.

Demand for XLG's product X and Y has increased as the quality of product has been maintained by the firm by using good quality of material. The good quality of material is the used by firm which it used to import from Brazil as raw material is base of production, better quality of product is dependent on the method of process of production and the proper amount and quality of materials. The standard of superior of material made for production of goods can be produced by the company itself but it will transfer its focus on material production, and it will not be able to concentrate on manufacturing of X and Y commodity (Charifzadeh and Taschner, 2017). It can also result in low standard commodity that can lead to low demand of products so reducing cost f production would not be good strategy when it can result in low demand of commodities. Importing from Brazil can give many advantages like focus on manufacturing of products, quality maintained, cost control, achieving desired level of sells of units and save of time. That time can be utilized in making strategies that can improve more sales and lead to success of organization.

Therefore, XLG should go for in-house production of the FamaQ as it would be more beneficial for company.

CONCLUSION

From the above information it can be concluded that using price variance and material variance can be both beneficial and drawback for the company. It depends on the type of organization it is majorly best for the manufacturing sectors as cost and material control for production of commodity is required in that type of sector, merit can be that it provide detailed, efficient, and forward-looking budget that can used to compare actuals with estimated and demerits of analysis of variance can be it can be expensive and time consuming. The report also suggests the advantage and disadvantage of bring raw material from Brazil and manufacturing by itself.

REFERENCES

Books and Journals

- Zimmermann, S., and et.al., 2018. Decomposing the variance of consumer ratings and the impact on price and demand. *Information Systems Research*. 29(4). pp.984-1002.
- Sohl, T., Vroom, G. and Fitza, M. A., 2020. How much does business model matter for firm performance? A variance decomposition analysis. *Academy of Management Discoveries*. 6(1). pp.61-80.
- Fang, M. and Perng, C. T., 2020. A mean–variance acreage model. *Applicable Analysis*. pp.1-14.
- Zhang, Z. and Feng, J., 2017. Price of identical product with gray market sales: An analytical model and empirical analysis. *Information Systems Research*. 28(2). pp.397-412.
- PHORNLAPHATRACHAKORN, K. and Khajit, N. K., 2020. Strategic management accounting and firm performance: Evidence from finance businesses in Thailand. *The Journal of Asian Finance, Economics and Business (JAFEB)*. 7(8). pp.309-321.
- Mahajan, A. V. and Deobagkar, S., 2020. Practical Application of the Management Accounting Tools for Decision Making During Recession-Survey and Analysis. *The Management Accountant Journal*. 55(2). pp.85-90.
- Charifzadeh, M. and Taschner, A., 2017. *Management accounting and control: tools and concepts in a Central European context*. John Wiley & Sons.
- Kruskal, W. H. and Wallis, W. A., 2019. Use of ranks in one-criterion variance analysis. *Journal of the American statistical Association*. 47(260). pp.583-621.
- Bock, R. D. and Moore, E. G., 2020. *Advantage and disadvantage: A profile of American youth*. Psychology Press.
- Pfeffer, J., 2017. Producing sustainable competitive advantage through the effective management of people. *Academy of Management Perspectives*. 9(1). pp.55-69.