

**Source B for Question 2**

S plc operates a system of standard costing. It provided the following budgeted data for January 2024.

Production and sales	8000 units with a selling price of \$68 per unit
Direct material	3 kilos per unit, costing \$4 per kilo
Direct labour	4 hours per unit, paid at \$6 per hour
Fixed overheads	charged at \$2.50 per direct labour hour

In January 2024 only 7000 units were produced and sold.



(iii) direct labour rate

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(iv) direct labour efficiency.

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**Additional information**

The actual fixed overheads for the month amounted to \$78 000.

The fixed overhead expenditure variance was \$2000 favourable, and the fixed overhead volume variance was \$10 000 adverse.

(c) Explain why the fixed overhead volume variance was adverse. Your answer should consider the sub-variances of the fixed overhead volume variance, but calculation of these is **not** required.

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Question	Answer	Marks																												
2(a)	<p><b>Prepare, for January 2024 in a columnar format, the fixed budget and the flexible budget statement.</b></p> <table border="1" data-bbox="391 349 1246 936"> <thead> <tr> <th></th> <th>Fixed budget</th> <th>Flexible budget</th> <th></th> </tr> <tr> <th></th> <th>\$</th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales revenue</td> <td>544 000</td> <td>476 000</td> <td><b>(1) row</b></td> </tr> <tr> <td>Direct material</td> <td>(96 000)</td> <td>(84 000)</td> <td><b>(1) row</b></td> </tr> <tr> <td>Direct labour <b>W1</b></td> <td>(192 000)</td> <td>(168 000)</td> <td><b>(1) row</b></td> </tr> <tr> <td>Fixed overheads</td> <td>(80 000)</td> <td>(70 000)</td> <td><b>(1) row</b></td> </tr> <tr> <td>Profit</td> <td>176 000</td> <td>154 000</td> <td><b>(1)OF row</b></td> </tr> </tbody> </table> <p><b>W1:</b> 32000 hours x \$6 = \$192 000 28000 hours x \$6 = \$168 000</p>		Fixed budget	Flexible budget			\$	\$		Sales revenue	544 000	476 000	<b>(1) row</b>	Direct material	(96 000)	(84 000)	<b>(1) row</b>	Direct labour <b>W1</b>	(192 000)	(168 000)	<b>(1) row</b>	Fixed overheads	(80 000)	(70 000)	<b>(1) row</b>	Profit	176 000	154 000	<b>(1)OF row</b>	5
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2(b)(i)	<p><b>Calculate the following variances:</b></p> <p><b>Direct material price</b></p> <p><math>21\,700 \times (4 - 3.80) = 4340</math> <b>(1) F (1)</b></p>	2																												
2(b)(ii)	<p><b>Direct material usage</b></p> <p><math>4 \times (21\,700 - 21\,000) = 2800</math> <b>(1) A (1)</b></p>	2																												
2(b)(iii)	<p><b>Direct labour rate</b></p> <p><math>31\,500 \times (6 - 5.80) = 6300</math> <b>(1) F (1)</b></p>	2																												
2(b)(iv)	<p><b>Direct labour efficiency</b></p> <p><math>6 \times (31\,500 - 28\,000) = 21\,000</math> <b>(1) A (1)</b></p>	2																												
2(c)	<p><b>Explain why the fixed overhead volume variance was adverse. Your answer should consider the sub-variances of the fixed overhead volume variance but calculation of these is <u>not</u> required.</b></p> <p>The fixed overhead volume variance was adverse because actual production was less than budgeted production <b>(1)</b>. The fixed overhead capacity variance <b>(1)</b> was adverse because actual hours worked were less than the hours from the fixed budget as 31500 hours is less than 32000 hours <b>(1)</b>. The fixed overhead efficiency variance <b>(1)</b> was adverse because actual hours worked were greater than the hours from the flexible budget statement as 31500 hours is more than 28 000 hours <b>(1)</b>.</p> <p><b>Accept other valid responses</b></p>	5																												

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2(d)	<p><b>Advise the directors whether or not the company should start to prepare budgets for <u>both</u> trade receivables and trade payables. Justify your answer</b></p> <p><b>For (max 3)</b>  Predicts cash inflows and cash outflows. <b>(1)</b>  Enables a cash budget to be prepared. <b>(1)</b>  Assists in the production of master budget / budgeted statement of financial position. <b>(1)</b>  Could give a benchmark for monitoring the performance of credit control. <b>(1)</b>  Cash is often more important than profit. <b>(1)</b></p> <p><b>Against (max 3)</b>  The company may make all sales and purchases on a cash basis. <b>(1)</b>  More time consuming/increased administrative costs. <b>(1)</b>  The budget won't make the trade receivables pay up/won't stop irrecoverable debts. <b>(1)</b>  Doesn't ensure there is enough cash to pay the trade payables. <b>(1)</b></p> <p><b>Decision supported by a comment (1)</b>  <b>Accept other valid responses</b></p>	<b>7</b>