

Source B for Question 2

C Limited produces product M. The company has adopted the following standards for August.

Units produced and sold	8000
Unit selling price	\$82
Direct material	4 kilos at \$5 per kilo
Direct labour	3 hours at \$15 per hour
Fixed overhead	\$2.80 per labour hour



(c) Calculate the following variances:

(i) fixed overhead expenditure

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..... [2]

(ii) fixed overhead volume.

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..... [3]

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Question	Answer	Marks																		
2(a)	<p>Prepare the fixed budget for August showing the budgeted profit.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Fixed budget</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 30%;"></td> </tr> <tr> <td>Sales (8 000 units)</td> <td style="text-align: right;">656 000</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Direct material</td> <td style="text-align: right;">160 000</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">360 000</td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td>Fixed overhead</td> <td style="text-align: right;"><u>67 200</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit</td> <td style="text-align: right;"><u>68 800</u></td> <td style="text-align: right;">(1)OF</td> </tr> </table>	Fixed budget	\$		Sales (8 000 units)	656 000	}	Direct material	160 000	}	Direct labour	360 000	}(1)	Fixed overhead	<u>67 200</u>	(1)	Profit	<u>68 800</u>	(1)OF	3
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2(b)	<p>Explain why a business prepares a flexible budget statement.</p> <p>Flexible budget allows a business to prepare a budget based on the actual level of activity. (1) It facilitates variance analysis / a comparison between the actual result and the flexed budget. (1)</p> <p>Accept other valid responses.</p>	2
2(c)(i)	<p>Calculate the following variances:</p> <p>Fixed overhead expenditure</p> <p>\$67 200 – \$66 000 = \$1 200 (1) F (1)</p>	2
2(c)(ii)	<p>Calculate the following variances:</p> <p>Fixed overhead volume</p> <p>$(24\,000 - (7\,500 \times 3)) \times \\2.8 (1) = \$4 200 (1) A (1)</p>	3
2(d)(i)	<p>Explain the likely causes for the adverse variances of:</p> <p>the total direct material cost</p> <p>There is no material price variance (1) This is because the actual price paid was the same as the standard price. (1)</p> <p>The material usage variance is \$18 750 A. (1) This may be due to low quality of direct material / increased wastage / inefficient use by labour (1)</p> <p>Accept other valid responses.</p>	4

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Question	Answer	Marks
2(d)(ii)	<p>Explain the likely causes for the adverse variances of:</p> <p>the total direct labour cost.</p> <p>The labour rate variance is \$12 000 A. (1) This may be due to inflation causing the increase in hourly rate. (1)</p> <p>The labour efficiency variance is \$22 500 A. (1) This may be due to inefficient labour force / low quality of direct material / lack of training / low motivation. (1)</p> <p>Accept other valid responses.</p>	4
2(e)	<p>Advise the directors whether or not they should switch to the overseas supplier. Justify your answer.</p> <p>For (Max 3)</p> <p>The quality should be better (1)</p> <p>There is likely to be less wastage (1)</p> <p>Returns of direct materials can be reduced (1)</p> <p>Better quality of direct material may lead to a better final product (1)</p> <p>The customer can be charged a premium price for a better quality product (1)</p> <p>Against (Max 3)</p> <p>Changing the supplier may not solve the problem of labour inefficiency (1)</p> <p>Transportation cost/ import duties / fluctuating exchange rate may erode profit (1)</p> <p>Delivery from overseas of direct material takes time (1)</p> <p>It takes time to build up a good relationship with a new supplier (1)</p> <p>Not sure whether the new supplier is reliable (1)</p> <p>Decision supported with a comment (1)</p> <p>Accept other valid responses.</p>	7