VARIANCE ANALYSIS

Purchasing high quality materials

Market shortages of materials

Unexpected increase in the prices charged by a

Unexpected buying costs e.g. high delivery

Losing bulk discounts.

supplier.

charges.

Material Usage Variance

Variance -the difference between actual results and budgeted or standard.

Favourable (F) variance - actual results are better than expected results

Adverse (A) variance- actual results are worse than expected results

inefficient buying procedures

 $(SP \times SQ) - (SP \times AQ)$ **MATERIAL VARIANCES** +ve answer (Favourable) Possible reasons: AP Use of high quality material **PRICE** Using skilled labour MX RSQ EW AQ Page Page Page Possible reason Using a transfer manufacturing and tools SP USAGE Etter quality control Changing material mix YED SQ Use of law quality material Using unskilled labour AP-Actual Price Worse quality control SP-Standard Price Changing material mix SQ- Standard Quantity Defective materials RSQ- Revised Standard Quantity AQ-Actual Quantity Material Mix Variance Material Price Variance $(SP \times SQ) - (SP \times AQ)$ (SP x AQ) - (AP x AQ) +ve answer (Favourable) +ve answer (Favourable) Possible reasons: Possible reasons: 🞍 Better material mix Discount on large orders reducing the unit price Purchasing low quality materials -ve answer (Adverse) efficient buying procedures Possible reasons: 🔸 changing a supplier 🔸 Worse material mix -ve answer (Adverse) Possible reasons: