

Chapter 12

Level II

E12.7 *Time allowed – 45 minutes*

Flowbynight Ltd manufactures one specific valve that is assembled from two bought-in components. Its budgeted operating statement for January is as follows:

| | | £ | £ |
|---------------------------|--------------|---------------|----------------|
| Sales | 4,000 valves | | 360,000 |
| Components | RB1 | 70,000 | |
| | RB2 | 94,000 | |
| Direct labour | Testers | 20,000 | |
| | Operators | 60,800 | |
| Fixed overheads | | <u>71,000</u> | <u>315,800</u> |
| Budgeted operating profit | | | <u>44,200</u> |

Standard costs are as follows:

| | | |
|---------------|-----------|----------|
| Components | RB1 | £17.50 |
| | RB2 | £23.50 |
| Direct labour | Testers | £10/hour |
| | Operators | £8/hour |

During January the actual performance was:

| | |
|--------------------|--|
| Sales | 4,750 valves sold for a total of £408,500 |
| Production | 4,750 valves were assembled |
| Components | 4,765 RB1 were used in production and cost £84,817 4,760 RB2 were used in production and cost £97,104 |
| Direct labour cost | Testers were paid £29,925 for 2,850 hours worked Operators were paid £64,125 for 8,550 hours worked |
| Fixed overheads | £68,000 in total |

There was no stock of finished goods or components at the start or at the end of January.

You are required to prepare a statement that shows the budget, actual result and the flexed budget for Flowbynight Ltd for January.

E12.8 *Time allowed – 45 minutes*

Using the information provided in Exercise E12.7, and the analysis that you have carried out,

- (i) calculate all the appropriate variances and prepare an operating statement that reconciles budgeted operating profit to actual operating profit for January
- (ii) provide explanations of the possible reasons for each of the variances you have calculated.