Orchid Ltd. is a small furniture manufacturer. It was established as a family-owned business 30 years ago and prides itself on high-quality products. Most of its products are made to order as a result of direct orders from Internet-based sales. Typically the company has been profitable, operating at the top end of the market; recently, however, costs appear to have been increasing and the company has also seen a decline in its sales. The workforce is highly skilled and recently several of the experienced craftspeople who make the products have retired, and the company has had problems recruiting, training and retaining suitably skilled employees. One of its products, a table, has the following standard costs:

|  |  |
| --- | --- |
|  | **£** |
| Direct materials (8m @  £30/m) | 240.00 |
| Direct labour (10 hours @ £25/hr) | 250.00 |
| Fixed overheads | 160.00 |
|  | 650.00 |
| Selling price | 950.00 |
| Standard profit margin | 300.00 |

The table is made from solid oak and the above materials reflect the size of the table in square metres. The labour required to make the table is highly skilled.

The monthly production and sales are planned to be 800 units. The actual results for March were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | **£** |  |
| Sales revenue | | 753,300 |  |
| Less | |  |  |
|  | Direct materials | (192,500) | (7,000m) |
| Direct labour | (221,000) | (8500 hours) |
| Fixed overheads | (130,000) |  |
| Operating profit | | 209,800 |  |

There were no opening or closing stocks. The company manufactured and sold 810 tables; this is more than budgeted due to a successful marketing campaign.

**Required**

1. Calculate the flexed and actual budget.
2. Calculate the following variances:
   * Sales variances; volume and price
   * Direct material variances; usage and price
   * Direct labour variances; efficiency and rate
   * Fixed overhead variance; spending
3. Give possible explanations for the variances that you have calculated and suggestions as to how the company might try to improve its cost control.