ASSIGNMENT – BMAC5203

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| TASK 3 | Flexible budgets |
| Objectives | To be able to compute the revenue and cost variances and interpret whether the variances signal favourable or unfavourable performance. |

Mr Doctor is the brand name of a therapeutic pillow produced by the Streussles Company.

For 2013, the operating budget is based on an estimated sale of 20,000 units at RM100 per pillow.

Additional information pertaining to its budget is as follows:

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| Operating income anticipated | RM 120,000 |
| Budgeted variable costs | RM 64 per unit |
| Total fixed costs | RM 600,000 |

Actual income for 2013 was a surprising RM354,000 on actual sales of 21,000 units of pillow at RM104 each. Actual variable costs were RM60 per unit and fixed costs totaledRM570,000.

**Required:**

a) Prepare a variance analysis report showing the flexible-budget variance.

b) Prepare a variance analysis report showing the sales-volume variance.

c) Describe four factors that should be considered in establishing standards for use with a standard costing system.