

## Hand-in Assignment 4

For this assignment you will need to read the information provided below and complete the questions that follow.

Smithton, Inc. makes and sells one product, the standard costs of which are as follows:

	£
Direct materials (2 kg at £3.00/kg)	6.00
Direct labour (30 minutes at £10.00/hr)	5.00
Fixed overheads	<u>2.50</u>
Total	13.50
Selling price	<u>20.00</u>
Standard profit margin	<u>6.50</u>

The monthly production and sales are planned to be 1,300 units.

The actual results for May were as follows:

	£
Sales revenue	20,000
Less Direct materials	(6,500) (2,100 kg)
Direct labour	(5,250) (510 hr)
Fixed overheads	<u>(3,100)</u>
Operating profit	<u>5,150</u>

There were no inventories at the start or end of May.

Your supervisor has asked you to calculate the budgeted profit for May and then reconcile it to the actual profit through variances, going into as much detail as possible from the information available.

Once you have the figures computed, prepare a detailed report for your supervisor that includes a discussion of the following information:

- A listing of the variances that occurred within the month of May.
- An analysis of the standards developed and utilised by the organisation.

- An analysis of each variance with regards to the possible explanations of why it occurred.
- An analysis of the business/strategic implications that exist for your organisation in light of the new information.

The assignment should be prepared as a concise business report to your supervisor that includes both the figures computed and the analysis of the situation. Your report should be approximately 2–4 pages in length.