



The Markley Division

MBA 628: Managerial Accounting Instructor: Dr. Juan J. Segovia

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THE NUMBER CRUNCHERS

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**Problem Definition**

The Markley Division has an ineffective budgeting system that does not allow management to fully understand causes of variances. As a consequence, management cannot apply proactive corrective measures in to improve results

**Quantitative Analysis:** Causes of the Q1 $32,600U IS variance

* Exhibit 1: Flexible budget and unit costs. The contribution margin per unit of metal is twice that of plastic.
* Exhibit 2: L2 breakdown of static budget variance into flexible budget and sales volume variances. Most of the variance is due to flexible budget variance ($41,100U) and not sales volume variance ($8,500F).
* Exhibit 3: L3 analysis of price, spending and efficiency variances. Except for 39,000U due to the higher price paid for plastic materials, most of the variances come from efficiency. Efficiency variance is larger for plastic ($7,400U) than that of metal ($2,600U), while spending variances are almost negligible ($600U).
* Exhibit 4: The net change in inventory (Raw materials and finished goods) of $49,600 is coincidently equal to manufacturing variances from standard and will only affect the balance sheet, not the presented IS.

**Qualitative Analysis**

* The major causes of Markley’s negative Q1 performance are purchase price and material waste (Q2a).
* Since the status report did not contain details regarding variances, management was not able to implement corrective actions in manufacturing (Q2b).
* The average higher price than budget for plastic ($10.50) might be due to management raising list price to account for higher raw material costs. (Q2b).
* Sales were higher than budgeted for lower CM item (plastic @14% sales), and higher than budget for higher CM item (metal @27%). Management should look into changing prices and/or commission plans.
* A significant portion of the static variance can be assigned to purchasing because it is due to material costs. It could be the result of higher market prices, higher quality raw materials or poor negotiation skills.
* Since most of the efficiency variances come from waste, the company should embark on a waste reduction initiative. This could be done with minimal investments by implementing Six Sigma or Lean Manufacturing practices, and enforced by integrating a waste reduction target in manufacturing management’s bonus pay.

**Recommendation**

## Implement flexible budget practices plan and compare to actual results on a monthly basis in order to facilitate implementation of corrective actions.

## Increase the sales prices of plastic chairs by $1. At the same time, decrease the price of metal chairs by $1.

## Adjust the budgeted cost per unit of plastic to reflect the price increase in raw materials.

## Exhibits