**Unfavorable material price variance**

Could be due to one or more of the following reasons:

* Sofiya’s purchasing manager negotiated less skilfully than was assumed in the budget.
* Sofiya’s purchasing manager bought in smaller lot sizes than budgeted even though quantity discounts were available for the larger lot sizes.
* Materials prices unexpectedly increased because of disruptive weather conditions.
* Budgeted purchase prices for materials were set without careful analysis of the market.

Response to a **materials price variance** will be vitally affected by the presumed cause of the variance.

**Unfavourable direct labour variance**

Could be due to one or more of the following reasons:

* personnel manager took on underskilled workers.
* production scheduler inefficiently scheduled work, resulting in more direct manufacturing labour time per unit
* maintenance department did not properly maintain machines, resulting in more direct manufacturing labour time per unit.
* Budgeted time standards were set without careful analysis of the operating conditions
* and the employees’ skills.

**Total value-chain approach to analysing variances**

Organisations adopting a total value-chain approach to analysing variances are recognizing the diversity of the possible sources of variances.

Example: Consider an **unfavourable materials-efficiency** variance in the production area of an organisation. Possible causes of this variance include:

* Poor design of products or processes
* Poor quality or inadequate availability of materials from suppliers
* Poor work in the manufacturing area
* Inadequate training of the workforce
* Inappropriate assignment of labour or machines to specific jobs
* Congestion due to scheduling a large number of rush orders.

**Unfavourable variable-overhead efficiency variance**

* Possible causes of the higher-than-budgeted machine-hour usage include the following:
* workers were less skilful in the use of machines than budgeted.
* production scheduler inefficiently scheduled jobs, resulting in higher-than budgeted machine usage.
* machines were not maintained in good operating condition.
* Budgeted machine time standards were set without careful analysis of the operating conditions.
* promised a distributor a rushed delivery, which resulted in higher machine usage than budgeted.

**Unfavorable variable-overhead spending variance**

Two main causes could explain a variable-overhead spending variance:

**Cause A.** The actual prices of individual items included in variable overhead differ from their budgeted prices – for example: the purchase price of energy, indirect materials or indirect manufacturing labour was less than budgeted prices.

**Cause B**. The actual usage of individual items included in variable overhead differsvfrom the budgeted usage – for example, the budgeted usage of energy, indirect materials or indirect manufacturing labour was less than the usage assumed in setting the budgeted variable manufacturing overhead rate per machine-hour.

**Cause A** has implications for the purchasing area. **Cause B** has implications for the production area. Distinguishing between these two causes for a variable overhead spending variance requires detailed information about the budgeted prices and the budgeted quantities of the individual line items in the variable overhead cost pool.