

Variance analysis as a tool for effective planning accounting essay



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Abstract

This project analysis the significance of variance analysis as a tool for effective planning in flour mills industries the project view planning variance analysis and standard costing primary and secondary are used. The use of primary data was heavily relied upon via questionnaire administered, the research adopt simple percentage in testing research Hypothesis.

The finding of the project show the significant variance analysis in providing information to management to meet the objectives of an organisation. On the basis of the findings the projects finally offered some recommendation aimed at improving the efficiency and effectiveness of variance analysis information.

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Chapter one

General background of the study

introduction

The survival of any organisation is dependent upon its decision to achieve its desired objectives. A definitive guide to management decision is information. Manage net need information for planning a2nd control for decision making.

“ Accounting is of great importance to all levels of man agement and without accounting there would be stagnation and confusion which in extreme cases may lead to a complete break down of the system”.

(Kalu, 2002) in todays business environment, the development and use of information especially management accenting information is a critical factor in the effective management of an organisation.

Management information is not only concerned with the provision of financial information about cost and revenue it is also in response to the changing environment involved in the provision of non-financial information about productivity quality and other key success factors for the organisation.

To ensure effective use of variance analysis for planning the information provided by the management accounting system must be relevant, timely, complete, reliable, objective and understandable amongst others.

Statement of problem

Effective planning of variance analysis has been playing a greater role as a tool of corporate survival especially in the present day complex business environment where having the best information is the key to success.

Therefore the problem of the research work includes Non-Implementation variance analysis which may cause in effective planning in the flour mills industries. These problem necessitate the flour mills industries.

objectives of the study

The following are the objective with the study was conducted.

To analysis how variance analysis assist in effective planning,

that is how it helps in determining future prospers and objectives.

To examines the efficiency and effectiveness of variance analysis. By looking into how it maximized wealth or production and minimizes wastage for the producing of expected out put and achievement of desire objective of the organisation.

Research hypothesis

For the power of this research, the following hypothesis were formulated and tested,

H0 valance analysis would serve as a tool for effective planning.

H1 valance analysis would serve a tool for effectine planning

Significant of the study

The significance of the study includes:-

(To provide a successful way in which management would achieve their organisational objective through proper planning and sound control in the process of making decision by careful forecasting of future objective and maximizing or boosting of out put and avoiding or minimizing was tape for the achievement the organisation goals and objectives.

Scope of the study/research

The scope of the study cover the flour mills industries in Nigeria with particular reference to BUA Flour mills Nigeria Limited, Kano. This company is choose to be the case study out of the flour mills companies in Nigeria. Finding obtained there from were generalized on all flour mills companies in Nigerian. This is due to the fact that they belong to the same industry having Uniform method of preparation or modes as well as being guided by the same law status.

Limitation of the study

In the course of conducting this research work, making constraints were encounter which is beyond the control of the research due to their intensive nature. And gives the researcher tough time, among of which is sufficient time; inadequate time factors contributed to the smooth running of this researcher work. Also financial constraints is the key factor that contributed major by. Inadequate money given the researcher a very hard time in getting enough data.

Other activates such as lecture time assignment and what have you contribution getting enough data for this research work.

Definition of key terms

Analysis:- this is the detailed study or examination of some thing in order to understand more about it.

Decision:-This is a choice or judgment that you make after thinking and talking about what is best thing to do.

Efficiency:- The quality of doing something well with no west of time or money.

Effective:- This refers to producing the result that is wanted or intended, that producing a successful result.

Management:- The act of running and controlling a business or similar organisation.

Organisation:- A group of people who from a business etc together in order to achieve a particular aim.

Planning:- his is any arrangement for closings using or achieving something in the future.

Variance:- This refers to the amount by which some thing changes or is different from something else.

Chapter two

2. 0 literature review

definition

2. 1 variance analysis

(lucey, 2006). The term variance is revelry used on its own. Usually it is qualified in some way, for example, direct material cost variance, direct labour efficiency variance and soon. The process by which the total difference between standard and actual costs is sub-divided is known as “ Variance analysis” which can be defines “ The evaluation of performance by means of variances, whose timely reporting should maximises the opportunity for managerial action”.

(Dandago & Tijjani, 2005): variance may be define as the difference between the “ Actual and standard” cost while variance Analysis:- is the process of analyzing variance by sub-dividing the total variance in such a way that management can assign responsibility of off standard performance.

Variance arise form differences between standard and actual quantities and / or differences between standard and actual price. These are the course of <https://assignbuster.com/variance-analysis-as-a-tool-for-effective-planning-accounting-essay/>

variance the reason for the difference have to be established by management investigation.

Variance may be adverse, i. e. where actual cost is greater than standard or they may be favorable i. e where actual cost is less standard. Alternatively they may be known as minus or plus variance respectively.

2. 2 the purpose of variance analysis

The purpose of variance analysis is to provide practical pointer to the causes of off-standard performance so that management can improve operations, increase efficiency utilise resources more effectively and reduce costs it follows that overly elaborate variance analysis which is not understood, variance that are not acted upon and variance which are calculated too long after the event do not fulfill the centre purpose of standard costing.

2. 3 responsibility for variance

ideally, variance should be detailed enough so that responsibility can be assigned to a particular individual for a specific variance. Cost control is made much more difficult if responsibility for a variance is spread over several managers in such circumstances it is all too easy to- “ pass the back”.

2. 4 making variance analysis more useful

it is not sufficient merely to be able to describe and calculate variance to make variance analysis into a useful aid to management it is necessary to probe and investigate the variance and the data used to calculate them.

Typical questions which should be asked are follows.

Is there any relationship between the variance? For example, there may be pleasure in observing a favorable material price variance caused by the purchase of a job lot of material, but if this favorable variance is more than offset by adverse used and labour variance caused by the poor quality material, then there is little cause for rejoicing.

Can further information than merely the variance be provide for management? Remembers, Variance analysis is but a means to an end. Management task is to find the reason for the variance and to take action to bring operation into line with the plan.

Is the variance significant worth reporting? This is an importance matter for both the accountant and the manager and the ways of assessing the significance of variance are death with.

Are the variance being reported quickly enough, to the right people in sufficient or two much detail with explanatory notes?

2. 5 planning

ack off (2001) as cited in Drury (2005) defined planning as “ the design of a desired future and of effective ways of bringing it about” “ planning is any arrangement for doing, using or achieving something in the future

“(Dandago & Tijjani 2005: p305). It is the “ establishment of objective and the information, evaluation and selection of the policies, strategies, tactics and actions required to achieve these objectives” (KMA)to pandey (2004:) “

Planning is statement if what should be done, how it should be done, and when it should be done. It is the design of a desired future state of an entity

and of the effective ways of bringing it about. Planning establishment enter <https://assignbuster.com/variance-analysis-as-a-tool-for-effective-planning-accounting-essay/>

prises objectives and determines the future course of actions for accomplishing of those objectives planning gives manager a warning of possible future crises and enables him to avoid having to take uncalculated decision. Malomo (1999: 2) " Planning is a feed forward process to reduce uncertainties about the future" the process of planning is based on the conviction that management has the capability of planning its activities and conditioning the state of the firm that determines its destiny.

The task of planning the firm's activities involves the identification of relevant variable controllable and non-controllable (Pardey, 1994: 8).

Kalu (2001) as cited in Onah (2001) state " a sound planning is that which is capable of achievement, the chances of achievement will be enhanced if the people responsible for the execution of the plan can claim collective responsibility of its information".

The formulation of the plan relies upon information from many sources, both internal and external to the organisation. Information for planning includes cost and financial data amongst others (Lucey 2006)

The management account can make a valuable contribution in the planning stage by preparing studies covering past performances, product mix, capital expenditure and by analysing cost-volume - profit relationship cash flows etc

2. 5. 1 types of planning

there are basically two types of planning: long term planning and short-time planning.

2. 5. 1 long term strategic planning

sizes (1989) cited in Drury (2000: 545) defined long term planning as “ a systematic and formalized process for purposely directing and controlling future operations towards desired objectives for periods extending beyond one years” it “ the formulation, evaluation and selection of strategies for the purpose of preparing a long term planning of action to attain objectives” (ICMA).

“ The span covered by long term plan depends on the organisation, the industry in which it operates and the particular environment involved. The periods involved may be 3, 7, 10 or 20 years. The process of corporate planning is a detailed part of the management. (Lucey 2006).

2. 5. 3 short term (tactical) planning

for operational purpose, it is necessary for the organisation to concert its long range planning to sections, functions and departments. (Lucey 2006)

ICMA defines short-term planning as “ Planning the utilization of resources to achieve specific objectives in the most effective and efficient way”.

Those part of short term plan that monetary values van be attached becomes budgets (Lukey, 1996: 270) this bring the issue of budgeting as an instruments of planning

Advantages

2. 6 1- The comparison between standard and actual reveals the variation so that management can at once take advantages of prime of exception

concentrating its attention upon these factors which have not proceed according to plan.

2- Carefully planned standards are an aid to more accurate budgeting.

3- Variance analysis can provide a way of motivation to managers to achieve better performance. However care must be taken to distinguish between controllable and non- controllable cost in variance reperting.

4- It provides a basic for comparison between one period and another (i. e using common denominator).

This is particularly true of that standard cost system which uses as its basis an index figures for comparing other figures with it.

2. 7 disadvantage

Deciding how to incorporate inflation into planned units cots.

Agreeing a short-time labour efficiency standard (currant attainable or ideal).

Deciding on the quality of material to be used, because a better quality of material will cost more, bat perhaps reduce material wastage.

Estimating material princes where seasonal princes vacation or bulk purchases discount may be significant.

2. 8. 1 standard costing

adeniyi A. Adeniji (2008) sees the word standard cost represents an estimated or a predetermined total cost product permit for an organisation.

The process of estimating the total cost of production permit is described as

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standard costing technique if the estimated total cost of products for a big organisation is based on the total unit produced then; the procedure is described as budgeting system.

Standard costing technique therefore represents an integral part of management accounting control technique which will also include budgeting system and responsibility accounting statement. Standard costing technique may either be viewed from the perspective of marginal costing technique or absorption costing technique. By relating standard costing technique with marginal costing technique, variance analysis will be determined on the total relevant costs of products excluding fixed overhead. But if it is viewed in the context of absorption costing then variance analysis will involve the total cost of product to the organisations.

2. 8. 2 the basic steps involved in standard costing technique

identify the long term corporate objective of a business outfit.

determine the short term achievable objective from the corporate objective.

conduct a research or a market survey to identify the specific needs of consumers.

design a particular product or service that will be used to satisfy the need of the consumer.

obtain top management support for the standard costing technique.

identify the quality as well as the quantity of raw material required in a unit of the product.

estimate normal loss in the course of production.

identity labour rate per hour together with the standard hour required in producing a unit.

2. 8. 3 objectives of standard costing

to provide a basis for estimating

to provide guidance on possible ways of improving performance.

to provide a formal basis for assessing performance and efficiency.

to assist in setting standards.

to control costs by establishing standards and analysis variances.

to enable the principle of “ management by exception” to be practised at the detailed operational level.

to motivate staff and management.

to assist assigning responsibility for adverse variance of (non-performance) in order to correct deficiencies or to maximise the benefit associated with favorable variance.

2. 8. 4 the benefits of standard costing

standard costing provides a consistent base where by performance may be measured on the basic of what an item should cost or how much should have been produced, on the basis of the expected levels of activity.

It provides a method whereby labour and overheads can be consistently recovered and charged into stock.

It provides of control for buying. Usage and efficient work levels.

In setting up standards, management can reappraise activities to ascertain if they are being done in the most effective and efficient way.

It creates an atmosphere of cost-consciousness amongst all levels, motivation staff and workers to see if there is a better way of performing a particular task.

By creating a realistic target, it motivates staff and operatives to achieve or better the standard laid down.

It is a recognisable method of performance monitoring through variance analysis motivating investigation into causes of shortfall and improving methods and procedures for the future.

It provides a recognisable basis for budgeting forecasting & planning

Chapter three

Research methodology

3.0 introduction

Methodology is a very important aspect in the research project. It is a way by which the researcher follows in order to obtain relevant information. As regards the research project, it will enable the reader to understand the basic methods and procedure used in acquiring the data for conducting the research work.

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3. 1 population of the study

The population considered or the purpose this researd in work is the flour mills industries.

3. 2 sample size

a sample is that portion of a population which is studies closed in order to gain some knowledge or make generalization about the population it represents.

The sample size for this study is flow mills Nigerian limited kano.

3. 3 sampling techniques used

the sampling techniques used in the selection of sample for the study is the convince sampling technique. Conveniences sampling is where the researcher simply get information or data conveniently without any land ship, that is he simply choose the closest person, institution or organisation as respondents in order to save time and money.

3. 4 method of data collection

The method employed in the collection of data for this study is primary and secondary method.

Source:- is the texts books, journals, consulted for the purpose of this research work.

Primary source:- Questionnaire were used to collect relevant information or data form the case study

3. 5 method of data analysis

the method the researcher use in analysis the data collected is presentation of data in a tabulation form to permit analysis and inference. And simple percentage is used to test the hypothesis.

Chapter four

Data presentation, analysis and interpretation

4. 0 introduction

in the chapter, the researcher would summarized all the data collected through the questionnaire administered and present them in table form to permit analysis and inferences.

4. 1 data presentation

the research dispatched (14) questionnaire, out of which (11) (73. 33%) were returned while (3) (26. 67%) were not the questionnaire contained one structured questions and open ended questions. The data would be tabulation and grouped.

4. 2 data analysis

the data is analysed below:

table (1) gender

Sex

Frequency

Percentage

Male

9

80%

Female

2

20%

Total**11****100%**

Source: Questionnaire Administrated 2009

The above table show that only (2) out (11) respondent are female while () the male are (9).

This shows that its gender bras since most of the information would be getting form the males since they are the highest respondents.

Q2: Has your company adopt variance analysis as a tool?

Table 2: responses

Responses

Frequency

Percentages

Yes

11

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100%

No

0

0%

Total**11****100%**

Source: Questionnaire Administered, 2009 100% say yes while no negative responses. Form the above responses it is apparent that the company is adapting variance analysis as a tool for effective planning in adveing set goals.

Q3 Does variance analysis have any significances to management?

Table 3 Response

Responses**Frequency****Percentages**

Yes

11

100%

No

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0

0%

Total

11

100%

Scarce: Questionnaire Administered 2009

Obviously, the table above shows that 100% shows that all the respondents answered positively.

This implies, variance analysis provide a way of motivation to managements to achieve better performance towards realising the company's objectives.

Q4 if yes state the significances

Types of significance

Frequency

Percentages

Planning

7

35%

Control of operations

5

20%

Forecasting cash flows

3

10%

Monitoring performance of management

2

5%

Cost of ascertainment apportionment and reduction

3

10%

Fixing price

4

15%

Product costing

6

25

Source: Questionnaire Administered, 2009

These are some of the significance of variance Analysis to management given by the respondents.

The above signifies that panning, control of operation, price fixity and product costing are the areas which helps in establishing and administering operational controls to help the effective planning and desired objectives of the company.

Q5 Does your company encounter problems in the use variance analysis

Responses

Frequency

Percentages

Yes

0

0%

No

11

100%

Total

11

100%

Source: Questionnaire Administered, 2009

It is clear that 100% of the responses are “ No” Implication: it assist management in the evaluation of alternatives and assessing the financial feasibility of proposed course of action.

Q6 Does variance Analysis aid in effective planning?

Table 6 Responses

Responses

Frequency

Percentages

Yes

11

100%

No

0

0%

Total

11

100%

Sources: Questionnaire Administered 2009

Total responses from the above 11(100%) are yes while 0% No.

Implication: it is a recognisable method of performance monitoring through variance analysis, motivation investigation into courses of shortfall and improving methods procedures for the achievement of future prospects & objectives.

Q7 if yes in what ways

Table 7:

Ways in which it Aids in effective planning

Respondent

Variance Analysis

7

Setting performance standard

2

Provision of information for effective Planning

4

Cost of products

3

Evaluation of alternative

2

Source: Questionnaire Administered, 2009

These are some of ways it aid in effective planning.

Implication: variance analysis, effective planning cost of product the and others, assist in setting performance standard and costing of operation also monitoring performance of management: since they solemnly depends on the implementations variance analysis for the achievement of organisational objectives.

Q8 Does variance Analysis information assists management in attaining the company's objectives?

Table & Responses

Responses

Frequency

Percentages

Yes

11

100%

No

0

0

Total**11****100%**

Source: Questionnaire Administered 2009

In view of the table, response were all made favour of “ Yes” (100%)

Implication:- It provided the management with information of care full forecasting of future objectives and prospects and means of implementing it for controlling purpose to ensure better performance and to avoid wastage for the advisement of the organisational goals and objectives.

Q9 How effective and efficiency variance Analysis serve as tool for effective planning.

Responses

Responses**Frequency****Percentages**

Excellent

6

60%

Very Good

5

50%

Good

0

0

Weak

0

0

Total

11

11

Source: Questionnaire Administered 2009

Above are the suggestion given by the respondents:

Implication: From the stated above, it appears that, the management with the use of variance Analysis it helps tremendously in producing a successful result intended by the organisation and the qualify of minimaxes wastage of resources for achieving better results and performances.

Q10 How could the effectiveness be improve upon:-

Responses

Suggested Improvement

Number of Respondents

Effective monitoring

2

Reporting variance quickly

3

Information should be timely, accurate and comprehensive

2

Training staff on Accounting system

1

Profer and adequate Accounting

1

Source: Questionnaire Administered 2009

Above were the various suggestion given by the respondents to improved in the above areas for the betterment of the organisation.

Q11 can management achieve their aims without the use of variance analysis information.

Table 11 responses

Responses

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Frequency

Percentages

Yes

0

0

No

11

100

Total

11

100

Source: Questionnaire Administered 2009

It is clear from the table the “ No” has all the responses which 11 (100%).

Implication: it is obvious that the management can not improve their performance without the adoption of variance analysis information on the information provided by the Variance analysis for effective and efficiency panning of its activities.

Q 12 What advice will give toward making things better:

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Table 12 Responses

Suggestion

Number of Respondents

Giving required resources and free hand to the Management

1

Training of staff for proper Accounting

2

Adherence to variance and effective cost control

3

Proper account of material and Money should be earned out weekly

1

Sentiment should not form the basis for decision making

1

Strict adherence to costing policies

3

Source: Questionnaire Administered 2007

Implication: The above were the suggestion, and its observed that some areas need improvement and adherence to stated policies for decision making and evaluation of perform ances.

4. 3 test of research hypothesis

research hypothesis

H0: Variance Analysis would not serve as a tool for effective planning.

H1: Variance Analysis would serve as tool for effective planning

Q Daes variance analysis serve as a tool for effective planning

Responses

Frequency

Percentages

Yes

11

100

No

0

0

Total

11

100

Source. Questionnaire administered 2009

From the above 100% respondents say yes while known say No

Implication: it quite clear precise that the management rely on the variance analysis who provide practical pointer to the causes of off standard performance so that management can improve operations, increase efficiency, utilise resources more effectively and reduce costs.

Therefore alternative Hypothesis (Hi) is accepted that is variance analysis would serve as tool for effective planning

Chapter five

Summary, conclusion and recommendations

5. 1 Summary

the aim of the study is to examine the relevance of variance analysis and its facilitation to the effective planning using flour mills as a case study.

Variance Analysis is concerned with providing broader for nancial and non-financial information in order to cater to the internal need of an organisation to facilitate effective planning.

The evaluation of performance by means of variances, whose timely reporting should maximise the opportunity for managerial action.

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Variance arise from difference between standard actual quantities and/or differences between standard and actual prices. Those are the causes of variance, the reason for the differences is established by the management investigation. Effective planning is concerned with the designed of a desire future state of an organisation through the use of variance analysis and standard costing techniques.

The pr