

# Ferguson foundry limited

Business, Accounting



## CASE ANALYSIS: FERGUSON FOUNDRY LIMITED (FFL) EXECUTIVE SUMMARY

Introduction After reviewing the financial statements for the fiscal year ended May 31, 2010, Mark Ferguson, President of Ferguson Foundry Limited's (FFL), was disappointed with the results.

Operating Income was \$367, 600 below expectation, despite having sold 2, 000 wood stove units greater than budgeted. To determine which areas FFL's actual performance was better or worse than expected, a variance analysis will be conducted. However, it is important to note that variance analysis alone can only emphasize areas that need improvement, and not determine the reason for these discrepancies.

A further investigation is warranted once determining the issues outlined through variance analysis. Analysis - Qualitative and Quantitative There are many areas within FFL's production which have been proven to be unfavourable, and where immediate improvement is necessary. Of particular concern is the variable overhead, where an unfavorable variance of \$180, 600 was discovered (Appendix F). Within this variance, the variable overhead costs, both manufacturing and non-manufacturing of the Deluxe model are what seem to be causing inefficiencies. The Deluxe model accounts for \$157, 200 of the \$180, 600U mentioned above. Other Key Areas of Concern Outlined Through Variance Analysis: \* Appendix I: Although the selling price of the basic model increased by \$25, a \$100 reduction in the selling price of the Deluxe model counterbalanced this increase, and negatively affected income. Appendix E: The difference between the budgeted and actual sales mix had an adverse effect on revenues.

The Deluxe model had a greater CM/unit of 210, and was budgeted at 55% of the sales mix, however, it only ended up accounting for 40% of the actual sales mix. \* Appendix H: The market share of FFL resulted in being less than expected (10% to 9%), in a market which was larger than expected/budgeted (133, 333 to 100, 000 units). Recommendation and Implementation We recommend a proper rectification of the issues with regards to FFL's unfavourable variances.

Firstly, is it of utmost importance to have all the necessary components of management (i. e. supervisors, directors, and managers) on the job and ready to manage. Once FFL has the personnel to solve these significant issues, the following must be corrected, in order: Direct labor inefficiencies and high overhead costs, most importantly.

Then, they can " fine tune" and solve higher than usual selling and administrative expenses and high fixed overhead costs. Further instructions with regards to solving these issues are outlined in Appendix K. However, if FFL is not capable of reorganising the company by itself, external help is necessary to implement specific changes that will improve FFL's bottom line.

REFERENCES Bhimani, Alnoor et al. Management and Cost Accounting. Pearson Education Limited, 2012. Print.

APPENDIX A DIRECT MATERIAL VARIANCES Note: F = Favorable and U = Unfavorable APPENDIX B DIRECT MATERIAL VARIANCES CONTINUED \*540, 000 + 912, 000 = 1, 452, 000 \*315, 000 + 1, 045, 000 = 1, 360, 000 Note: F = Favorable and U = Unfavorable APPENDIX C DIRECT LABOR VARIANCES Note: F = Favorable and U = Unfavorable APPENDIX D DIRECT

LABOR VARIANCES CONTINUED Note: F = Favorable and U = Unfavorable

APPENDIX E SALES VARIANCES  $7200/12000 = 0.6$   $4500/10000 = 0.45$  Note:

F = Favorable and U = Unfavorable APPENDIX F VARIABLE OVERHEAD

VARIANCE \*Variable Selling & Administrative Expenses are labeled as Non-Manufacturing in this table. Total Variable Overhead for Basic and Deluxe =  $27,000U + 18,000F = 9,000U$  Note: F = Favorable and U = Unfavorable

APPENDIX G FIXED OVERHEAD VARIANCE  $*750,000 \div 115,000 = 6.217$

Note: F = Favorable and U = Unfavorable APPENDIX H MARKET VARIANCES

Note: F = Favorable and U = Unfavorable APPENDIX I VARIANCE OVERVIEW

Note: F = Favorable and U = Unfavorable Note: F = Favorable and U =

Unfavorable APPENDIX J ANALYSIS OF THE UNFAVORABLE VARIANCES Note: F

= Favorable and U = Unfavorable Note: \$421,300 represents the sum of all unfavorable variances that have brought down the company's annual earnings. Note: F = Favorable and U = Unfavorable APPENDIX K

RECOMMENDATIONS: REDUCING THE TOTAL UNFAVOURABLE VARIANCE