

# [Quality production process](https://assignbuster.com/quality-production-process/)

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The variances from the flexible budget computed above, outline that the operations of the company improved in terms of efficiency. This is due to the fact that a total favourable variance of  36, 850 is achieved. Indeed all the variances are favourable with the exception of the direct labour cost. The information conveyed in the question is too specific in order to identify a reason why such variance was adverse. A number of plausible conditions might be the following (Drury 1996, pp 551-553): • A general increase in wage rates leading to higher labour cost.

• Direct labour was not very effective in the production process and took more to complete the required production. This led to additional overtime payments being made. • Skilled workers employed that necessitate a higher wage. • Machine breakdown have led to increasing idle time. Remedial actions are not always applicable to variances. Indeed they are highly dependent on the situation at hand. There are certain variances, which are uncontrollable and therefore no remedial action exists. The general increase in wage rates is a typical case in point.

There are other variances, which are controllable in the long run, but not in the short run. In such instance long term remedies exist. For example, the production machinery is old and outdated. A solution to diminish such idle time would be to acquire and implement new machinery in the long run. There are variances which are highly controllable and solutions should be applied immediately to enhance efficiency and effectiveness. For example, the efficiency of workers can be improved throughmotivation.

A good solution that is normally applied by organisations to motivate staff is a performance bonus scheme. This encompasses a financial reward given to workers if they are capable to attain a favourable variance. It is important to outline that such suggestion is not ideal for high quality products, because there is the risk that workers focus on increase production and neglect quality, which is an important variable for such goods. As already stated all the other variances are favourable. It is important at this stage to consider meticulously the present standards.

There is a risk especially for variable overhead expenditure like power, light and heat and indirect labour that the standard is unrealistic and does not reflect current prices. Therefore the management accountant should consider the evaluation of such expenditure (Lucey 2003, pp 222-223) . Withrespectthe favour direct materials variance, possible reasons encompass the following (Drury 1996, pp 555-556): • Bulk discounts taken from suppliers leading to lower costs. • The skilled workers employed were capable to diminish material wastage.

This led to lower materials purchased. • The purchasing manager was able to identify good suppliers that charge low prices for material. • The material bought was of a good quality leading to lower wastages. The second reason for a favourable direct materials variance, pin points the interrelationship that may exist between different costs. Under such a scenario the skilled workers were the result of a favourable material variance. However, such skilled workers were paid more due to their higher capabilities leading to an adverse variance in the direct labour costs.

Therefore it is imperative that before taking any remedial action for adverse variances, management carefully considers the effect that this may have on all pertinent costs (Lucey 2003, pp225-227). For example, if management decides to employ unskilled workers, the labour variance can improve. However, this will lead to a negative effect on the material variance. References: Drury C. (1996). Management and Cost Accounting. Fourth Edition. London: International Thomson Business Press. Lucey T. (2003). Management Accounting. Fifth Edition. London: Continuum.