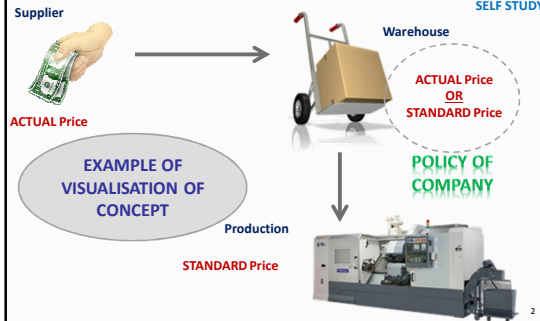


Variance analysis Lecture 1

Chapters 17 - 18

units
volume
costing
O/H
Materials
Budgeted
variances
Fixed
Labour
Standard
Variance
cost

MATERIAL PRICE VARIANCE



MATERIAL PRICE VARIANCE

THUS Remember the following:

EXAMPLE OF BASIC PRINCIPLE

If raw material is valued at **STANDARD COST**, use actual quantities **PURCHASED** and therefore actual cost should be actual cost of **PURCHASES**.

If raw material is valued at **ACTUAL COST**, use actual quantities **ISSUED/USED** and therefore actual cost should be actual cost of **ISSUES**.

Example

Standard price per kg = R2.50
During the year 180 000 kg of material was issued.

183 000 kg of material were issued to production.

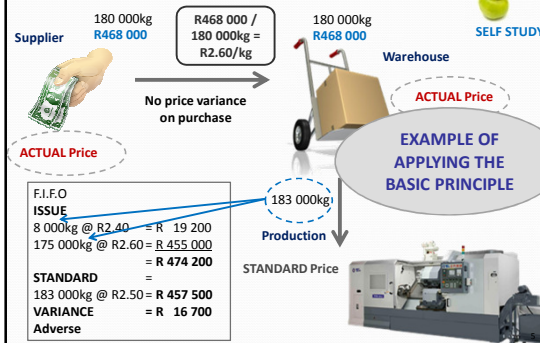
On 1 January there were 8 000 kg of material with a cost price of R19 200 on hand.

- 1) Material is valued at **ACTUAL prices**. The entity makes use of the F.I.F.O-method for inventory valuation purposes.
- 2) Material is valued at **STANDARD prices**. The entity makes use of the F.I.F.O-method for inventory purposes.

Calculate the raw material price variance for (1) and (2) above.

EXAMPLE OF APPLYING THE BASIC PRINCIPLE

Example (1)



EXAMPLE (2)

