
Answers

Section C

31 SU Co

- (a) SP (standard price per metre: \$2.85/0.95) \$3.00
 SQ (standard quantity per dress: 2.2 metres/1.1) 2 metres
 From scenario the revised price per metre (RP) is \$2.85, the actual price per metre (AP) is \$2.85 and the revised quantity per dress (RQ) is 2.2 metres.
 SQAP (standard quantity for actual production: 2 metres x 24,000) 48,000 metres
 RQAP (revised quantity for actual production: 2.2 metres x 24,000) 52,800 metres
 From the scenario the actual production level (AP) is 24,000 dresses and actual quantity of material bought and used (AQ) is 54,560 metres.

Material price variances

Planning variance

(SP – RP) x AQ: (\$3.00 – \$2.85) x 54,560 8,184 F

Operational variance

(RP – AP) x AQ: (\$2.85 – \$2.85) x 54,560 0

Total price variance 8,184 F

Material usage variances

Planning variance

(SQAP – RQAP) x SP: (48,000 – 52,800) x \$3.00 14,400 A

Operational variance

(RQAP – AQ) x SP: (52,800 – 54,560) x \$3.00 5,280 A

Total usage variance 19,680 A

Total material variance 11,496 A

Tutorial note: These variances could have been calculated using the alternative approach as below:

Material price variances

Planning variance

(AP x RQ) x (SP – RP): 24,000 x 2.2 metres x (\$3.00 – \$2.85) 7,920 F

Operational variance

(RP – AP) x AQ: 54,560 metres x (\$2.85 – \$2.85) 0

Material usage variances

Planning variance

(SQ – RQ) x AP x SP: 24,000 x (2 metres – 2.2 metres) x \$3.00 14,400 A

Operational variance

((AP x RQ) – AQ) x RP: 24,000 x 2.2 metres – 54,560 x \$2.85 5,016 A

Total material variance 11,496 A

- (b) AH (actual hours worked and paid): 24 x 160 hours 3,840 hours
 SHAP (standard hours for actual production): (24,000 x 8)/60 3,200 hours
 RHAP (revised hours for actual production): (24,000 x 10)/60 4,000 hours

From the scenario the standard rate per hour (SR) is \$12, the standard time per dress is eight minutes and the revised time per dress is 10 minutes.

Labour efficiency variances

Planning variance

(SHAP – RHAP) x SR: (3,200 – 4,000) x \$12 9,600 A

Operational variance

(RHAP – AH) x SR: (4,000 – 3,840) x \$12 1,920 F

Total labour efficiency variance 7,680 A

- (c) The production manager did not have any control over the change in the design of the dress as this change was requested by the client. Similarly, it was not his fault that the company accountant responsible for updating standard costs was off sick and therefore unable to update the standards. Therefore, the production manager should be judged only by those variances over which he has control, which are the operational variances.

Materials

No operational variance arose in relation to materials price, since the actual price paid was the same as the revised price. A planning variance of \$8,184F does arise but the production manager cannot take the credit for this, as the material chosen by GPST for the new dresses just happens to be cheaper.

As regards usage, an adverse variance of \$5,280 arose. This suggests that, even with the revised quantity of material being taken into account, staff still used more than 2.2 metres on average to produce each dress. This is probably because they had to learn a new sewing technique and they probably made some mistakes, resulting in some wastage. The manager is responsible for this as it may have been caused by insufficient training. However, the labour efficiency variances below shed some more light on this.

Labour

The labour efficiency operational variance was favourable, which suggests good performance by the production manager. Staff took less than the expected revised 10 minutes per dress. However, when looked at in combination with the material usage operational variance above, it could be inferred that staff may have rushed a little and consequently used more material than necessary.

When both of the operational variances are looked at together, the adverse materials usage \$5,280 far outweighs the favourable labour efficiency variance of \$1,920. Consequently, it could be concluded that, overall, the manager's performance was somewhat disappointing.

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- (a) The balanced scorecard approach looks not only at the financial performance but also non-financial performance. In order to maintain a competitive edge, organisations have to be very aware of the changing needs of their customers. In the case of The People's Bank, this has involved identifying specific categories of customers which have particular needs, like SMEs in a commercial context, or like the disabled or visually impaired in a non-commercial context. This permits these needs to be addressed.

The People's Bank has a vision and strategy which goes far beyond just making money. They want to help the community and disadvantaged people and give something back to customers also. Hence, by using the balanced scorecard, performance measures which address whether the Bank is being successful in pursuing their vision can be incorporated.

In addition, from a purely business perspective, if employees and customers are valued and internal processes are efficient, an organisation should have more chance of achieving long-term success anyway. So, even putting aside the social objectives The People's Bank has, the balanced scorecard can be useful to The People's Bank to measure these other aspects of future success too.

- (b) The performance of the bank will be considered under each of the headings used in the balanced scorecard:

Financial perspective

The People's Bank has had a year of mixed success when looking at the extent to which it has met its financial targets. Its return on capital employed (ROCE) shows how efficiently it has used its assets to generate profit for the business. The target for the year was 12% but it has only achieved an 11% return. The People's Bank's interest income, however, was in fact \$0.5m higher than its target, which is good. This may have been achieved by offering slightly better interest rates to customers than competing banks, as the interest margin The People's Bank achieved is slightly lower than target. The most likely reason for the under target ROCE is therefore probably the investment which The People's Bank has made in IT security and facilities for the disabled and visually impaired. Whilst this may have reduced ROCE, this investment is essentially a good idea as it helps The People's Bank pursue its vision and will keep customers happy. It will also, in the case of the IT security investment, prevent the bank and its customers from losing money from fraud in the future.

The other performance measure, the amount of new lending to SMEs, is a little bit disappointing, given The People's Bank's stated value of making a difference to communities. The failure to meet this target may well be linked to the fact that an insufficient number of staff were trained to provide advice to SMEs and consequently, fewer of them may have been successful in securing additional finance.

Customer perspective

With regard to its customers, The People's Bank has performed well in the year. It has exceeded its target to provide mortgages to new homeowners by 6,000. This is helping The People's Bank pursue its vision of helping new homeowners. It has also managed to beat the target for customer complaints such that there are only 1.5 complaints for every 1,000 customers, well below the target of 2. This may be as a result of improved processes at the bank or improved security. It is not clear what the precise reason is but it is definitely good for The People's Bank's reputation.

The bank has also exceeded both of its targets to help the disabled and visually impaired, which is good for its reputation and its stated value of making services more accessible.

Internal processes

The number of processes simplified within the bank has exceeded the target, which is good, and the success of which may well be reflected in the lower customer complaints levels. Similarly, the investment to improve IT systems has been a success, with only three incidences of fraud per 1,000 customers compared to the target of 10. However, perhaps because of the focus on this part of the business, only two new services have been made available via mobile banking, instead of the target of five, which is disappointing. Similarly, it is possible that some of the new systems have prevented the business from keeping its CO₂ emissions to their target level.

Learning and growth

The People's Bank has succeeded in helping the community, exceeding both of its targets relating to hours of paid volunteer work and number of community organisations supported by volunteers or funding. These additional costs could have contributed to the fact that the bank did not quite meet its target for ROCE.

However, the bank has not quite met its targets for helping small businesses and helping the disadvantaged. As mentioned earlier, the shortfall in training of employees to give advice to SMEs may have had an impact on The People's Bank's failure to meet its target lending to SMEs. As regards the percentage of trainee positions, the target was only just missed and this may well have been because the number of candidates applying from these areas was not as high as planned and the bank has no control over this.

Overall, the bank has had a fairly successful year, meeting many of its targets. However, it still has some work to do in order to meet its stated values and continue to pursue its vision.

Section C

Maximum marks Marks awarded

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(a)	Standard price	1
	Standard quantity	0·5
	SQAP	0·5
	RQAP	0·5
	Price planning variance	1·5
	Usage planning variance	1·5
	Usage op variance	1·5
		<u>7</u>
(b)	Actual hours	1
	SHAP	0·5
	RHAP	0·5
	Planning variance	1·5
	Operating variance	1·5
		<u>5</u>
(c)	Controllability	1
	Variances/performance	6
	Other/conclusion	1
		<u>8</u>
		<u>20</u>

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(a)	Discussion	<u>4</u>
(b)	Financial	4
	Customer	4
	Internal	4
	Learning	4
		<u>16</u>
		<u>20</u>