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Chapter 02: Section 04

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Alternative Budgeting Approaches

Section 04: advanced standard costing and variance analysis

1. MIX AND YIELD VARIANCE

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1. Mix Variance

The financial effect of changing the proportion of inputs from the standard mix.

A bakery substitutes cheaper standard flour (Rs. 350/kg) for premium flour (Rs. 500/kg) in its production. The mix variance calculates the cost saving from this substitution, assuming the total quantity of flour used and the final output of bread remained constant. This isolates the financial impact of the procurement decision.

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1. MIX AND YIELD VARIANCE

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2. Yield Variance

The financial effect of actual output differing from expected output from inputs used.

A factory uses 1,000kg of raw material, which should produce 800 units of finished goods. However, it only produces 750 units. The yield variance measures the cost of this 50-unit shortfall, valued at the standard cost per unit. This quantifies the inefficiency in the production process.

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2. Planning and operating VARIANCE

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1. Planning Variance

The difference between an original budget and a budget revised for actual conditions.

A company budgeted to buy material for Rs. 1,000 per tonne. An unexpected import tariff increased the market price to Rs. 1,150 per tonne. The planning variance captures the Rs. 150 per tonne impact of this uncontrollable price change, separating it from factory performance.

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2. Planning and operating VARIANCE

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1. Operating Variance

The difference between a revised budget based on actual conditions and actual results.

Using the revised material price of Rs. 1,150 per tonne, the purchasing manager actually paid Rs. 1,180 per tonne due to poor negotiation. The operational variance captures this controllable Rs. 30 per tonne overspend, for which the manager is responsible..

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3. Power Bi for VARIANCE analysis

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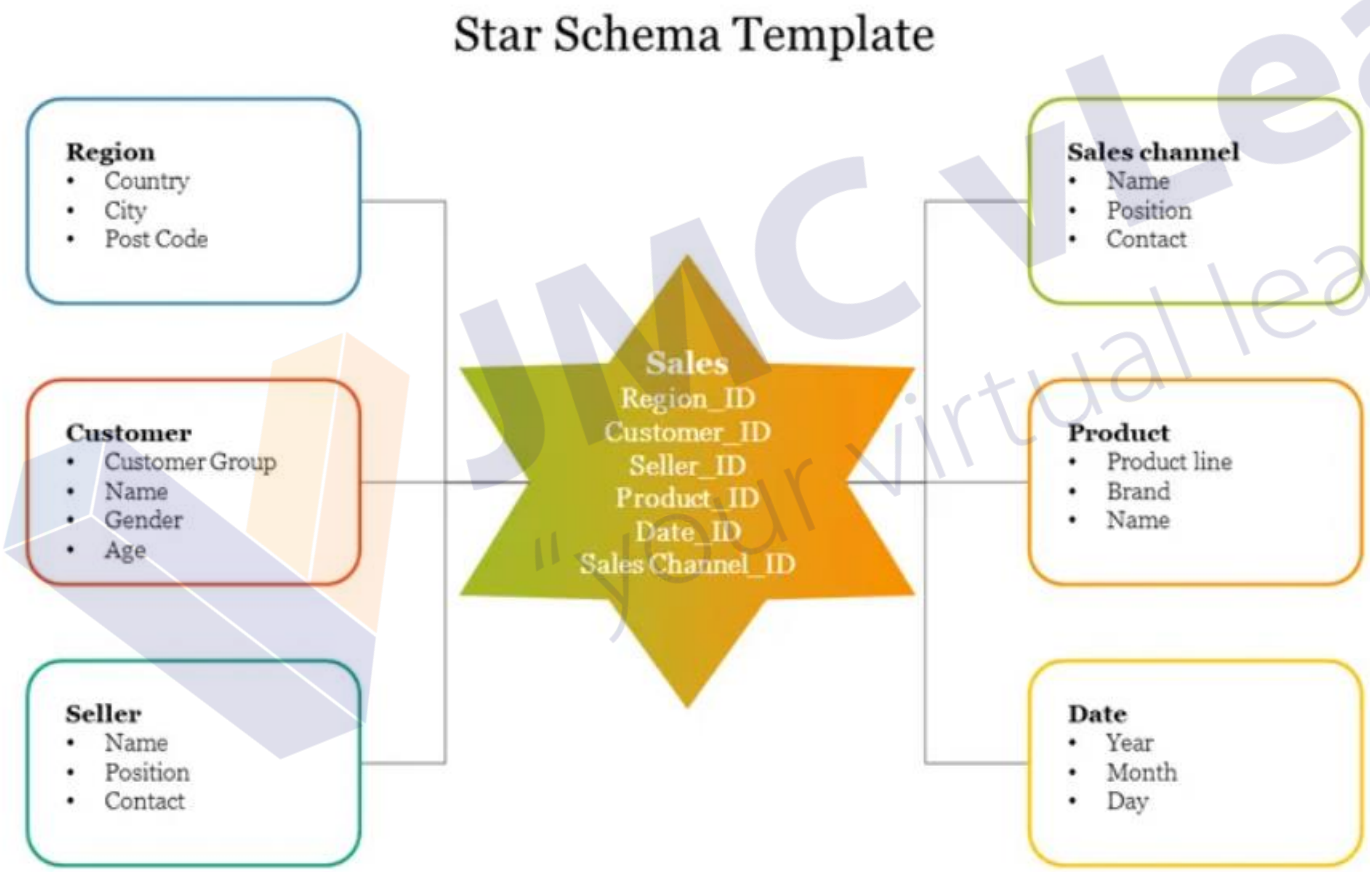
Step 01: Foundational Dashboard Implementation

1. Constructing the Star Schema Data Model: with a central fact table connected to multiple dimension tables.



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3. Power Bi for VARIANCE analysis

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Step 01: Foundational Dashboard Implementation

2. Developing Effective Visualizations and Display Methods: with charts

3. Designing the Dashboard Architecture

4. Automating Reporting Process

Step 02: Interactive Analysis Features

Add drill-down, filtering and bookmarking capabilities that allow users to explore the data and investigate variances independently.

Step 03: Advanced Analytical Integration

Embed statistical, predictive and AI-driven insights to uncover deeper patterns and support forward-looking analysis.

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3. Behavioural and Ethical Issues in standardisation

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Step 01: Diagnose Behavioural Dysfunctions: How traditional standards create negative behaviours when applied in volatile environments

Step 02: Critique Over-Standardisation: Analyse the unintended consequences of focusing too heavily on efficiency, calculability and control.

Step 03: Apply an Ethical Framework: Build fairness, transparency and respect into the design of performance measurement systems.

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Step 02: Critique Over-Standardisation:

McDonaldization Dimensions in Standard Costing			
Dimension	Manifestation in Standard Costing	Negative Behavioural/Ethical Consequence	Balancing Action
Efficiency	Rigid standard times for tasks.	Quality is compromised for speed; employee burnout.	Integrate mandatory quality checks; allow for reasonable downtime.
Calculability	Focus on minimizing cost variances.	Gaming of metrics; ignoring unmeasured quality.	Include qualitative measures like customer satisfaction scores.
Predictability	Standard material and labour mix.	Stifled innovation; inability to adapt to new materials.	Establish channels for process improvement suggestions.
Control	Performance measured solely against standard.	De-skilled workforce; reduced autonomy and judgment.	Empower staff with override authority within defined boundaries.

Table 4.4.1: McDonaldization Dimensions in Standard Costing

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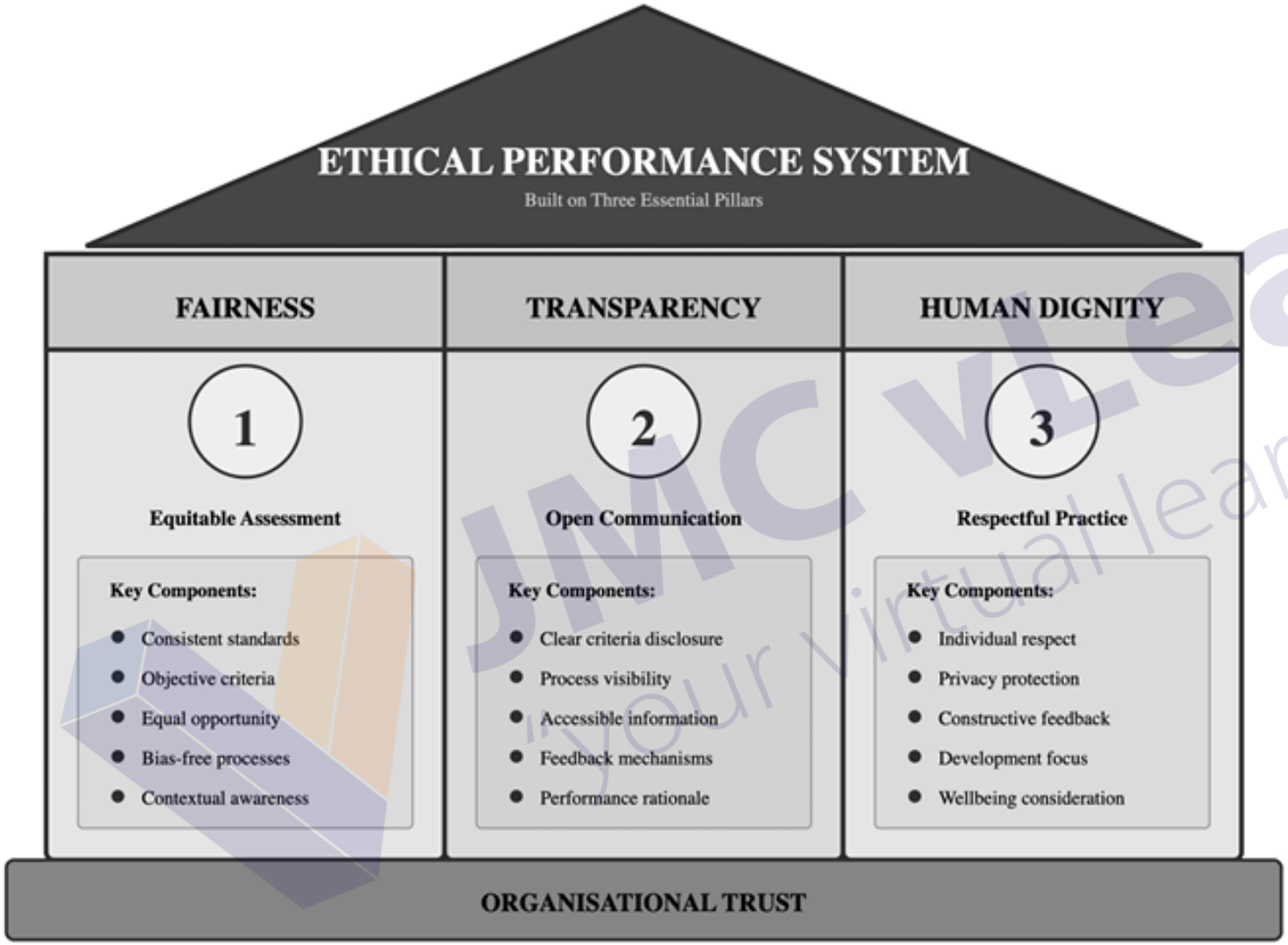
Step 03: Apply an Ethical Framework



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