

Management Accounting

Week 6 Part 2

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Content

- Mix and Yield Variance
- Mix and Yield Variance for direct labour and material

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Mix/Yield for Direct Material/Labour

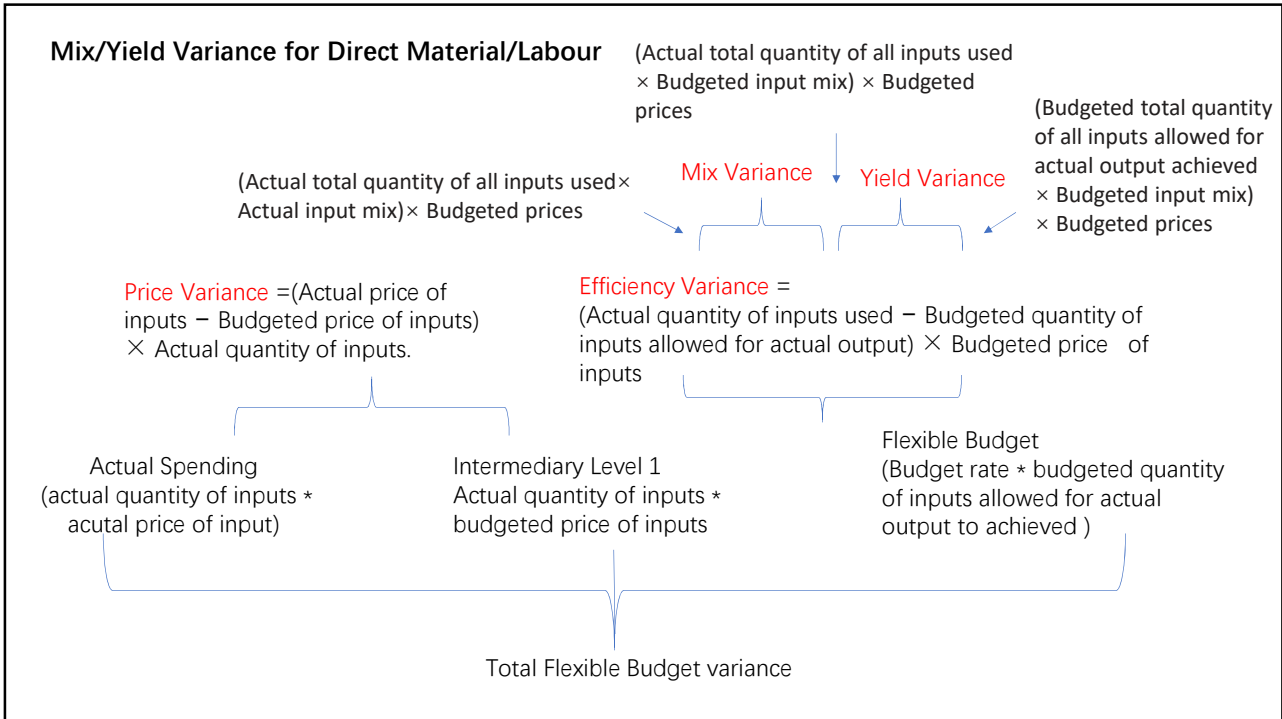
- Inputs can be classified into non-substitutable or substitutable input
 - Non-substitutable means exact, no input variance
 - The inputs are substitutable to some extent, like in the input to fruit salad can be varied a little bit
 - Mix and Yield variance are **only related with substitutable inputs**
- mix* refers to the relative proportion or combination of the different inputs used within an input category such as direct materials or direct manufacturing labour to produce a quantity of finished output
- Yield* refers to the quantity of finished output units produced from a budgeted or standard mix of inputs within an input category

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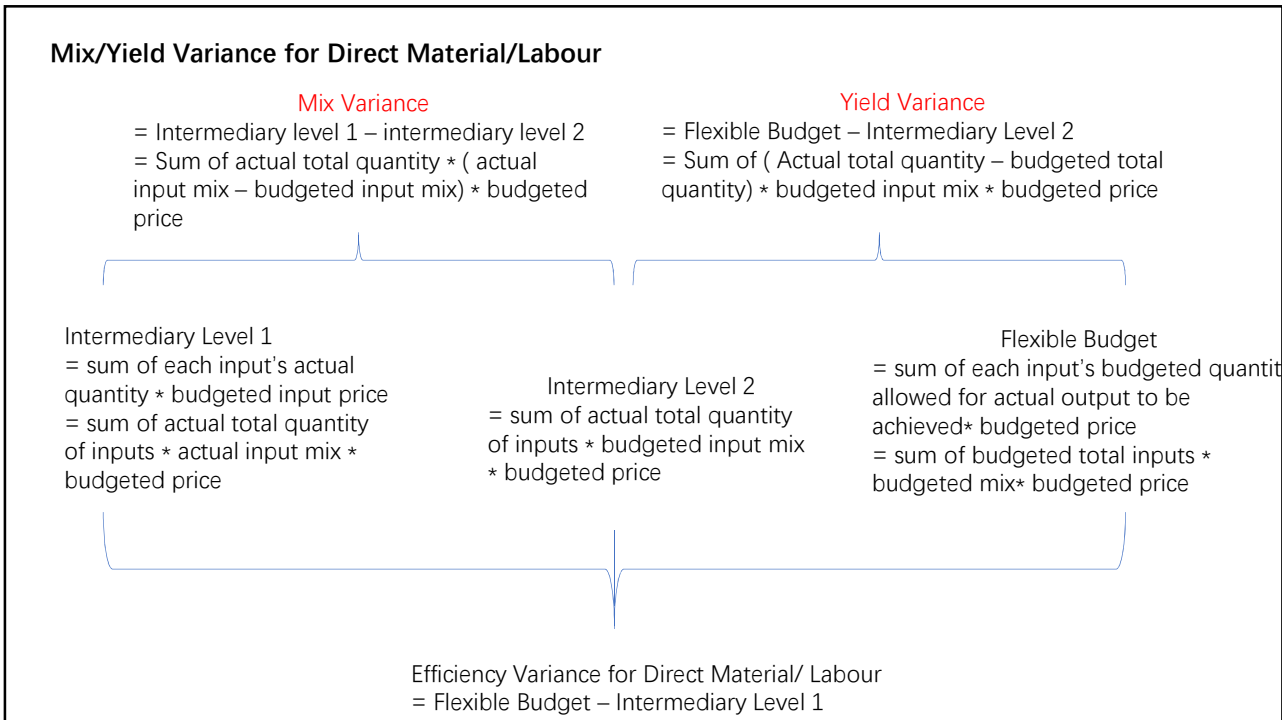
Direct Material/Labor Efficiency improvement

- Using less input to achieve a given output
- Using a cheaper mix to produce a given output
- The efficiency variance divided into the yield variances and the mix variance
- Since it is about efficiency variance, always use budgeted rate

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Direct manufacturing labour variances are calculated in much the same way as direct materials variances. We again use the Aliya Ltd example to illustrate direct manufacturing labour price, efficiency, yield and mix variances. Aliya has three grades of direct manufacturing labour: Grade 1, Grade 2 and Grade 3. Budgeted costs for June 2015 follow:

3000	hours of Grade 3 labour at €24 per hour	€72 000
2100	hours of Grade 2 labour at €16 per hour	33 600
<u>900</u>	hours of Grade 1 labour at €12 per hour	<u>10 800</u>
<u>6000</u>	total hours	<u>€116 400</u>

Actual results for June 2015 show that the work was completed in 5900 hours:

3245	hours of Grade 3 labour at €23 per hour	€74 635
1770	hours of Grade 2 labour at €18 per hour	31 860
<u>885</u>	hours of Grade 1 labour at €13 per hour	<u>11 505</u>
<u>5900</u>	total hours	<u>118 000</u>
	Budgeted costs	<u>116 400</u>
	Total direct manufacturing labour variance to be explained	<u>€1600 U</u>

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For planning purposes, TZ uses the following numbers of staff per 100 clients in a typical month to plan its activities.

Staff category	Hours	Cost per hour	Total
Senior	400	€ 45	€ 18,000
Professional	1,100	€ 32	€ 35,200
Junior	500	€ 20	€ 10,000
Totals	2,000		€ 63,200

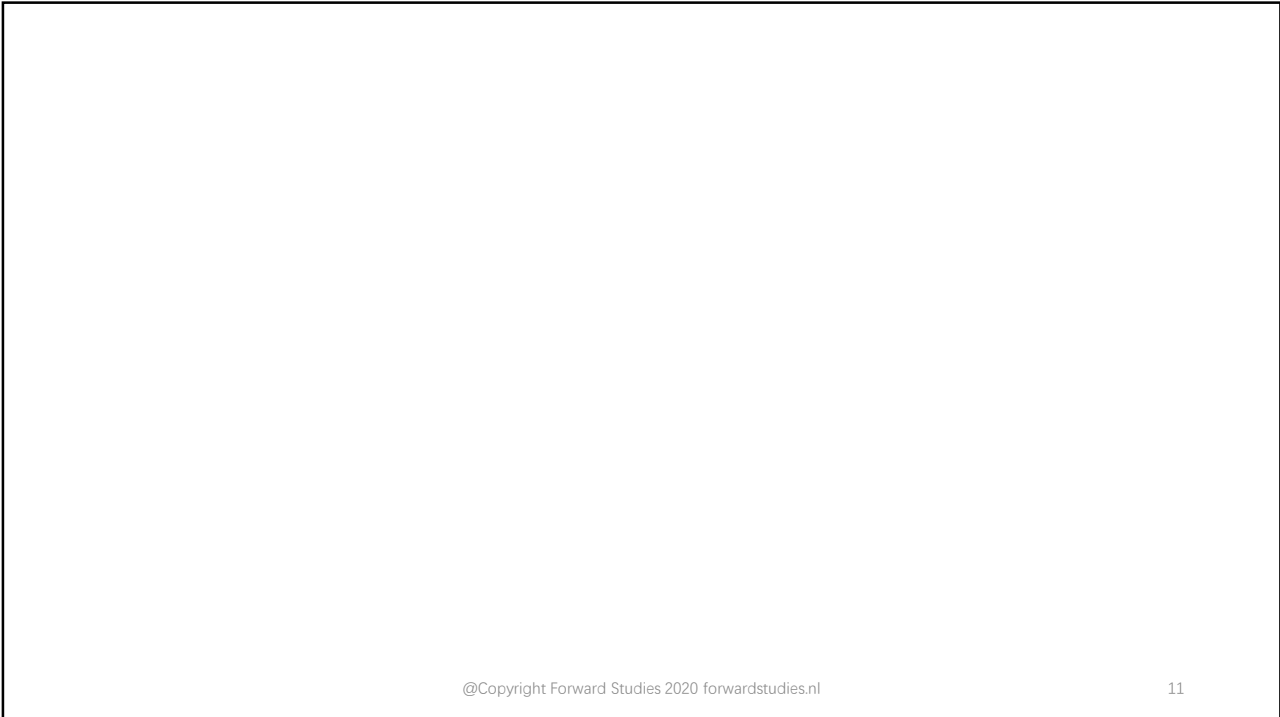
So for each 100 clients TZ supports in month, the budgeted staff costs are € 63,200.

In September 2019, TZ supported 1,000 clients. The actual costs in September were as follows:

Staff category	Hours	Total
Senior	3,000	€ 150,000
Professional	13,000	€ 364,000
Junior	4,000	€ 88,000
Totals	20,000	€ 602,000

Calculate the yield and mix variances for Senior, Professional and Junior staff.

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