

Test Series: April, 2019

MOCK TEST PAPER – 2

FINAL COURSE: GROUP – II

PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

SUGGESTED ANSWERS/HINTS

1. To: CEO

From: Chief Accounting Officer

Date: 02/03/20XX

Subject: Traditional Accounting Framework vs. Triple Bottom Line Framework

Please find below comprehensive study on both frameworks in context of the PEK.

Best Regards,

Chief Accounting Officer

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Difference between traditional accounting framework and triple bottom line framework.

- (i) Traditional accounting framework has a “single bottom line” that focuses on the profit that our company has made during the financial year. This is calculated by reducing costs, including the cost of capital, from revenues earned during the period, to arrive at the net profit that is available to the shareholders. This reporting framework has its focus on meeting the informational needs of mainly one category of stakeholder within the company, namely its shareholders. It satisfies the information needs of those interested in the financial aspects of business. It does not provide much insight on the social, environmental and economic implications of its operations.

Albeit, some information about its operations is available in various parts of its annual report, like the management discussion and analysis section or the chairman’s letter to shareholders. However, this is generally not sufficient to satisfy the information needs of other stakeholders, some of whom can be our company’s employees, customers, suppliers, communities living near our factory site or even the government. Transactions that do not directly impact our company are ignored. Recognition of an expense partly depends on utilization of assets. For example, costs incurred to operate machines used in the pulping process would include labor expense, repairs, depreciation, utility etc. These get captured as part of cost of goods manufactured in our financial reports. Therefore, assets and their related expense, that are owned and within the control of the company will be reported in the financial reports.

However, certain assets are neither owned nor controlled by the organization, yet it utilizes these resources in its operations. For example, the waste water from our company is discharged in the river nearby. The waste water contains solids, chemicals and metal compounds that were used during production. This pollutes the river water, which is the primary source of water for our town. This poses both an environmental and health risk to the citizens. Although we have taken sustainability initiatives to reduce this waste, we do not pay to clean up the river water. It is the government that undertakes the onerous task of cleaning up the river water and also bears the clean-up cost. This aspect of our company's operations and the associated cost will not get captured in our financial reports. Hence, the true cost of operations of our company is greater than the costs reported in the financial reports. Moreover, the market price that we charge our customer for our paper product does not factor this cost. Consequently, both our company and our customers who use our product end up under-pricing the cost to the environment and society.

It can be concluded that under traditional financial reporting, sustainability and our company's performance are mutually exclusive. At the same time, information about sustainability is extremely important to other stakeholders like the community living next to the factory site since it affects their lifestyle, the local government that may be incurring substantial expense to nurture back the environment or environmentalists that seek to protect the habitat of other species. It might be critical for our company. Healthy environment and society are key drivers to sustain our operations. "Can we do business in a world fraught with sickness due to pollution?"

On the other hand, triple bottom line reporting framework focuses on a more broader view of the company addressing the interests of various other stakeholders. These stakeholders could our company's employees, creditors, customers, communities near the factory site, government etc. The objective is to force ourselves to identify areas within our operations to create sustainable initiatives that would, in the long run, be beneficial to its current and future stakeholders as well as to our company itself. It focuses on the impact of the decisions and operations of our company on the society, environment, and economy. Known as 3Ps, people, planet and profit, hence the name "triple bottom line". Triple bottom line goes beyond the financial aspects of an organization's performance. This helps stakeholders make more informed assessments of the opportunities and risks that the company faces.

- (ii) Traditional accounting framework uses the reporting currency as the unit of measurement. It follows the accounting and reporting principles generally accepted in the country it operates.

Materiality under this framework, is measured in monetary terms, that could impact the decisions of a rational investor. On the other hand, there is no uniform standard or measure for the TBL framework. Measurement of an aspect, therefore its

materiality, could either be financial or non-financial. Organizations could follow the metrics suggested in the Global Reporting Initiative (GRI) framework. In India, efforts are underway to align the GRI with the Business Responsibility Report (BRR) mandated by SEBI for some of the public companies. The TBL report focuses on both the positive and negative impact of the organization's performance on the society, environment and economy. TBL reporting may be (i) core reporting, report selective metrics or (ii) comprehensive reporting, a detailed report based on the GRI standards.

In summary, while financial reports provide information about the profitability of our company, TBL enhances the information available to various stakeholders who may hold different perspectives of the company's business operations. TBL will work well to supplement information in the financial statements.

Overall business strategy should be linked to the TBL reporting to work towards a sustainable future. Our company has already been working sustainability initiatives. Waste generation is being tackled by our plant managers. Metrics for this report has to come from various departments. Awareness about sustainability and its impact may open up opportunities that are currently being overlooked. Our company has been a lifeline for this town for the past 15 years. Why not use the TBL to highlight these positive aspects and garner goodwill for our company? TBL reporting need not remain another administrative task requiring just data gathering. It might vitalize our company to achieve greater heights of success.

2. (i) Advise on Information System

Combining several jobs into one, permitting workers to make more decision themselves, defining different versions of processes for simple cases vs complex ones, minimizing situations when one person check someone else's work, and reorganizing jobs to give individuals more understanding and more responsibility are characteristics of re-engineered processes.

In H & M, outlays can be saved by rearranging staff into multidisciplinary teams, for example, reducing number of excess staff at different stages – cutting, preparation, finish etc. These savings can be utilized in additional costs such as investment in new information systems. Hammer and Champy stress the use of information technology as a catalyst for major changes. BPR organizes work around customer processes rather than functional hierarchies.

Presently, H & M's departments have their own excel sheet-based systems for planning and reporting which is unreliable and inconsistent. They are inadequate to provide the accurate, timely and consistent data which H & M needs to meet its own performance and delivery targets. There must a shared database that should be accessible by all parts of the functional teams. This should have real time updation, so that employees in different time zones can use updated data. The database should include financial data and non-financial data, like cost information, data

related to lead times and quality. Information systems must be featured with all required reports like performance report, budget report etc.

In addition, H & M is required to invest in special system as advised by Prof. W for full front-end order entry, purchasing, and inventory management solution to minimize shipping costs by ensuring that the shipping containers get fully loaded and to integrate with supplier's information systems to automate purchase invoicing.

Overall, H & M must analyze that whether the benefits due to information technology are worthy.

(ii) Assessment of Likely Impact of Re-engineering on Ethical Standards

Workers

H & M is famous for its high ethical standards towards workers and staff. Because of adopting BPR proposal, manufacturing staff are likely to be unemployed. Competitors, have already shutdown their factories, these workers may not be able to find analogous jobs.

Employees who continue in work may become disappointed if they think the application of BPR to all products. This may reduce productivity, increase staff turnover or difficulties in recruiting new staff. In addition, they may also be demotivated if they are appointed in unfamiliar roles, or may not be willing to learn new skills.

Some of staff members may be motivated by the opportunity to perform new types of work, learn new skills or work outside India. This maybe enhance their individual performance.

Suppliers

Any association with non-ethical practices, for example, if the Chinese supplier is indulged in using non-acceptable working practices, could seriously spoil H & M's reputation for high ethical standards. This could undermine financial performance because customers may not buy its products, or possible investors might refuse from providing capital. Staff members located at the manufacturing site is responsible for supplier audits, which may assist to mitigate this risk.

Environment

H & M should consider the environmental impact of importing goods from long distances. The environmental related credentials of the Chinese Supplier are not known. Since, H & M voluntarily publishes a corporate sustainability report, any distortion in its performance on environmental issues might undermine the financial performance.

(iii) Evaluation of BPR Proposal in relation to Retailer's Demand

Lower Prices

In order to sell footwear at lower prices, there is proposal to reduce costs by outsourcing production to supplier. The current average production cost of manufacturing is BND 625.00 per unit. The cost of purchase from an external supplier is BND 512, which is BND 504 (CNY18 × BND28) purchase cost, plus BND 8 (BND 40,000/ 5,000) shipping cost. This 18.08% (113/ 625) saving is a substantial improvement in financial performance, but not a dramatic one. It may be noted that BPR is a methodology that should be applied only when radical or dramatic change is required. Further, exchange rate movements may also slash the cost saving significantly. In the near future, expected changes to international trade tariffs will increase the unit cost to CNY30.83 (CNY28.00 × 110.10%) i.e. 554.94 in BND and reduce the cost saving to just 11.21% (70.06/ 625).

Meeting Performance Targets

Lead times

Current lead times for customer orders are not ascertainable. Since the proposed Chinese Supplier is 3,750 km away, consignment will take several weeks to be imported by sea. This may increase lead times substantially, although may be set off by faster production times in supplier's plant. As H & M's sales are seasonal, retailers may order in advance, decreasing the long lead times. In order to decrease shipping costs, shipping containers must be full, meaning that deliveries must be in larger quantities.

Quality

H & M is already known for manufacturing high quality footwears. The quality of the new supplier's footwear needs to be checked. Any distortion in the quality of footwear will deteriorate its reputation and decrease long-term business performance since only few customers would order. Quality standards checking is more difficult while using outside suppliers, especially at long distance, than manufacturing in H & M's own factory. In BPR, work is done where it makes most sense to do so. In this aspect, having employees responsible for quality checking and supplier audits (working at the manufacturing site, abroad) will assist H & M in sustaining the best supplier relationship management.

3. (i) Computation of NOPAT

Particulars	Rs. in Crore
Operating Profit	162.00
<i>Add:</i>	
Non-Cash Items	14.00

Accounting Depreciation	118.00
Doubtful Debts	4.00
Research and Development	24.00
Less:	
Economic Depreciation	166.00
Tax Paid	18.00
Tax Saving on Interest (Rs.46 × 30%)	13.80
NOPAT	124.20

Computation of Capital Employed

	Rs. in Crore
Capital Employed as on 31.03.2018	1,495.00
Add:	
Provision for Doubtful Debt as on 31.03.2018	5.00
Other Non-Cash Items (incurred in 2017-18)	12.00
Adjusted Opening Capital Employed	1,512.00

$$\text{WACC} = 0.45 \times 14\% + 0.55 \times 6\% \times (1 - 30\%) = 8.61\%$$

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Capital Employed}) = - 5.98 \text{ Crores}$$

Evaluation

Presently, WUS is distorting value as it is not able to meet the economic cost of its own capital. This put the company into the question of perpetual succession and lead the company against shareholder's interest. The reason could be a higher cost of equity for WUS. The investing risk should be low since 75% of the services that the company renders are important for the economy and demand is guaranteed in future. Optionally, WUS needs to either increase its NOPAT enough for break even on economic value added or slash its capital employed by selling unutilized or under-utilized assets.

(ii) Regulatory ROCE: Target 7.00%

$$\begin{aligned} \text{ROCE} &= \left(\frac{\text{Operating Profit}}{\text{Capital Employed}} \right) \times 100.00\% \\ &= \left(\frac{95}{1,422} \right) \times 100\% \end{aligned}$$

= 6.68%

The ROCE is within the acceptable ROCE of 7.00%.

(iii) Operating Margins

Water Distribution Operation = 17.12%

Water Bottle Operation = 36.02%

Advise

Operating margin from WBO is 36.02% compared to 17.12% (WDO). WUS may use the WDO activities as a trusted source of cash profit to reinvest in expansion of the WBO. Expansion through acquisition of appropriate non-regulated businesses using the cash generated by the regulated activities might be a good decision.

Further, WUS may improve profitability by controlling costs within WDO activities through performance measurement. The regulatory body cannot argue that the company is overcharging its customers to increase profit margin. This is possible through strict observance of expenses and using cost savings techniques through efficiency improvements. In order to control cost within WDO, targets should be based on minimal variances and adopting cost cutting methods.

Overall, In WDO, there is only a limited scope for increase in the operating profit since the maximum operating profit allowed is Rs.99.54 crore i.e. 7.00% of Rs.1,422 crore of capital employed. Thus, WUS should go to expand its WBO as this is producing higher operating profit margins.

4. (a) (i) Analysis of the proposal to make changes to the inspection process:

The company wants to reduce the cost of poor quality on account of rejected items from the process. The current rejection rate is 5% that is proposed to be improved to 3% of units input.

The expected benefit to the company can be worked out as follows:

The units of input each day = 5,000. At the current rate of 5%, 250 units of input are rejected each day. It is proposed to reduce rejection rate to 3%, that is 150 units of input rejected each day. Therefore, improvements to the inspection process would reduce the number of units rejected by 100 units each day. The resultant cost of poor quality would reduce by Rs.20,000 each day (100 units of input × Rs.200 cost of one rejected unit).

The cost of implementing these additional controls to the inspection process would be Rs.15,000 each day.

The net benefit to the company on implementing the proposal would be Rs.5,000 each day. Therefore, the company should implement the proposal.

- (ii) Analysis of maximum rejection rate beyond which the proposal ceases to be beneficial

The cost of improving controls to the inspection process is Rs.15,000 each day. The number of units of input processed each day is 5,000. The cost of rejection is Rs.200 per unit.

It makes sense to implement the improvements to controls only if the benefit is greater than the cost involved. To find out the point where the benefits equal the cost, solve the following equation

Let the number of reduction in rejections each day due to improved controls be R.

At Rs.200 per unit, benefits from reduction in rejection would be Rs.200 × R.

At what point, would this be equal to the cost of control of Rs.15,000 per day?

Solving Rs.200 × R = Rs.15,000; R = 75 units. That is if the improvements to inspection process control reduces the number of rejections by 75 units each day, the benefit to the company would be Rs.15,000 each day.

That is if the rejection rate improves by 1.5% (75 units / 5,000 units) then the benefits accruing to the company will equal the cost incurred.

In other words, when the rejection rate is 3.5% (current rate 5% - improvement of 1.5% to the rate) or below, the proposal will be beneficial. In this range, the savings to the cost of poor quality will be more than the cost involved. For example, as explained above, when the improved rejection rate is 3%, the net benefit to the company is Rs.5,000 each day.

Beyond 3.5% rejection rate, the proposal will result in savings to the cost of poor quality that is less than the cost involved of Rs.15,000 each day.

- (b) (i) Transfer Price: 200% of Full Cost Basis

$$= 200\% \text{ of } (\text{¥ } 2,500 + \text{¥ } 5,000)$$

$$= \text{¥ } 15,000 \text{ or } \text{£}300 (\text{¥ } 15,000 / 50)$$

Transfer Price: Market Price Basis

$$= \text{¥ } 9,000 \text{ or } \text{£}180 (\text{¥ } 9,000 / 50)$$

- (ii) Statement Showing “Operating Income”

Particulars	Japan Mining Division		UK Processing Division	
	Transfer Price		Transfer Price	
	¥15,000	¥9,000	£300	£180
Selling Price	---	---	£3,000	£3,000

(Polished Stone)				
Transfer Price (Raw Emerald)	¥ 15,000	¥ 9,000	---	---
Raw Emerald	---	---	£600 (£300 × 2)	£360 (£180 × 2)
Variable Cost	¥ 2,500	¥ 2,500	£150	£150
Fixed Cost	¥ 5,000	¥ 5,000	£350	£350
Profit Before Tax	¥ 7,500	¥ 1,500	£1,900	£2,140
Less: Tax 20%/30%	¥ 1,500	¥ 300	£570	£642
Profit After Tax per Carat of Raw Emerald	¥ 6,000	¥ 1,200	£1,330	£1,498
Raw Emerald	1,000 Carats	1,000 Carats	500 Carats	500 Carats
Total Profit	¥ 60,00,000	¥ 12,00,000	£6,65,000	£7,49,000
	Or	Or		
Total Profit (£)	£1,20,000	£24,000	£6,65,000	£7,49,000

5. (a) (i) **Impact of Management Consultant's Plan on Profit of the HHCL**

Human Health Care Ltd.

Statement Showing Cost Benefit Analysis

Particulars	Rs.
Cost:	
Incremental Cost <i>due to</i> Increased Readmission	25,00,000
Benefit:	
Saving in General Variable Cost <i>due to</i> Reduction in Patient Days [15,000 Patients × (2.5 Days – 2.0 Days) × Rs.500]	37,50,000
Revenue from Increased Readmission(300 Patients × Rs.4,500)	13,50,000
Incremental Benefit	26,00,000

(ii) **Comment**

Primary goal of investor-owned firms is shareholder wealth maximization, which translates to stock price maximization. Management consultant's plan is looking good for the HHCL as there is a positive impact on the profitability of the company (refer Cost Benefit Analysis).

Also HHCL operates in a competitive environment so for its survival, it has to

work on plans like above.

But there is also the second side of a coin that cannot also be ignored i.e. humanity values and business ethics. Discharging patients before their full recovery will add discomfort and disruption in their lives which cannot be quantified into money. There could be other severe consequences as well because of this practice. For gaining extra benefits, HHCL cannot play with the life of patients. It would put a question mark on the business ethics of the HHCL.

May be HHCL would able to earn incremental profit due to this practice in *short run* but It will tarnish the image of the HHCL which would hurt profitability in the *long run*.

So, before taking any decision on this plan, HHCL should analyze both *quantitative as well as qualitative factors*.

- (b) Control is a management function of establishing benchmarks and comparing actual performance against the benchmarks and taking corrective actions. Control is required at all levels of organisation to ensure that the organisation achieves its intended objective. There are two types of control systems - Feedback Control and Feed-forward Control.

Feedback Control

Feedback Control is a control activity that takes place after a process is complete. It is also known as post action control. If any problem is identified after a process is complete, a corrective action is taken to rectify the problem. Feedback control provides information only after the process is complete and sometimes a significant time is lost to take corrective action. Feedback-based systems have the advantage of being simple and easy to implement.

RPC currently has a feedback control mechanism in place. The actual volume of the product is measured at the end of the packaging process. The current control process is that any 'can' which is short filled is not packed in the carton. This ensures that a lower quantity of product is not supplied into the market. The current control system, however leads to product losses as identification of short-filled 'cans' at the end of process is not useful to the production process. In case, there is a huge variation in the final packaging, the packaging system can be reviewed to ensure that such problems do not acquire in the future.

Feed-forward Control

Feed-forward Control is also referred to as a *preventive control*. The rationale behind feed-forward control is to foresee potential problems and take corrective action to ensure that the final output is as expected. Feed-forward controls are desirable because they allow management to prevent problems rather than having

to cure them later. Feed-forward control are costly to implement as it requires additional investment and resources. These are designed to detect deviation some standard or goal to allow correction to be made before a particular sequence of actions is completed.

The proposed system in RPC is a Feed-forward control. In this case, any short filling is identified in the packaging process itself and corrective action is taken to ensure that the final packed 'can' has proper quantity of product. The new process is beneficial to the company as the wastage arising out of the packaging process can be avoided. The savings must be compared with the cost required to modify the packaging process before finalising on whether the new system should be implemented or not.

6. (a) (i) AB Chemicals has the opportunity to utilize 10 units of non-moving chemical as input to produce 10 units of a product demanded by one of its customers. The minimum unit price to be charged to the customer would be–

Cost Component	Cost per unit of product (Rs.)
Cost of Material (Realizable value = Rs.3,500 / 10 units of chemical)	350
Out of Pocket Expenses	50
Other Material Cost	80
Minimum Unit Price that can be charged	480

Therefore, the minimum unit price that can be charged to the customer, without incurring any loss is Rs.480 per unit of product. As explained below in point (ii), allocated overhead expenses and labor cost are sunk costs that have been ignored while calculating the minimum unit price to be charged.

(ii) Analysis

- (a) Cost of Material: Relevant and hence included at realizable value. AB Chemicals has 10 units of non-moving chemical input that has a book value of Rs.2,400, realizable value of Rs.3,500 and replacement cost of Rs.4,200. Realizable value of Rs.3,500 would be the salvage value of the chemical had it been sold by AB Chemicals instead of using it to meet the current order. This represents an opportunity cost for the firm and hence included while pricing the product. Book value would represent the cost at which the inventory has been recorded in the books, a sunk cost that has been ignored. Replacement cost of Rs.4,200 would be the current market price to procure 10 units of the input chemical. This would be relevant only when the inventory has to be

replenished after use. This chemical is from the non-moving category, that means that it is not used regularly in production process and hence need not be replenished after use. Therefore, replacement cost is also ignored for pricing.

- (b) Labour Cost: Not relevant and hence excluded from pricing. It is given in the problem that this order would be met by permanent employees of the firm. Permanent employee cost is a fixed cost that AB Chemicals would incur irrespective of whether this order is produced or not. No additional labour is being employed to meet this order. Therefore, this cost is a sunk cost, excluded from pricing.
- (c) Allocated Overhead Expenses: These expenses have been incurred at another Cost Centre, typical example would be office and administration costs. Such costs are fixed in nature that would be incurred irrespective of whether this order is produced or not. Therefore, this cost is a sunk cost, excluded from pricing.
- (d) Out of Pocket Expenses: These are expenses that are incurred to meet the production requirement of this order. These are additional variable expenses, that need to be included in pricing.
- (e) Other Material Costs: These are expenses that are incurred to meet the production requirement of this order. These are additional variable expenses, that need to be included in pricing.

(iii) Advice on Pricing Policy

Under perfect competition conditions, AB Chemicals can have no pricing policy of its own, here sellers are price takers. It cannot increase its price beyond the current market price. The firm can only decide on the quantity to sell and continue to produce as long as the marginal cost is recovered. When marginal cost exceeds the selling price, the firm starts incurring a loss.

Since AB Chemicals cannot control the selling price individually in the market, it can adopt the *going rate pricing* method. Here it can keep its selling price at the average level charged by the industry. This would yield a fair return to the firm. An average selling price would help the firm attract a *fair market share* in competitive conditions.

- (b) As the management accountant states, and the analysis (W.N.1) presents, the overall variance for the Y is nil. The cumulative adverse variances exactly offset the favourable variances i.e. sales price variance and circuit designer's efficiency variance. However, this traditional analysis does not clearly show the efficiency with which the Y operated during the quarter, as it is difficult to say whether some of the

variances arose from the use of incorrect standards, or whether they were due to efficient or inefficient application of those standards.

In order to determine this, a revised ex post plan should be required, setting out the standards that, with hindsight, should have been in operation during the quarter. These revised ex post standards are presented in W.N.2.

As seen from W.N.3, *on the cost side*, the circuit designer's rate variance has changed from adverse to favourable, and the price variance for component X, while remaining adverse, is significantly reduced in comparison to that calculated under the traditional analysis (W.N.1); *on the sales side*, sales price variance, which was particularly large and favourable in the traditional analysis (W.N.1), is changed into an adverse variance in the revised approach, reflecting the fact that the Y failed to sell at prices that were actually available in the market.

Further, variances arose from changes in factors external to the business (W.N .4), which might not have been known or acknowledged by standard-setters at the time of planning are beyond the control of the operational managers. The distinction between variances is necessary to gain a realistic measure of operational efficiency.

W.N.1

Y

Quarter-1

Operating Statement

Particulars	Favourable RM	Adverse RM	RM
Budgeted Contribution			26,000
Sales Price Variance [(RM 79 - RM 50) × 2,000 units]	58,000	---	
Circuit X Price Variance [(RM 2.50 – RM 4.50) × 21,600 units]		43,200	
Circuit X Usage Variance [(20,000 units - 21,600 units) × RM 2.50]		4,000	
Circuit Designer's Rate Variance [(RM 2 - RM 3) × 11,600 hrs.]		11,600	
Circuit Designer's Efficiency Variance [(12,000 hrs. - 11,600 hrs.) × RM 2.00]	800		NIL
Actual Contribution			26,000

W.N.2**Statement Showing Original Standards, Revised Standards, and Actual Results for Quarter 1**

	Original Standards (ex-ante)		Revised Standards (ex-post)		Actual	
Sales	2,000 units × RM 50.00	RM 1,00,000	2,000 units × RM 82.50	RM 1,65,000	2,000 units × RM 79.00	RM 1,58,000
Circuit X	20,000 units × RM 2.50	RM 50,000	20,000 units × RM 4.25	RM 85,000	21,600 units × RM 4.50	RM 97,200
Circuit	12,000 hrs. × RM 2.00	RM 24,000	12,000 hrs. × RM 3.125	RM 37,500	11,600 hrs. × RM 3.00	RM 34,800

W.N.3**Statement Showing Operational Variances**

Particulars	(₹)	(₹)
<i>Operational Variances</i>		
Sales Price [(RM 79.00 - RM 82.50) × 2,000 units]	7,000 (A)	16,500 (A)
Circuit X Price [(RM 4.25 - RM 4.50) × 21,600 units]	5,400 (A)	
Circuit X Usage [(20,000 units – 21,600 units) × RM 4.25]	6,800 (A)	
Circuit Designer Rate [(RM 3.125 - RM 3.00) × 11,600 hrs.]	1,450 (F)	
Circuit Designer Efficiency [(12,000 hrs. – 11,600 hrs.) × RM 3.125]	1,250 (F)	

W.N.4**Statement Showing Planning Variances**

Particulars	(₹)	(₹)
<i>Planning Variance</i>		
Sales Price [(RM 82.50 - RM 50.00) × 2,000 units]	65,000 (F)	16,500 (F)
Circuit X Price	35,000 (A)	

[(RM 2.50 - RM 4.25) × 20,000 units]		
Circuit Designer Rate [(RM 2.00 - RM 3.125) × 12,000 hrs.]	13,500 (A)	