Chapter 10 : Q.13 - Page 132

Query : There seems to be an error in calculation of Profit Volume Variance

OR

The answer given in the question doesn't match with my calculation, please explain.

OR

Concept of Productivity or Product Differentiation not understood, please explain.

Solution :

Dear Student Friend,

(1)   If we use the formula of Profit Volume Variance, the answer will be :

= Std. Profit per unit x (Bud. Qty. - Actual Qty.)

= *2.70 x (4,00,000 - 4,20,000) = ₹ 54,000 (F)

But it doesn't tally with ICAI answer of ₹ 1,40,000 (F).

(2)   * Std. Profit per unit = Budgeted Profit / Budgeted Qty. [i.e. data of 2016]

= ₹ 10,80,000 / 4,00,000 units = ₹ 2.70 per unit

(3)   As answer is already given to us in the question, we don't have an option to try other route. Hence, no other option is left with us. Accept ICAI data.

(4)   The cost break up is not provided to us in this question. Whether it is a variable cost or fixed cost, nothing is mentioned. Hence, there is no point in applying more mind and fighting with ICAI. Simply try to understand the explanation given in the classroom.

(5)   If you multiply the above formula by Std. Selling Price (SSP), then you will get Sales Volume Variance and not Profit Volume Variance. We have to reconcile 'Operating Income', that is operating 'Profit' and not the sales.

(6)   'Productivity' means 'Efficiency'

(7)   'Product Differentiation' means how our product is different from our competitors.

It will lead to 'Market Share Variance'.