
UNIT 10 VARIANCE ANALYSIS OF AGRICULTURAL REVENUE

Structure

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10.0 OBJECTIVES

After studying this unit, you should be able to:

- define the meaning of Revenue variance;
- justify the need for Revenue variance analysis in agribusiness;
- explain the various types of Revenue variances in agribusiness; and
- work out the Revenue and profit variance for agribusiness.

10.1 INTRODUCTION

Dear learners,

As we learned in the previous unit, variance is the difference between the budgeted and the actual level of activity. Since, as explained earlier, the profitability of a business depends both on costs and sales, we have already discussed cost variance analysis in previous units, and now in this unit, we will learn about sales or revenue variance. Also, in previous units of this course, we have understood several types of budgets related to agribusiness.

An unfavourable, negative, or adverse variance indicates a budget shortfall, which may occur because the loss in revenues or costs comes in higher than anticipated. However, the analysis of variances will be completed only when

the difference between the actual profit and standard profit is fully analysed. It is necessary to analyse sales variances to have a complete analysis of profit variance because profit is the difference between sales and cost. The preceding chapter dealt with the determination and analysis of variances relating to major elements of cost of cultivation like materials, labour and overheads. Outside the production area, standard costs and variances are usually not incorporated in the accounts but are determined by supplemental analysis.

However, in this unit, attention is directed to the determination and analysis of sales/ revenue variances. Some practical illustrations are also given.

10.2 MEANING OF VARIANCE ANALYSIS

As discussed in the previous unit, variance is the difference between standard or budget and actual performance. Profit-making is the prime objective of every business enterprise. Profit depends basically on two factors - Costs and Sales. In order to achieve better performance, it is necessary that you lay down your targets in respect of both of them. Your objective should be to maximise the sales and minimise the costs. This will result in the maximisation of the profits and long run the wealth of the firm.

Variance analysis is intimately connected with budgetary control which helps the management in the:

- a) planning future activities
- b) comparing actual performance with the budgeted performance
- c) identifying the variances as to their causes
- d) ensuring that remedial measures are taken at appropriate time.

However, variance analysis is a method of assessing the difference between estimated budgets and actual numbers. It is a quantitative method that helps to maintain better control over the business.

The basics of Variance Analysis have been discussed in detail in BAM003: Block 6: Unit 16: Standard Costing. In previous units, cost variances in agriculture have been discussed in detail, in this unit you will learn about revenue variance and its analysis.

10.3 REVENUE VARIANCE ANALYSIS

If there is no other income except sales, then revenue variance and sales variance may be considered as same. However, revenue variances occur when actual revenues are different from budgeted revenues. Cost variances occur when actual costs are different from budgeted costs. Volume variances occur due to differences in production volumes or usage rates.

Here are the basic computation formulas for expense and revenue variance:

Revenue Variance = Actual Revenue – Budgeted Revenue
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Expense Variance = Budgeted Revenue – Actual Revenue
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Revenue Variance Analysis is used to measure differences between actual sales and expected sales, based on sales volume metrics, sales mix metrics, and contribution margin calculations.

This guideline provides formulas useful in determining revenue variances including the following basic formulas:

$$\text{Price Variance} = (\text{New Price} - \text{Base Price}) \times \text{New Volume};$$

$$\text{Volume Variance} = (\text{New Volume} - \text{Base Volume}) \times \text{Base Price}.$$

The revenue variance for a period is the difference between budgeted and actual revenue. A favourable revenue variance occurs when actual revenues exceed budgeted revenues, while the opposite is true for an unfavourable variance. Revenue variance results from the differences between budgeted and actual selling prices, volumes or a combination of the two. It also provides helpful information on the types of variables that may affect operating revenue.

There are four steps involved in this process:

- 1) Calculate the difference between what we earned vis a vis budget.
- 2) Investigate why there is a difference.
- 3) Put the information together and talk to management.
- 4) Put together a plan to get sales more in line with the budget.

In addition to the above, we have to know that sales are affected by two factors (i) the selling price and (ii) the quantum of sales. Normally, if the selling price increases, the volume of sales will be lower than the standard. It is well known that demand and supply position in the market decides the quantity of sales as well as the selling price.

10.4 MEANING OF AGRI SALES OR REVENUE VARIANCE

In simple words, agri sales or revenue variance indicates the variance of an agriculture farm. Remember that sales and revenue are used interchangeably. First of all, we have to understand that variance analysis would be a helpful tool in evaluating performance in the light of parameters fixed or budget allocated. A continuous analysis helps in taking timely corrective actions without losing the agri season. This is possible only in the environment of a real-time reporting system; otherwise, it would remain merely a post-mortem exercise.

10.4.1 Classification of Agri Sales Variance

The variances so far concerned, we learnt that it is related to cost of goods production like material, labour and indirect expenses. However, the variance for revenue or sales is equally important. The purpose of variance analysis is to supply information to the management. Agri sales variance is the difference between the budgeted sales and the actual sales.

Agri sales variances analysis may be categorised into two:

- 1) Sales Value (or) Revenue variance.
- 2) Sales Margin (or) Profit variance.

So, sales variance may be studied under two heads, namely sales value variance and sales mix or profit variances. Again, sales value variance is subdivided into sales price variance and sales volume variances.

Sales volume variance may again be subdivided into sales quantity variance and sales mix variance. Similarly, sales margin variances may be subdivided into sales price variance and sales volume variance. Sales volume variance is subdivided into sales mix variance and sales quantity variance.

Sales variances can be understood with the help of the following Figure:

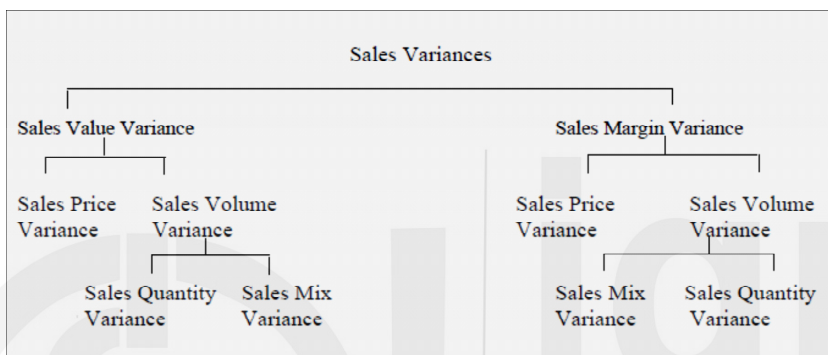


Fig. 10.1: Classification of Sales Variance

Source: <https://egyankosh.ac.in/handle/123456789/16033>

Sales Value Variance is the difference between the budgeted value of sales and the actual value of sales during a period. Sales Value Variance may arise due to the following reasons:

- i. The actual selling price may be higher or lower than the standard price.
- ii. The actual quantity of goods sold may be more or less than the standard.
- iii. The actual mix of the sales may be different than the standard mix.

Sales Margin Variance is the difference between the budgeted profit and actual profit and this is also the sum total of all variances. Sales Margin Variance may arise due to the following reasons:

- i. Rise in the general price level.
- ii. Unexpected competition.
- iii. Ineffective sales promotion.

10.5 SALES VALUE (OR) REVENUE VARIANCE IN AGRIBUSINESS

The difference between budgeted sales and actual sales results in Sales Value Variance. This Variance is also called Sales revenue variance. This is the net variance of sales as a whole. If the actual sales are more than the budgeted sales, a favourable variance would be shown and vice versa.

The formula is:

$$1. \text{ Sales Value variance} = \text{Budgeted Sales} - \text{Actual Sales}$$

This variance is on account of differences in price or volume of sales. It is further subdivided into two variances– (i) Sales price variance and (ii) Sales volume variance.

i) Sales Price Variance

This variance measures the impact of change in selling price on the turnover as a whole. This can be calculated just like Material Price Variance. It is an account of the difference in the actual selling price and the standard selling price for the actual quantity of sales. The formula for this is:

$$\text{Sales Price variance} = \text{Actual Quantity Sold} \times (\text{Standard Price} - \text{Actual Price})$$

ii) Sales Volume Variance

This variance measures the impact of changes in the quantum of products sold.

It can be computed as Material Usage Variance. Budgeted sales may be different from the standard sales. In other words, a budgeted quantity of sales at standard prices may vary from the actual quantity of sales at standard prices. Thus, the variance results from differences in budgeted and actual quantities of goods sold. The formula is:

$$\text{Sales Volume Variance} = \text{Standard Price} \times (\text{Budgeted Quantity} - \text{Actual Quantity})$$

If the standard sales are more than the budgeted sales, it gives rise to favourable variance and vice versa.

Where,

$$\text{Standard Sales} = \text{Standard Price} \times \text{Actual Sales}$$

In another expression

$$\text{sales value variance} = \text{Sales Price Variance} + \text{Sales Volume Variance}$$

This variance may arise due to unexpected competition, ineffective advertising, lack of proper supervision, etc. In the case of multi product situations, Sales Volume Variance can be further subdivided into (a) Sales Mix Variance and (b) Sales Quantity Variance. These two sub-variances can be calculated as follows:

a) Sales Mix variance: When more than one product is manufactured and sold, the budgeted sales of different products are in a given ratio. If the actual quantities sold are not in the same proportion as budgeted, it would cause a mix variance.

It can be calculated according to two methods:

1. Based on Quantity: This method is followed on those cases where products are homogenous. In case the formula for calculating Sales Mix, Variance is

on the same pattern as is used in the case of Material Mix Variance.

$$\text{Sales Mix Variance} = \text{Standard Price} \times (\text{Revised Standard Quantity} - \text{Actual Quantity})$$

or

$$\text{Sales Mix Variance} = \text{Revised Standard Sales} - \text{Standard Sales}$$

If actual quantity is more than the revised standard quantity, it will result in favourable variance or vice versa.

$$\text{Revised Standard Quantity} =$$

$$(\text{Total Quantity of Actual Mix} / \text{Total Quantity of Standard Mix}) \times \text{Standard Quantity}$$

2. Based on Value: This method is followed in cases where products are not homogeneous. In such a case, the actual sales at standard prices, i.e., standard sales are to be expressed in budgeted ratios so as to calculate 'revised standard sales' and then is compared with the actual sales at standard prices.

The formula is:

$$\text{Mix Variance} = \text{Revised Standard Sales} - \text{Standard Sales}$$

$$\text{Revised Standard Sales} = \text{Budgeted Ratio of Sales} \times \text{Standard Sales}$$

$$\text{Budgeted Ratio of Sales} = (\text{Budgeted Sales of a Product} / \text{Total Budgeted Sales})$$

- b) Sales Quantity Variance: It is the difference between budgeted sales and the revised standard sales. The formula is:

$$\text{Sales Quantity variance} = \text{Budgeted Sales} - \text{Revised Standard Sales}$$

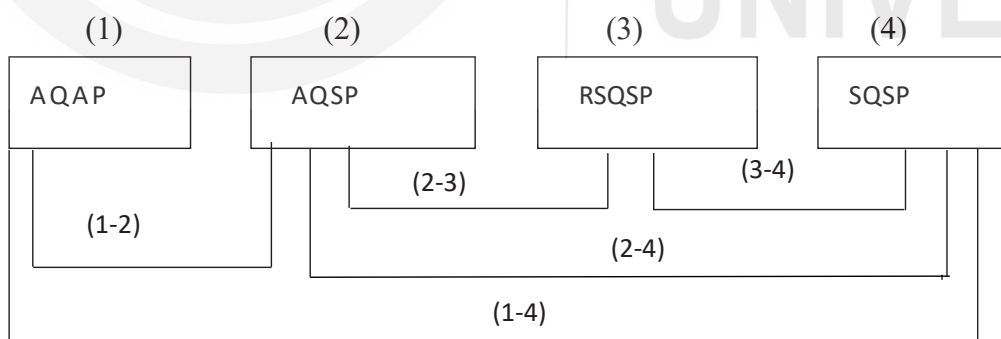


Fig. 10.2: Sales (or) Revenue Variances

Where,

AQ = Actual Quantity Sold

AP = Actual Selling Price

SP (or) BP = Standard Selling Price (or) Budgeted Price

RSQ = Revised Standard Quantity

Agri Value Variance Management

SQ (or) BQ = Standard (or) Budgeted Quantity

1. AQAP = Actual Sales
2. AQSP = Actual Quantity of Sales at Standard Selling Prices.
3. RSQSP = Revised Standard or Budgeted Sales.
4. SQSP = Standard (or) Budgeted Sales.
 - a. Sales Sub-Volume (or) Quantity Variance = 3-4
 - b. Sales Mix Variance = 2-3
 - c. Sales Volume Variance = 2-4
 - d. Sales Price Variance = 1-2
 - e. Total Sales Value Variance = 1-4

Check,

Sales Value Variance = Price Variance + Volume Variance

Sales Volume Variance = Sales Mix Variance + Sales Quantity Variance

10.6 SALES MARGIN (OR) PROFIT VARIANCE IN AGRIBUSINESS

These can also be called profit variances, as the sales margin is nothing but profit. Now, this variance is very essential as management takes key decisions based on profitability. Individually the cost variances or revenue variances (sales variances as based on turnover) cannot convey any clear meaning. But profit variances do so.

a) Sales Margin Variance

This can also be called as ‘Overall profit variance’.

This represents the difference between budgeted profit and actual profit. The formula is: Profit Variance = Budgeted Profit – Actual Profit

Sales Margin Variance can be sub-divided into:

- 1) Sales Price Variance and
 - 2) Sales Volume Variance
- (1) Sales Price Variance:** It shall be equal to the price variance calculated with reference to turnover. It represents the difference between standard and actual profit on the actual volume of sales. The formula is:

Price Variance = Standard Profit – Actual Profit

Or

= Actual Quantity Sold × (Standard Profit per Unit - Actual Profit per Unit)

If the actual profit is greater than the standard profit, the variance is favourable and vice versa.

This variance can arise due to the following reasons:

- i. Rise in price levels not anticipated earlier
- ii. Fall in price due to availing discounts and bulk buying
- iii. Intense competition not foreseen earlier.

(2) Sales Volume Variance: The profit at the standard rate on the difference between the standard and the actual volume of sales would be the amount of volume variance.

This variance arises due to the quantity of goods being sold differing from the quantity of goods budgeted to be sold. Now this can arise due to - Intense competition unforeseen earlier or inefficiency of sales personnel.

The formula is:

Volume Variance = Budgeted Profit – Standard profit

Or

Sales Volume Variance = Sales Mix Variance + Sales Quantity Variance

Or

Sales Volume Variance = Standard Rate of Profit × (Budgeted Quantity - Actual Quantity)

The Volume Variance can be divided into:

- a) Sales Mix Variance
- b) Sales Quantity Variance

a) Sales Mix Variance: When more than one product is manufactured and sold, the difference in profit can result because of the variation of the actual mix and budgeted mix of sales. The difference between the revised standard profit and the standard profit, therefore is the mix variance. This arises due to the proportion of these items' constitution the standard mix different from the actual proportion.

The formula is:

Sales Mix Variance = Revised Standard Profit – Standard Profit

Or

Sales Mix Variance = Standard Profit per unit X (Revised Standard quantity or Mix – Actual quantity or Mix)

If the actual quantity is more than RSQ, the variance is favourable and vice versa.

b) Sales Quantity Variance: This results from the variation in profit because of the difference in actual quantities sold and the budgeted

quantities both taken in the same ratio. The actual quantities are to be revised in the ratio of the standard mixture. The formula is:

$$\text{Sales Quantity Variance} = \text{Budgeted Profit} - \text{Revised Standard Profit}$$

Or

$$\text{Sales Quantity Variance} = \text{Standard profit per unit} \times (\text{Standard quantity} - \text{Revised Standard Quantity})$$

Where,

$$\text{RSQ} = \text{Total AQ} \times \text{Standard ratio}$$

If RSQ is greater than SQ, the variance is favourable and vice versa.

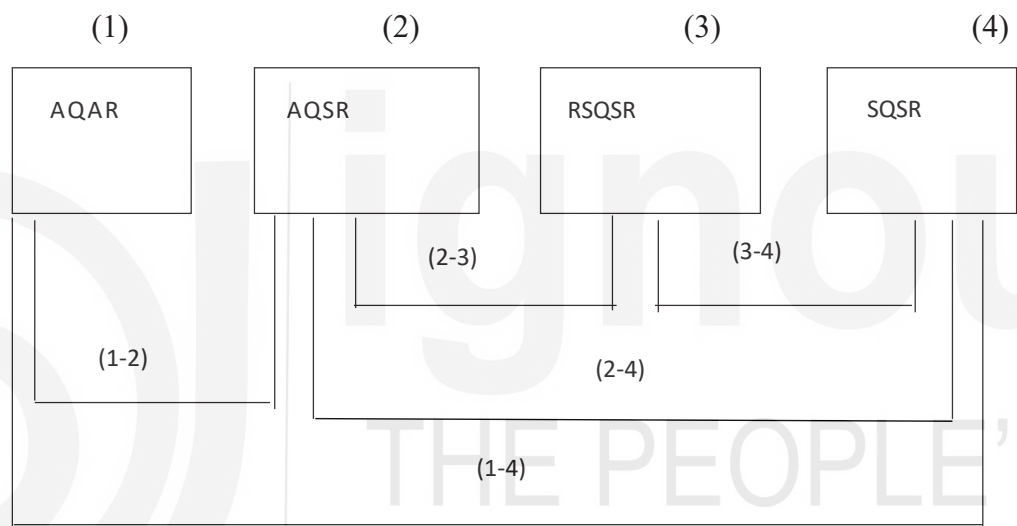


Figure 10.3: Profit (or) Sales Margin Variances

Where,

AQ = Actual Quantity Sold

AR = Actual Rate of Profit

SR (or) BR = Standard (or) Budgeted Rate of Profit

RSQ = Revised Standard Quantity

SQ (or) BQ = Standard (or) Budgeted Quantity

1. AQAR = Actual Profit
2. AQSR = Actual Quantity of Sales at Standard Rate of Profit
3. RSQSR = Revised Standard (or) Budgeted Profit
4. SQSR = Standard (or) Budgeted Profit

a. Profit Sub-Volume or Quantity Variance	=	3-4	Variance Analysis of Agri Revenue
b. Profit Variance due to Sales Mix	=	2-3	
c. Profit Variance due to Sales Volume	=	2-4	
d. Profit Variance due to Selling Price	=	1-2	
e. Total Profit Variance	=	1-4	

10.7 ILLUSTRATIONS ON REVENUE VARIANCE

Illustration 1: From the following information about the sales value of an agribusiness, calculate the Total Sales Variance. The actual Value of Sales is Rs. 93,000; the Standard Value of Sales is Rs.70,000.

Solution:

Total Sales Variance = Actual Value of Sales – Standard Value of Sales
 = Rs. 93,000 – Rs. 70,000 = Rs. 23,000 Favourable (F)

Illustration 2: Mr. Mathur, manager of an agricultural firm found that its Sales Price Variance is Rs. 15000 (Favourable); Sales Volume Variance is Rs. 10000 (Adverse). Now you are required to calculate the Total Sales Variance.

Solution:

Sales Price Variance = Rs. 15000 (Favourable) (given)

Sales Volume Variance = Rs. 10000 (Adverse) (given)

Total Sales Variance = Sales Price Variance + Sales Volume Variance
 = Rs. 15000 (Favourable) + Rs. 10000 (Adverse)
 = Rs. 5000 (Favourable)

Illustration 3: The manager of an agricultural firm found that its Sales Mix Variance is Rs.30000 (Favourable); Sales Quantity Variance is Rs. 20000 (Adverse). Now you are required to calculate the Sales Volume Variance.

Solution:

Sales Mix Variance (given) = Rs. 30000 (Favourable)

Sales Quantity Variance (given) = Rs. 20000 (Adverse)

Sales Volume Variance = Sales Mix Variance + Sales Quantity Variance
 = Rs. 30000 (Favourable) + Rs. 20000 (Adverse)
 = Rs. 10000 (Favourable)

Illustration 4: Mahanada Farm uses budgetary control and a standard costing system. The following data are available:

Product	Budgeted	Actual		
	Quantity (units)	Sales Value (Rs.)	Quantity (units)	Sales Value (Rs.)
A	100	1200	100	1100
B	50	600	50	600
C	100	900	200	1700
D	75	450	50	300
	325	3150	400	3700

Calculate:

- (i) Sales Volume Variance
- (ii) Sales Price Variance
- (iii) Sales Variance

Solution:

SV1 – Actual Sales realisation given = Rs. 3,700

SV2 – Actual Sales at Standard Price =

Product	Quantity (units) – sold	Standard price (Rs.)	Amount (Rs.)
A	100	12	1200
B	50	12	600
C	200	09	1800
D	50	06	300
	400		3900

SV4 – Budgeted Sales = Rs. 3,150.

(i) Sales Price Variance =

$$SV1 - SV2 = \text{Rs. } 3,700 - \text{Rs. } 3,900 \text{ or Rs. } 200(A)$$

(ii) Sales Volume Variance =

$$SV2 - SV4 = \text{Rs. } 3,900 - \text{Rs. } 3,150 \text{ or Rs. } 750(F)$$

(iii) Sales Value Variance = SV1 – SV4

$$= \text{Rs. } 3,700 - \text{Rs. } 3,150 \text{ or Rs. } 550(F).$$

Check: Sales Value Variance = Sales Volume Variance + Sales Price Variance

$$\text{Rs. } 550 (F) = \text{Rs. } 750 (F) + \text{Rs. } 200 (A)$$

Illustration 5: A farm that sells potted plants online, expects to sell 100 pothos plants in decorative pots for Rs.30 each. After one month, the plants are selling

above projections due to a viral social media review, and the demand for the product is sky-high. To allow time for the production team to re-stock, the farm raises prices to Rs.35. During this sales period, the farm sells all 100 potted pothos plants for Rs.35. From the following information calculate the Sales Price Variance.

Solution:

Using the formula, we can calculate the sales variance for the potted pothos plants.

$$\text{Sales Price Variance} = (\text{AP} - \text{SP}) \times \text{Units Sold}$$

where:

AP=Actual selling price

SP=Standard price

$$= (\text{Rs. } 35 - \text{Rs. } 30) \times 100$$

$$= \text{Rs. } 500. \text{ (favourable)}$$

From this calculation, we can see that there is a favourable variance of Rs. 500 from the sale of the potted pothos plants. This means the farm brought in Rs. 500 more than anticipated from the sale of the plants.

Check Your Progress 10.1

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit

1. Define Sales Price Variance.

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2. Define Sales Volume Variance.

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3. Define Sales Margin Variance.

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4. Define Sales Quantity Variance.

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5. Define Sales Mix Variance.

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6. Mention four steps of variance analysis.

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7. Write down six importance of sales volume variance.

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Activity 10.1:

Visit an agri farm in your area and identify different sales variance components. Also, try to calculate the variance and indicate whether the variance is favourable or unfavourable:

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10.8 LET US SUM UP

In this unit, you have already learnt the following:

- Profitability of a business enterprise depends basically on two factors; costs and sales. The efforts of the management should be to minimise the cost without compromising on the quality and pushing up the sales of the products. This requires proper monitoring of both costs and sales performance. Targets have to be fixed and the actual results should be compared with the pre-determined targets and variances are found out.
- Variance refers to the difference between the standard (or budgeted performance) and actual performance.
- Variance analysis is mainly concerned with ascertaining the quantum of variances together with the analysis of the causes responsible for such variances.
- Sales are affected by two factors (i) the selling price and (ii) the quantum of sales.
- The variances so far concerned, we learnt that it is related to the cost of goods production like material, labour and indirect expenses. However, the variance for revenue or sales is equally important.
- The purpose of variance analysis is to supply information to the management. Agri sales variance is the difference between the budgeted sales and the actual sales.
- The difference between the agri farm's actual sales and its budgeted sales for a certain time period is known as the Agri Sales Variance.
- Agri sales variances analysis may be categorised into two:
 - Sales Value (or) Revenue variance.
 - Sales Margin (or) Profit variance.
- Agri farms or farmers can learn more about the performance of their farming operations, spot areas for development, take proactive action to deal with problems and take advantage of opportunities by doing sales variance analysis in agriculture.

10.9 KEYWORDS

- Adverse variance** : If actual profit decreases and if it is less than the pre-determined profit, then it is called unfavourable variance.
- Favourable variance** : Variances are determined based on the impact on actual profit, and if actual profit is greater than pre-determined profit then it is called favourable variance.

- Sales Margin Variance** : It is the difference between the budgeted profit and actual profit and this is also the sum total of all variances.
- Sales Price Variance** : It is the variance on account of the difference between the actual selling price and the standard selling price for the actual quantum of sales.
- Sales Value Variance** : It is the difference between the budgeted value of sales and the actual value of sales during a period.
- Sales Volume Variance** : It is the variance on account of the difference between the budgeted and actual quantity of goods sold at standard prices.
- Standard** : Standard means a pre-determined measurable quantity against which actual performance is compared to get an idea of favourable or unfavourable performances.
- Variance** : It is the difference between the standard/ budgeted performance and the actual performance.

10.10 SUGGESTED FURTHER READINGS/ REFERENCES

1. Bhatta Chary S.K., Dearden John 2002, Costing for Management, Vikas Publishing House, New Delhi
2. Bhattacharyya, Ashish K., Cost Accounting for Business Managers, Elsevier
3. Jawahar Lal & Seema Srivastava, Cost Accounting, TMH.
4. M.Y. Khan & P.K. Jain, Management Accounting, TMH.
5. Satish Inamdar, Cost & Management Accounting, Everest Publishing House.
6. Study Materials of ICMAI (CMA Intermediate, Paper 8) (Retrieved from: <https://icmai.in/upload/Students/Syllabus2016/Inter/Paper-8-January-2021.pdf>)

Web Links:

- <https://www.indeed.com/career-advice/career-development/sales-volume-variance>
- <https://www.investopedia.com>
- <https://egyankosh.ac.in/handle/123456789/16033>

10.11 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 10.1

1. This variance measures the impact of change in selling price on the turnover as a whole. This can be calculated just like Material Price Variance. It is an account of the difference in the actual selling price and the standard selling price for the actual quantity of sales. The formula for this is:

Sales Price variance = Actual Quantity Sold × (Standard Price – Actual Price)

Or

Sales Price variance = Standard Sales – Actual Sales

2. This variance measures the impact of changes in the quantum of products sold.

It can be computed as Material Usage Variance. Budgeted sales may be different from the standard sales. In other words, the budgeted quantity of sales at standard prices may vary from the actual quantity of sales at standard prices. Thus, the variance results from differences in budgeted and actual quantities of goods sold. The formula is:

Sales Volume Variance = Standard Price × (Budgeted Quantity – Actual Quantity)

Or

Sales Volume Variance = Budgeted Sales – Standard Sales

If the standard sales are more than the budgeted sales, it gives rise to favourable variance and vice versa.

3. This can also be called as ‘Overall profit variance’. This represents the difference between the Budgeted Sales margin or Budgeted Profit and Actual Sales Margin or Actual Profit. The formula is:

Sales Margin Variance = Budgeted Sales Margin – Actual Sales Margin

Sales Margin Variance can be subdivided into:

- i. Sales Price Variance and
 - ii. Sales Volume Variance
4. This is the difference between budgeted profit and revised standard profit.

Symbolically:

Sales Quantity Variance =

Standard profit per unit X (Standard quantity – Revised Standard Quantity)

RSQ = Total AQ X Standard ratio

If RSQ is greater than SQ, the variance is favourable and vice versa.

Agri Value Variance Management

5. This arises due to the proportion of these items' constitution the standard mix different from the actual proportion. There is a difference between the Revised Standard Profit and Standard Profit.

Symbolically;

Sales Mix Variance =

Standard Profit per unit X (Revised Standard quantity – Actual quantity)

If the actual quantity is more than RSQ, the variance is favourable and vice versa.

6. There are four steps involved in this process:
- i. Calculate the difference between what we spent and what we budgeted to spend.
 - ii. Investigate why there is a difference.
 - iii. Put the information together and talk to management.
 - iv. Put together a plan to get costs more in line with the budget.
7. Using sales volume variance an agribusiness will be able to:
- i. Identify areas for improvement
 - ii. Track product sales
 - iii. Optimize your budget strategies
 - iv. Develop more effective price points
 - v. Improve your marketing and distribution efforts
 - vi. Reduce overhead costs i.e., indirect expenses