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AN EVALUATION OF ASHLEY ALTEAMS INDIA LIMITED

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Abstract

*The company **"ASHLEY ALTEAMS"** comes under the manufacturing industry. Manufacturing is the production of goods for use or sale using labour and machines, tools, chemical and biological processing, or formulation. The term may refer to a range of human activity, from handicraft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale. Such finished goods may be used for manufacturing other, more complex products, such as aircraft, household appliances or automobiles, or sold to wholesalers, who in turn sell them to retailers, who then sell them to end users – the "consumers". Modern manufacturing includes all intermediate processes required for the production and integration of a product's components. Some industries, such as semiconductor and steel manufacturers use the term fabrication instead. The manufacturing sector is closely connected with engineering and industrial design. Ashley Alteams India Limited is a 50:50 Joint Venture between Ashok Leyland, India and Alteams, Finland.*

***Keywords**: Ashok Leyland, Alteams, household appliances, automobiles, consumers, aluminium*

1) Ashok Leyland Ltd (AL), Chennai:

- Established in 1948.
- Second Largest Commercial Vehicle Manufacturer in India.
- Financial Year 2011 Revenue USD 2.5 billon.
- 6 manufacturing cites in India.
- Full spectrum – Design, Engineering and Manufacturing Capability.
- Produced 95,337 Nos. Vehicle in the Year 2010-11.

2) Alteams Oy:

- Established in 1943.
- Alteams group's turnover FY 2010 110 M€, with a 1700 employees.
- Finland based Alteams group's core business is manufacturing of cast light metal components to communication Networks, Automotive and Electronics industries.
- Globally Alteams Group is the biggest supplier of cast light metal components to the telecommunication industry.
- Alteams group has production units and logistics centres in Finland, Sweden, China, Estonia and India (JV with Ashok Leyland) and sales office in Denmark.

They aim to be a world-class aluminium die-casting manufacturer and become 'partner of choice' to their customers by providing innovative product solutions.

Analytical Framework:

Material Variance Analysis by Using the Formulas Listed below

- MPV - (SP-AP)*AQ
- MVV - (SQ-AQ)*SP
- MMV - (RAQ-AQ)*SP
- MYV - (SQ-RAQ)*SP
- MCV - SQ*SP-AQ*AP
- MUV - SQ*SP-AQ*SP

Note:
- SP - Standard Price.
- SQ - Standard Quantity.
- AP - Actual Price.
- AQ - Actual Quantity.
- RAQ - Revised Actual Quantity.

Revised Actual Quantity is an actual quantity in proportion of standard mix.

$$RAQ = \times \text{Standard Quantity} \frac{\text{Total Actual Quantity}}{\text{Total Standard Quantity}}$$

The following table contains the secondary data which is the standard and actual consumption of raw materials to produce the various product listed. By using this data all the five components of material variances are computed.

Table 1

Standard and Actual usage and rate of Raw material data's(qty in kgs)

Product code	STD Qty	Actual Qty	STD Price	Actual Price	STD Value	Actual Value
AS01001	4.50	4.00	123.00	107.00	553.50	428.00
AS01002	3.50	3.25	145.00	152.00	507.50	494.00
AS01003	7.50	7.90	117.00	124.00	877.50	979.60
AS01004	8.00	7.80	130.00	128.00	1,040.00	998.40
AS01005	12.00	13.00	135.00	132.00	1,620.00	1,716.00
Total	**35.50**	**35.95**			**4,598.50**	**4,616.00**

MATERIAL PRICE VARIANCE (MPV):

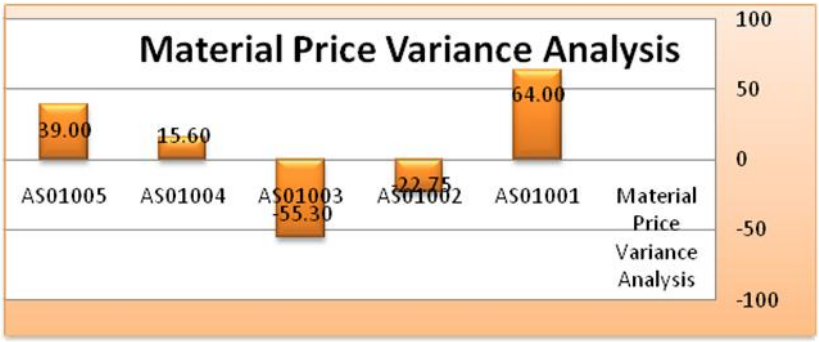
Material Price Variance is that portion of the Material Cost Variance which is due to the difference between the Standard Price specified and the Actual Price paid for purchase of materials. Material Price Variance may be calculated by Material Price Variance =Actual Quantityx {Standard Price – Actual price}

$$MPV = AQ \times (SP - AP)$$

Note: If actual cost of materials used is more than the standard cost the variance is adverse. it represents negative (-) symbol. And on the other hand if the variance is favourable it is to be represented by positive (+) symbol.

Table – 2
Material Price Variance Analysis

Material Price Variance Analysis	=	(SP-AP)*AQ			
AS01001	=	(123-107) * 4	=	64.00	Favourable
AS01002	=	(145-152)*3.25	=	-22.75	Unfavourable
AS01003	=	(117-124)*7.90	=	-55.30	Unfavourable
AS01004	=	(130-128)*7.80	=	15.60	Favourable
AS01005	=	(135-132)*13	=	39.00	Favourable
Net variance				**40.55**	**Favourable**



Inference:

From the above table we come to know that raw material AS01001 have a high positive variation which it healthy for an organization and raw material AS01003 is more negatively deviated.

MATERIAL MIX VARIANCE (MMV):

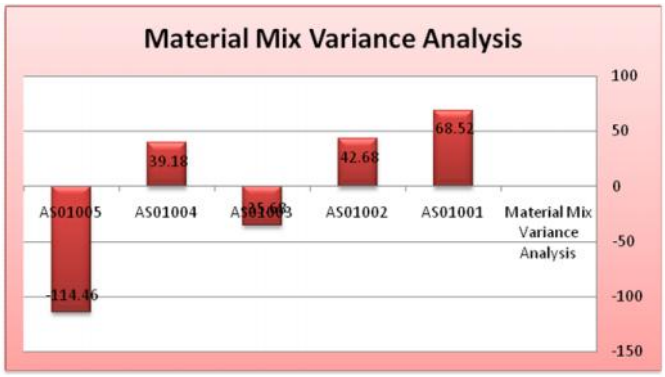
It is the portion of the material usage variance which is due to the difference between the Standard and the actual composition of mix. Material Mix Variance is calculated under two situations as follows:

a) When actual weight of mix is equal to standard weight to mix
b) When actual weight of mix is different from the standard mix.

Table – 3

Material Mix Variance Analysis			(RAQ-AQ)*SP			
	AS01001	=	(4.56-4)*123	=	68.52	Favourable
	AS01002	=	(3.54-3.25)*145	=	42.68	Favourable
	AS01003	=	(7.6-7.9)*117	=	-35.68	Unfavourable
	AS01004	=	(8.10-7.80)*130	=	39.18	Favourable
	AS01005	=	(12.15-13)*135	=	-114.46	Unfavourable
Net variance					**0.24**	**Favourable**

Chart – 2



Inference:

From the above chart and the table it is inferred that raw material AS01001 has highly positive variance and raw material AS01005 has highly negative variance and the over all variance is positive.

MAJOR REASONS FOR THE SALES VARIATIONS:

1. Sales Volume Variance:

- Cannibalization: The Company may have released another product that competes with the product in question. Thus, sales of one product cannibalize sales of the other product.
- Competition: Competitors may have released new products that are more attractive to customers.
- Price: The company may have altered the product price, which in turn drives a change in unit sales volume.
- Trade restrictions: A foreign country may have altered its barriers to competition.

2. Sales Price Variance:

Changing in the Market trend:

Main reason of sales price variance is to change the market conditions or trend. Suppose, the planned price of product is decreased when compared to the actual price due to recession in the market and it leads to reduction in revenue. Due to this, our unfavourable variance reached.

Mistake in estimation of prices:

To estimation of price is not very easy. When prices goes up and down, at that time, we can do mistake for calculation of correct future price. Except of this, we have to estimate our different costs, if any cost is not estimated correctly, our price may be estimated wrongly.

Bargaining in the Market:

When salesman goes to the market, it has to face bargaining problem, salesman has to sell his product. So, due to bargaining, it is not possible to calculate the correct price which will be in the future.

3. Sales Mix Variance:

Companies selling more than one type or style of product may experience sales variances stemming from an inaccurately projected product mix. Companies assemble budgets using different methods; if a revenue budget uses percentages to allocate budget expectations for revenue expected from various products, variances can occur if the business did not allocate the product mix effectively. Consumer trends or changing preferences are two external factors that may drive product sales variances against the company's budget. They are as follows:

(i) Marketing Programs:

When companies invest money and effort in marketing programs, they have no guarantee of increased sales. As consumer preferences change, a previous year's marketing campaign may not bring the same product sales results, causing variances from a budget based on historical results. Conversely, a new or especially effective marketing program may outperform budgeted expectations, causing a sales variance.

(ii) Market Share:

Firms have no control over the competition, and may experience an unplanned decline in sales market share if competitors introduce strong marketing campaigns or new products. New competitors may also reduce an existing company's market share more the company anticipates, reducing the firm's sales and causing a budget variance.

(iii) Economic Conditions:

Even when firms tailor budgets to account for changes in the economy, no business can accurately predict the effects of these changes all of the time. Economic unrest,

especially for companies selling products or services that consumers do not consider a basic need, can cause volatile sales and larger-than-expected changes in sales performance. This may lead to sales variances against the company's budget.

Conclusion:

The crux of standard costing lies in variance analysis. Standard costing is a technique whereby standard costs are predetermined and subsequently compared with the recorded actual costs. It is a technique of cost ascertainment and cost control. It establishes predetermined estimates of the cost of products and services based on the management standards of efficient operation. It thus lays emphasis on "what the cost should be". These should be the costs are when compared with the actual costs. The difference between the standard cost and the actual cost of output is defined as the difference. The variance in other words is the difference between the standard performance and the actual performance. The calculations of the variances are simple. A variance may be favourable or adverse. If the actual cost is less than the standard cost then it is favourable but if the actual cost is more than the standard cost, then the variance will be unfavourable or adverse variance. They are easily expressible and do not provide detailed analysis to enable management of exercise control over them. It is not enough to know the figures of these variances from month to month. We infact are required to trace their origin and causes of occurrence for taking necessary remedial steps to reduce/eliminate them.

A detailed probe into the variance particularly the controllable variances helps the management to ascertain:

i. The amount of variances.
ii. The factors or causes of occurrence.
iii. The responsibility to be laid on executives and departments and
iv. Corrective actions which should be taken to obviate or reduce the variance.

Mere calculation and analysis of variance is of no use. The success of variance analysis depends upon how quickly and effectively the corrective actions can be taken on the analysed variances. In fact variance gives information. The manager needs to act on the information provided for taking corrective action. Information is the means and actions taken on it is the end.

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