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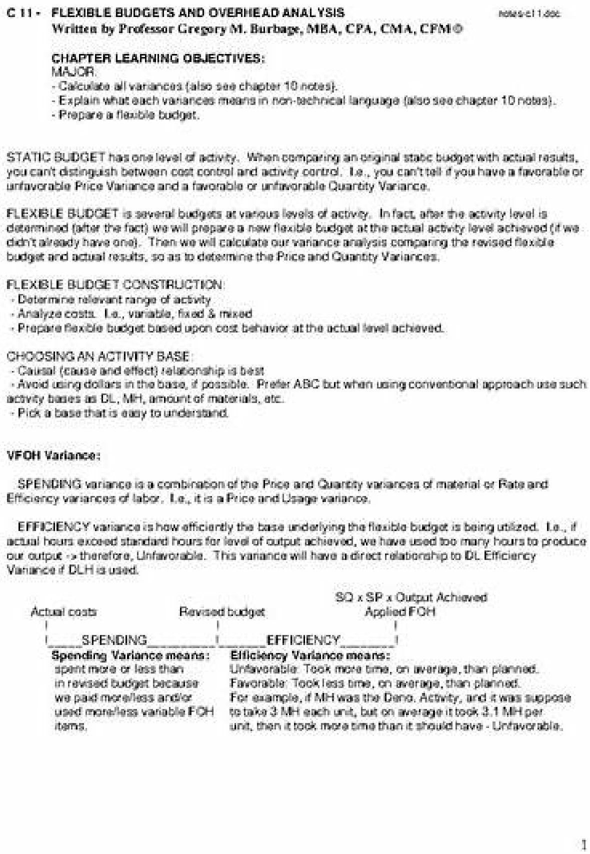

C 11 - FLEXIBLE BUDGETS AND OVERHEAD ANALYSIS notes-c11.doc

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CHAPTER LEARNING OBJECTIVES:

MAJOR:

- Calculate all variances (also see chapter 10 notes).
- Explain what each variances means in non-technical language (also see chapter 10 notes).
- Prepare a flexible budget.

STATIC BUDGET has one level of activity. When comparing an original static budget with actual results, you can't distinguish between cost control and activity control. I.e., you can't tell if you have a favorable or unfavorable Price Variance and a favorable or unfavorable Quantity Variance.

FLEXIBLE BUDGET is several budgets at various levels of activity. In fact, after the activity level is determined (after the fact) we will prepare a new flexible budget at the actual activity level achieved (if we didn't already have one). Then we will calculate our variance analysis comparing the revised flexible budget and actual results, so as to determine the Price and Quantity Variances.

FLEXIBLE BUDGET CONSTRUCTION:

- Determine relevant range of activity
- Analyze costs. I.e., variable, fixed & mixed
- Prepare flexible budget based upon cost behavior at the actual level achieved.

CHOOSING AN ACTIVITY BASE:

- Causal (cause and effect) relationship is best
- Avoid using dollars in the base, if possible. Prefer ABC but when using conventional approach use such activity bases as DL, MH, amount of materials, etc.
- Pick a base that is easy to understand.

VFOH Variance:

SPENDING variance is a combination of the Price and Quantity variances of material or Rate and Efficiency variances of labor. I.e., it is a Price and Usage variance.

EFFICIENCY variance is how efficiently the base underlying the flexible budget is being utilized. I.e., if actual hours exceed standard hours for level of output achieved, we have used too many hours to produce our output -> therefore, Unfavorable. This variance will have a direct relationship to DL Efficiency Variance if DLH is used.

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                                                    SQ x SP x Output Achieved
  Actual costs             Revised budget                 Applied FOH
     |                           |                             |
     |_____SPENDING__________|_______EFFICIENCY________|
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Spending Variance means:	Efficiency Variance means:
spent more or less than in revised budget because we paid more/less and/or used more/less variable FOH items.	Unfavorable: Took more time, on average, than planned. Favorable: Took less time, on average, than planned. For example, if MH was the Deno. Activity, and it was suppose to take 3 MH each unit, but on average it took 3.1 MH per unit, then it took more time than it should have - Unfavorable.

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IIC Principles and Practice of Insurance Sample Questions (Q93-Q98):

NEW QUESTION # 93
Which legal term describes the time in which a claim may be brought by the policyholder?

- A. Prescription
- B. Waiver
- C. Release
- D. Non-waiver

Answer: A

Explanation:
Prescription refers to the legally defined period during which an insured is permitted to initiate legal action to enforce a claim under the insurance contract. Once the prescriptive period expires, the insured loses the legal right to pursue the claim, even if the claim itself is otherwise valid. This protects insurers from indefinite liability and encourages timely reporting and settlement of claims.
A waiver is the voluntary relinquishment of a known right. A release is a document signed by the insured surrendering further claims, usually after settlement. A non-waiver agreement preserves the insurer's right to investigate a claim without admitting liability. None of these terms relate to the legal time limit for bringing an action. Therefore, the correct term describing the time frame for commencing legal proceedings is prescription.

NEW QUESTION # 94
Usually, what must an insurance intermediary do before using the personal information of a client for a purpose other than that for which the information was originally collected?

- A. Obtain permission from the client to do so
- B. Advise the insurer's ombudsperson of the intended usage
- C. Write to the client advising of the alternate usage
- D. Obtain permission from the federal privacy officer to continue

Answer: A

Explanation:
Under Canadian privacy legislation (such as PIPEDA), personal information may only be used for the specific purpose for which it was originally collected unless the client provides informed consent for additional use.
Insurance intermediaries must therefore obtain explicit permission from the client before using or disclosing their information for any new purpose, such as marketing, cross-selling, or sharing data with third-party providers.
Option B-simply notifying the client-is insufficient without consent. Option C is incorrect, as the ombudsperson deals with complaints, not privacy approvals. Option D is incorrect because privacy officers do not grant permissions; the law requires consent from the individual, not from government officials.
Since consent is central to privacy compliance in insurance operations, the intermediary must obtain permission from the client, making A the correct answer.

NEW QUESTION # 95
Who has authority from a company to manage that company's business within their territory, to appoint other agents, and to settle claims?

- A. Operating agent
- B. Wholesaler
- C. Analyst
- D. General agent

Answer: D

Explanation:
A general agent is an individual or business entity that receives broad authority from an insurer to operate on its behalf within a designated geographic territory. This authority typically includes the power to manage the insurer's business, appoint sub-agents, oversee production, and settle certain types of claims within their delegated limits. In the traditional agency system in Canada, general agents act as intermediaries between the insurer and local agents, ensuring proper distribution of policies and adherence to underwriting rules.
This role is distinct from analysts, who do not hold managerial or appointment authority, and from wholesalers, whose function is

typically limited to distributing insurance products to brokers rather than supervising an insurer's operations. Operating agents may have administrative duties but do not hold the broad binding and claim-settlement authority that defines a general agent. Thus, the only option that correctly matches the described authority structure is General agent.

NEW QUESTION # 96
How would a moving and storage company benefit from purchasing insurance to cover customers' goods while in transit?

- A. Greater acquisition potential
- B. Opportunity for more subscription policies
- C. Provides a feeling of security
- D. More capital for business ventures

Answer: A

Explanation:
Purchasing insurance that covers customers' goods in transit enhances the company's ability toattract more clients, which is referred to asgreater acquisition potential. Clients feel more confident choosing a mover that offers protection for their belongings, especially when transporting high-value items. This competitive advantage increases business opportunities and strengthens the company's reputation.
Option B-"feeling of security"-is a benefit but applies to theinsured party, not the business's competitive positioning. Option C is incorrect because purchasing insurance does not provide additional capital; it is a business cost. Option D (subscription policies) has no connection to transit insurance.
Therefore, the most direct business benefit for the moving company isA: Greater acquisition potential.

NEW QUESTION # 97
The risk manager of an oil refinery is seeking ways to transfer the pollution risk of a new drilling method.
What is the best option?

- A. Use a non-insurance loss-financing transfer agreement to insure the risk
- B. Transfer the risk using a surety bond
- C. Add the risk to the company's standard commercial property and liability policies
- D. Retain the risk

Answer: A

Explanation:
Pollution exposures-especially from oil refinery operations-arehigh-severity, high-complexity risks.
Standard property and liability policiestypically exclude pollution, except for sudden and accidental events.
Pollution arising from new drilling methods is considered aspecialized environmental liabilityand often requirescustomized financial transfer mechanisms.
Anon-insurance loss-financing transfer agreement(also called a contractual risk transfer or financial risk transfer mechanism) allows the company to shift the financial consequences of pollution losses to another entity or through non-traditional insurance structures (e.g., environmental impairment liability contracts, captive agreements, or specialized financial instruments). This is the most appropriate and realistic way to transfer complex pollution exposures.
Option A (retain the risk) is unsafe due to catastrophic loss potential.
Option B (surety bond) guarantees performance, not pollution losses.
Option D is incorrect because standard policiesdo not coverthis exposure.
Thus the best option isC.

NEW QUESTION # 98
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