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Purchase Price Variance (PPV)

Understanding Purchase Price Variance

Purchase Price Variance entails comparing actual costs to standard costs, specifically calculating the difference between the actual price paid for an item and its standard price, multiplied by the actual number of units purchased. The formula is as follows:

(Actual price - Standard price) x Actual quantity = Purchase price variance

An organization encounters a favorable price variance when the actual cost is lower than the standard cost, and an unfavorable variance when the actual cost exceeds the standard cost. Various business conditions can trigger changes in costs and quantities purchased, such as volume discounts resulting in a favorable outcome or supply chain shortages leading to an unfavorable outcome with increased material costs.

Leveraging TLC's PPV Model in OneStream Software

Organizations should capitalize on the power of TLC's PPV model, built using OneStream Software, to effectively manage and track PPV. The model takes into account multiple cost lines, supplier options, volume discounts, inventory carrying costs, and changing economic conditions, all of which impact material costs. With OneStream's analytical prowess and TLC's PPV model, organizations can handle large volumes of data with dynamic inputs and adapt to ever-changing economic conditions efficiently. This facilitates managing and reporting, resulting in a valuable and efficient PPV model.

The Significance of an Efficient PPV Model

The challenge with PPV lies in its reliance on standard costs, which are essentially subjective opinions within the organization. Unrealistically set standard costs can lead to misleading price variances. Additionally, the focus on improving variance may push purchasing managers to buy in bulk, leading to excessive inventory investments. However, with the TLC PPV model in OneStream, these issues can be proactively managed, enhancing inventory management while efficiently optimizing and controlling costs.

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Other Applications

The concept of price variance can be extended to other cost types, such as labor rate variance, variable overhead spending variance, and fixed overhead spending variance, tailored to specific business needs.

If you would like to find out more, please contact Robert Fitzgerald, a partner with TLC Technologies, at rfitzgerald@tlctechnologies.com.