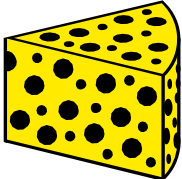




Flexible Budgets

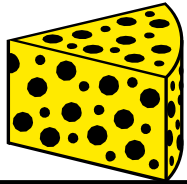
Static Budgets and Performance Reports



CheeseCo

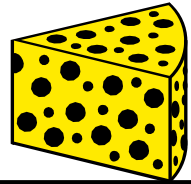
	 Static Budget	 Actual Results	Variances
Machine hours	<u>10,000</u>	<u>8,000</u>	<u>2,000 U</u>
Variable costs			
Indirect labor	\$ 40,000	\$ 34,000	\$6,000 F
Indirect materials	30,000	25,500	4,500 F
Power	5,000	3,800	1,200 F
Fixed costs			
Depreciation	12,000	12,000	0
Insurance	<u>2,000</u>	<u>2,050</u>	<u>50 U</u>
Total overhead costs	<u><u>\$ 89,000</u></u>	<u><u>\$ 77,350</u></u>	<u><u>\$11,650 F</u></u>

Preparing a Flexible Budget





	Cost Formula per Hour	Total Fixed Cost	Flexible Budgets		
			8,000 Hours	10,000 Hours	12,000 Hours
Machine hours			8,000	10,000	12,000
Variable costs					
Indirect labor	\$ 4.00		\$ 32,000	\$ 40,000	\$ 48,000
Indirect material	3.00		24,000	30,000	36,000
Power	0.50		4,000	5,000	6,000
Total variable cost	<u>\$ 7.50</u>		<u>\$ 60,000</u>	<u>\$ 75,000</u>	<u>\$ 90,000</u>
Fixed costs					
Depreciation		\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000
Insurance		2,000	2,000	2,000	2,000
Total fixed cost			<u>\$ 14,000</u>	<u>\$ 14,000</u>	<u>\$ 14,000</u>
Total overhead costs			<u>\$ 74,000</u>	<u>\$ 89,000</u>	<u>\$ 104,000</u>

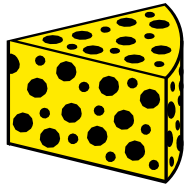
Flexible Budget Performance Report



CheeseCo

	Cost Formula per Hour	Total Fixed Cost	 Flexible Budget	 Actual Results	Variances
Machine hours			8,000	8,000	0
Variable costs					
Indirect labor	\$ 4.00		\$ 32,000	\$ 34,000	\$ 2,000 U
Indirect material	3.00		24,000	25,500	1,500 U
Power	0.50		4,000	3,800	200 F
Total variable cost	<u>\$ 7.50</u>		<u>\$ 60,000</u>	<u>\$ 63,300</u>	<u>\$ 3,300 U</u>
Fixed costs					
Depreciation		\$ 12,000	\$ 12,000	\$ 12,000	\$ 0
Insurance		2,000	2,000	2,050	50 U
Total fixed cost			<u>\$ 14,000</u>	<u>\$ 14,050</u>	<u>50 U</u>
Total overhead costs			<u>\$ 74,000</u>	<u>\$ 77,350</u>	<u>\$ 3,350 U</u>

Static Budgets and Performance



**Static
Budget**



**Actual
Results**

Variances

Machine hours

10,000

8,000

2,000 U

Variable costs

Indirect labor

\$ 40,000

\$ 34,000

\$6,000 F

Indirect materials

30,000

25,500

4,500 F

Power

5,000

3,800

1,200 F

Fixed costs

Depreciation

12,000

12,000

0

Insurance

2,000

2,050

50 U

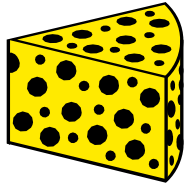
Total overhead costs

\$ 89,000




\$ 77,350

\$11,650 F

Flexible Budget Performance Report



Overhead Variance Analysis

 Static Overhead Budget at 10,000 Hours	 Flexible Overhead Budget at 8,000 Hours	 Actual Overhead at 8,000 Hours
\$ 89,000	\$ 74,000	\$ 77,350

Activity

Cost control

This \$15,000F variance is due to lower activity.

This \$3,350U variance is due to poor cost control.