



Flexible Budgets

Static Budgets and Performance Reports



CheeseCo

| |  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 |

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 | \$ 7.50 | | \$ 60,000 | \$ 75,000 | \$ 90,000 |
| Fixed costs | | | | | |
| Depreciation | | \$ 12,000 | \$ 12,000 | \$ 12,000 | \$ 12,000 |
| Insurance | | 2,000 | 2,000 | 2,000 | 2,000 |
| Total fixed cost | | | \$ 14,000 | \$ 14,000 | \$ 14,000 |
| Total overhead costs | | | \$ 74,000 | \$ 89,000 | \$ 104,000 |

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 | \$ 7.50 | | \$ 60,000 | \$ 63,300 | \$ 3,300 U |
| Fixed costs | | | | | |
| Depreciation | | \$ 12,000 | \$ 12,000 | \$ 12,000 | \$ 0 |
| Insurance | | 2,000 | 2,000 | 2,050 | 50 U |
| Total fixed cost | | | \$ 14,000 | \$ 14,050 | 50 U |
| Total overhead costs | | | \$ 74,000 | \$ 77,350 | \$ 3,350 U |

Static Budgets and Performance



| |  Static Budget |  Actual Results | Variations |
|-----------------------------|---|--|-------------------|
| 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 | <u>\$ 89,000</u> | <u>\$ 77,350</u> | <u>\$11,650 F</u> |

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.