You would expect total **variable** costs to be higher in the flexible budget if the activity level for a period is higher than expected.

How does the level of activity affect costs in a flexible budget?

>>**Lower levels of activity reduce some costs.**

>>**Higher levels of activity increase some costs.**

A(n) **flexible** budget compares actual costs to what the costs should have been for the actual level of activity.

Match the following terms with the description:

**Static planning budget:** Only considers the planned level of activity.

**Flexible budget:** Takes into account changes in level of activity.

When actual revenue **exceeds** what the revenue should have been, the variance is labeled favorable.

The planning budget calls for total variable costs for supplies to be $6,250 based on 1,000 units with planned revenue at $24,000. A total of 1,200 units were actually produced and sold. What amounts should appear on the flexible budget?

>>$28,800 revenue

>>$7,500 for supplies

A flexible budget **variance** is the difference between the actual amount and the planned amount at the actual level of activity.

Match the comparisons made on the performance report.

**Activity variance:** Subtract planning budget from flexible budget.

**Revenue and spending variances:** Subtract flexible budget from actual results.

List the steps in order for a performance report to show the difference between the budgeted amount and the actual results.

**Determine the activity variance:** Planning budget – Flexible budget

**Determine the revenue or spending variance:** Flexible budget – Actual results

**Determine if the results dictate need for changes**

If the activity level for the month is 4,000 units, actual revenue is $6,000, actual variable costs are $0.20 unit, and actual fixed costs total $500, which of the following are true?

>>$1,300 in total costs

>>$4,700 net income

True or false: A spending variance is the difference between how much a cost should have been and the actual cost given the level of activity. **True**
**Variable** cost is the type of cost that will fluctuate depending on the level of activity for the budgeted period.

Commission expense is budgeted to be $16,000 at a planned sales level of 4,000 units. If only 2,900 units are sold, how much commission expense will appear on the flexible budget, and is the activity variance favorable or unfavorable? **$11,600 and favorable**

What items would be omitted on a cost center’s performance report?

>> Revenue

>> Net operating income

Match the following results with the discrepancies due to 4,000 units of actual activity versus the 2,500 planned units.

**Unfavorable wages**: Increase in employee hours to manufacture additional units.

**Favorable revenue**: More units were sold than expected.

**Unfavorable utilities**: Plant was in operation for an extra shift each week for increased production.

**No change**: Mortgage payment for plant.

Revenue on the planning budget is expected to be $380,000 for 1,900 client visits. The revenue on the flexible budget is $410,000, showing that there were actually **2,050** client visits.

Common errors in preparing performance reports include:

>> assuming all costs are fixed.

>> assuming all costs are variable.

An unchanged planning budget is known as a(n) **static** planning budget.

A(n) **revenue** variance is the difference between what the total sales should have been, given the actual level of activity for the period, and the actual total sales.

Unfavorable activity variances may not indicate bad performance because: **increased activity should result in higher variable costs.**

Not for profit organizations:

>> may have revenue sources that are fixed.

>> usually have significant funding sources other than sales.

Performance reports for cost centers: **do not include revenues or net income.**

When a static planning budget is compared to actual results at a different activity level:

>> changes in costs are expected due to changes in activity.

>> increases or decreases in net income are not adequately explained.
Given planning budget revenue of $284,000, actual revenue of $275,000, and flexible budget revenue of $290,000, there is a(n) **unfavorable revenue; favorable activity** variance.

Fancy Nails cost formula for electricity is $40 per operating day plus $0.15 per client served. Calculate Fancy Nails’ electricity budget in a month when the business is going to be open for 24 days and they expect to serve a total of 2,100 clients. **$1,275**

A(n) **activity** variance is the difference between a revenue or cost item in the static planning budget and the same item in the flexible budget at the actual level of activity.

Variances are more accurate when using: **multiple cost drivers.**