What is a Flexible Budget?

Worksheet

A flexible budget recalculates budgeted costs at actual output: Flexible Budget = (Budgeted Variable Cost per Unit × Actual Units) + Budgeted Fixed Costs, making variance analysis meaningful even when volume differs from the plan.

Variance = Actual - Flexible Budget

Variance = Difference (Currency)

Questions

1. A flexible budget adjusts for changes in...

A) Selling price only
B) Actual level of activity
C) Accounting method
D) Fixed costs only

2. Variable cost/unit = 10, fixed costs =5,000, actual units = 1,000. Flexible budget total?

A) $10,000
B) $15,000
C) $5,000
D) $20,000

3. Actual costs of 16,000 vs a flexible budget of15,000 is a...

A) $1,000 Favorable variance
B) $1,000 Unfavorable variance
C) Sales-volume variance
D) No variance

4. The difference between the static budget and the flexible budget is called the...

A) Spending variance
B) Price variance
C) Sales-volume variance
D) Efficiency variance

5. Budgeted variable cost is 12/unit and budgeted fixed costs are8,000. Actual production is 3,000 units. Find the flexible budget total cost.

6. The flexible budget for 3,000 units is 44,000, but actual costs were47,500. Find the flexible-budget (spending) variance.

7. The static budget assumed 2,500 units at 12 variable cost +8,000 fixed = $38,000. Actual output was 3,000 units. Find the sales-volume variance component of the flexible budget vs static budget.

8. Define: What is a flexible budget?

9. Define: How does a flexible budget differ from a static budget?

10. Define: What is a flexible-budget variance?

Answer Key

1. B) Actual level of activity — Flexible budgets recalculate variable costs and totals at the actual volume achieved.
2. B) $15,000 — (10×1,000)+5,000 = 15,000.
3. B) $1,000 Unfavorable variance — Actual exceeds the flexible budget, so it's unfavorable (higher cost than expected for that volume).
4. C) Sales-volume variance — It isolates the effect of volume differing from the original plan.
5. FB = (VC × Q) + FC FB = (12 × 3,000) + 8,000 FB = 36,000 + 8,000 = $44,000
6. Variance = Actual Cost − Flexible Budget Variance = 47,500 − 44,000 = $3,500 Unfavorable
7. Flexible Budget (3,000 units) = (12×3,000)+8,000 = 44,000 Static Budget (2,500 units) = (12×2,500)+8,000 = 38,000 Sales-Volume Variance = 44,000 − 38,000 = $6,000 Favorable (higher volume)
8. A budget recalculated at the actual level of activity, using budgeted per-unit variable costs and budgeted fixed costs.
9. A static budget stays fixed at the original planned volume; a flexible budget adjusts to actual volume.
10. The difference between actual results and the flexible budget for the same actual volume — isolates cost control performance.