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

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 of $15,000 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 are $8,000. 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 were $47,500. 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?

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Answer Key

1. B) Actual level of activity - Flexible budgets recalculate variable costs and totals at the actual volume achieved.

2. B) $15,000 - (101,000)+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) = (123,000)+8,000 = 44,000 Static Budget (2,500 units) = (122,500)+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.

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