**Chapter 9. Flexible Budgeting**

Adams Corporation has developed the following flexible-budget formulas for annual indirect-labor cost:

Total annual indirect labor cost = $58,800 + $0.50 per machine hour

Operating budgets for the current month are based upon 20,000 hours of planned machine time.

Indirect-labor costs included in this monthly planning budget are:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $14,800 | **b.** | $10,000 | **c.** | $14,400 | **d.** | $14,900 | **e.** | $15,800 |  |

Wadham Snow Removal's cost formula for its vehicle operating cost is $1,900 per month plus $430 per snow-day. For December, the company planned for activity of 16 snow-days, but the actual level of activity was 21 snow-days. The actual vehicle operating cost for the month was $11,470.

The vehicle operating cost in the planning budget for December would be closest to:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,930 | **b.** | $11,470 | **c.** | $8,739 | **d.** | $8,780 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Salyers Family Inn is a 100 year old mansion. | | | | | | | | |  | | |
| The Inn's overhead budget for the most recent month appears below | | | | | | | | | | | |
| **Activity Level** | | | | | 57 | | Guests | | | | |
| **Variable overhead costs** | | | | |  | |  | | | | |
| Supplies | | | | | $148.20 | |  | | | | |
| Laundry | | | | | $216.60 | |  | | | | |
| **Fixed Overhead Costs** | | | | |  | |  | | | | |
| Utilities | | | | | $170.00 | |  | | | | |
| Salaries and wages | | | | | $4,310.00 | |  | | | | |
| Depreciation | | | | | $2,340.00 | |  | | | | |
| **Total overhead cost** | | | | | $7,184.80 | |  | | | | |
| The Inn's variable overhead costs are driven by the number of guests.  What is the expected total cost for a month in which they have **50** guests? | | | | | | | | | | | |
| **a.** | $7,159.20 | **b.** | $6,680.60 | | **c.** | | $7,140.00 | | **d.** | $12,154.40 | | **e.** | Other |

In-Flight Meals prepares meals for a major airline. The selling price to the airline is $10 per meal. The variable costs per meal are: food ($3), wages ($2) and Other ($1). Rent and insurance expense are fixed.

The following schedule shows results for the current year.

|  |  |  |  |
| --- | --- | --- | --- |
| **In-Flight Meals** |  | **Budget For Year** | **Actual For Year** |
| **Meals - Actual** |  | **10,000** | **8,000** |
| Revenue | $10 | $100,000 | $90,000 |
| Expenses: |  |  |  |
| Food | $3 | $30,000 | $26,000 |
| Wages | $2 | 20,000 | 17,000 |
| Other Variable Expense | $1 | 10,000 | 9,000 |
| Rent Expense | Fixed | 4,000 | 4,000 |
| Insurance Expense | Fixed | 1,000 | 1,000 |
| Total expense |  | $65,000 | $57,000 |
| Net income |  | $35,000 | $23,000 |

What food cost would be shown on a flexible budget for the company for actual sales of 8,000 meals?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $24,000 | **b.** | $38,000 | **c.** | $36,000 | **d.** | $30,000 | **e.** | Other |

**Continue preceding question.** What net income would be shown on a flexible budget for the company for actual sales of 8,000 meals?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $27,000 | **b.** | $22,000 | **c.** | $19,100 | **d.** | $19,000 | **e.** | Other |

Ann Framing's cost formula for its supplies cost is $1,350 per month plus $16 per frame. For the month of June, the company planned for activity of 816 frames, but the actual level of activity was 812 frames. The actual supplies cost for the month was $14,680. The activity variance for supplies cost in June would be closest to:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $64 U | **b.** | $274 U | **c.** | $64 F | **d.** | $274 F | **e.** | $100F |  |