

**Exercise 9-15** (45 minutes)

1. The variance report should *not* be used to evaluate how well costs were controlled. In August, the planning budget was based on 200 lessons, but the actual results are for 210 jobs—an increase of 5% over budget. Consequently, the actual revenues and many of the actual costs *should* have been different from what was budgeted at the beginning of the period. For example, instructor wages, a variable cost, should have increased by 5% because of the increase in activity, but the variance report assumes that they should not have increased at all. This results in a spurious unfavorable variance for instructor wages. Direct comparisons of budgeted to actual costs are valid only if the costs are fixed.
2. See the following page.
3. The overall activity variance for net operating income was \$670 F (favorable). That means that as a consequence of the increase in activity from 200 lessons to 210 lessons, the net operating income should have been up \$670 over budget. However, it wasn't. The budgeted net operating income was \$6,880 and the actual net operating income was \$7,110, so the profit was up by only \$230—not \$670 as it should have been. There are many reasons for this—as shown in the revenue and spending variances. Perhaps most importantly, fuel costs were much higher than expected. The spending variance for fuel was \$740 U (unfavorable) and may have been due to an increase in the price of fuel that is beyond the owner/manager's control. Most of the other revenue spending variances were favorable or small, so with the exception of this item, costs seem to have been adequately controlled.

**Problem 9-15 (continued)**

Wings Flight School  
Flexible Budget Performance Report  
For the Month Ended August 31

	<i>Planning Budget</i>	<i>Activity Variances</i>		<i>Flexible Budget</i>	<i>Revenue and Spending Variances</i>	<i>Actual Results</i>	
Lessons (q) .....	200			210		210	
Revenue (\$225q).....	<u>\$45,000</u>	<u>\$2,250</u>	F	<u>\$47,250</u>	<u>\$ 50</u>	F	<u>\$47,300</u>
Expenses:							
Instructor wages(\$62q) .....	12,400	620	U	13,020	110	F	12,910
Aircraft depreciation (\$57q) .....	11,400	570	U	11,970	0		11,970
Fuel (\$21q) .....	4,200	210	U	4,410	740	U	5,150
Maintenance (\$670 + \$13q) .....	3,270	130	U	3,400	70	U	3,470
Ground facility expenses (\$1,640 + \$4q) .....	2,440	40	U	2,480	130	F	2,350
Administration (\$4,210 + \$1q) .....	<u>4,410</u>	<u>10</u>	U	<u>4,420</u>	<u>80</u>	F	<u>4,340</u>
Total expense .....	<u>38,120</u>	<u>1,580</u>	U	<u>39,700</u>	<u>490</u>	U	<u>40,190</u>
Net operating income .....	<u>\$ 6,880</u>	<u>\$ 670</u>	F	<u>\$ 7,550</u>	<u>\$440</u>	U	<u>\$ 7,110</u>