

Exercise 9-1 (10 minutes)

Gator Divers
Flexible Budget
For the Month Ended March 31

Actual diving-hours.....	190
Revenue (\$380.00q)	\$72,200
Expenses:	
Wages and salaries (\$12,000 + \$130.00q) ...	36,700
Supplies (\$5.00q).....	950
Equipment rental (\$2,500 + \$26.00q).....	7,440
Insurance (\$4,200)	4,200
Miscellaneous (\$540 + \$1.50q)	<u>825</u>
Total expense	<u>50,115</u>
Net operating income	<u>\$22,085</u>

Exercise 9-2 (10 minutes)

1. The activity variances are shown below:

Air Meals Activity Variances For the Month Ended December 31				
	<i>Planning Budget</i>	<i>Flexible Budget</i>	<i>Activity Variances</i>	
Meals	20,000	21,000		
Revenue (\$3.80q)	<u>\$76,000</u>	<u>\$79,800</u>	<u>\$3,800</u>	F
Expenses:				
Raw materials (\$2.30q)	46,000	48,300	2,300	U
Wages and salaries (\$6,400 + \$0.25q)	11,400	11,650	250	U
Utilities (\$2,100 + \$0.05q)	3,100	3,150	50	U
Facility rent (\$3,800)	3,800	3,800	0	
Insurance (\$2,600)	2,600	2,600	0	
Miscellaneous (\$700 + \$0.10q) ..	<u>2,700</u>	<u>2,800</u>	<u>100</u>	U
Total expense	<u>69,600</u>	<u>72,300</u>	<u>2,700</u>	U
Net operating income	<u>\$ 6,400</u>	<u>\$ 7,500</u>	<u>\$1,100</u>	F

2. Management should note that the level of activity was above what had been planned for the month. This led to an expected increase in profits of \$1,100. However, the individual items on the report should not receive much management attention. The favorable variance for revenue and the unfavorable variances for expenses are entirely caused by the increase in activity.

Exercise 9-3 (15 minutes)

Olympia Bivalve
Revenue and Spending Variances
For the Month Ended July 31

	<i>Flexible Budget</i>	<i>Actual Results</i>	<i>Revenue and Spending Variances</i>	
Pounds.....	7,000	7,000		
Revenue (\$4.20q)	<u>\$29,400</u>	<u>\$28,600</u>	<u>\$ 800</u>	U
Expenses:				
Packing supplies (\$0.40q).....	2,800	2,970	170	U
Oyster bed maintenance (\$3,600).....	3,600	3,460	140	F
Wages and salaries (\$2,540 + \$0.50q)	6,040	6,450	410	U
Shipping (\$0.75q)	5,250	4,980	270	F
Utilities (\$1,260).....	1,260	1,070	190	F
Other (\$510 + \$0.05q).....	<u>860</u>	<u>1,480</u>	<u>620</u>	U
Total expense	<u>19,810</u>	<u>20,410</u>	<u>600</u>	U
Net operating income	<u>\$ 9,590</u>	<u>\$ 8,190</u>	<u>\$1,400</u>	U

Exercise 9-4 (20 minutes)

1.

Mt. Hood Air
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>
Flights (q).....	50		52		52
Revenue (\$360.00q).....	<u>\$18,000</u>	<u>\$720</u> F	<u>\$18,720</u>	<u>\$1,740</u> U	<u>\$16,980</u>
Expenses:					
Wages and salaries (\$3,800 + \$92.00q).....	8,400	184 U	8,584	44 F	8,540
Fuel (\$34.00q).....	1,700	68 U	1,768	162 U	1,930
Airport fees (\$870 + \$35.00q)	2,620	70 U	2,690	0	2,690
Aircraft depreciation (\$11.00q)	550	22 U	572	0	572
Office expenses (\$230 + \$1.00q) .	<u>280</u>	<u>2</u> U	<u>282</u>	<u>168</u> U	<u>450</u>
Total expense	<u>13,550</u>	<u>346</u> U	<u>13,896</u>	<u>286</u> U	<u>14,182</u>
Net operating income	<u>\$ 4,450</u>	<u>\$374</u> F	<u>\$ 4,824</u>	<u>\$2,026</u> U	<u>\$ 2,798</u>

2. The overall activity variance is \$374 favorable and is due to an increase in activity. The \$1,740 unfavorable revenue variance is very large relative to the company's net operating income and should be investigated. Was this due to discounts given or perhaps a lower average number of passengers per flight than usual? The other variances are relatively small, but are worth some management attention—particularly if they recur next month.

Exercise 9-5 (15 minutes)

Icicle Bay Tours
 Planning Budget
 For the Month Ended August 31

Budgeted cruises (q_1)	58
Budgeted passengers (q_2)	3,200
Revenue ($\$28.00q_2$)	<u>\$89,600</u>
Expenses:	
Vessel operating costs ($\$6,800 + \$475.00q_1 + \$3.50q_2$)	45,550
Advertising ($\$2,700$)	2,700
Administrative costs ($\$5,800 + \$36.00q_1 + \$1.80q_2$)	13,648
Insurance ($\$3,600$)	<u>3,600</u>
Total expense	<u>65,498</u>
Net operating income	<u>\$24,102</u>

Problem 9-20 (30 minutes)

1. The activity variances are shown below:

SecuriDoor Corporation
Activity Variances
For the Month Ended April 30

	<i>Planning Budget</i>	<i>Flexible Budget</i>	<i>Activity Variances</i>	
Machine-hours (q)	20,000	18,000		
Utilities (\$16,500 + \$0.15q)	\$ 19,500	\$ 19,200	\$ 300	F
Maintenance (\$38,600 + \$1.80q) ...	74,600	71,000	3,600	F
Supplies (\$0.50q)	10,000	9,000	1,000	F
Indirect labor (\$94,300 + \$1.20q) ..	118,300	115,900	2,400	F
Depreciation (\$68,000)	<u>68,000</u>	<u>68,000</u>	<u>0</u>	
Total	<u>\$290,400</u>	<u>\$283,100</u>	<u>\$7,300</u>	F

The activity variances are all favorable because the actual activity was less than the planned activity and therefore all of the variable costs should be lower than planned in the original budget.

Problem 9-20 (continued)

2. The spending variances are computed below:

SecuriDoor Corporation
Spending Variances
For the Month Ended April 30

	<i>Flexible Budget</i>	<i>Actual Results</i>	<i>Spending Variances</i>	
Machine-hours (q)	18,000	18,000		
Utilities (\$16,500 + \$0.15q)	\$ 19,200	\$ 21,300	\$2,100	U
Maintenance (\$38,600 + \$1.80q) ...	71,000	68,400	2,600	F
Supplies (\$0.50q)	9,000	9,800	800	U
Indirect labor (\$94,300 + \$1.20q) ..	115,900	119,200	3,300	U
Depreciation (\$68,000)	<u>68,000</u>	<u>69,700</u>	<u>1,700</u>	U
Total	<u>\$283,100</u>	<u>\$288,400</u>	<u>\$5,300</u>	U

An unfavorable spending variance means that the actual cost was greater than what the cost should have been for the actual level of activity. A favorable spending variance means that the actual cost was less than what the cost should have been for the actual level of activity. While this makes intuitive sense, sometimes a favorable variance may not be good. For example, the rather large favorable variance for maintenance might have resulted from skimping on maintenance. Since these variances are all fairly large, they should all probably be investigated.