Sales volume variance essay example

Business, Marketing

Budgeting is the process whereby a list of all the planned and feasible revenues and corresponding costs is written down for a specific period of time in the future. It is a plan according to ones expenditure needs whereby all the necessary expenses are noted and a spending trend is established. This plan that is developed help prior understands whether on will be able to meet the spending needs and whether there will be enough cash resources available to meet the needs. The working principal for the budgeting process is simple i. e. all the expenses to be incurred are weighed and balanced against the income. If the expenses exceed the spending limit according to the available income, the expenses need to be reviewed accordingly. Without the budgeting process, the planning would make no sense and would just be meaningless. This helps one to prioritize the spending according the level of importance that the expenses denote respectively and then plan the expenditure accordingly. Through this planning, it is ensured that a person or a business has enough income or money to meet the forthcoming expenditures requirements and it won’t fall short of the limit. This avoids any limiting and unfavorable circumstances that may arise in the future and ensures smooth operations. The purpose of this financial plan is to provide a feasibility forecast to the management regarding the operating results for a period of time in the coming future that enables the planning and control process, after incorporating all the relevant assumptions and factors that need to be considered (Murray J., n. d).

Cash Budget for December

(a)Operating Income for November 2012

(b)Flexible budget for November 2012

(c)Flexible budget variance:

Flexible budget variance denotes the difference in results between the results of actual and flexible budget (Accounting tools, n. d). The company has an adverse variance of $12, 800 that shows that the actual operating profit is less than that the flexed budget profit due to higher actual variable costs and need to be examined for the unusual change. This shows that the actual results are less favorable when compared to the bbudgeted results at the same level of operations and using the actual sales level. This generally denotes the more controlled costs for the budgeted results which have actually exceeded and need to be reciewd and controlled.

Sales volume variance shows the difference in the value of sales volume in actual and budget (Accounting tools, n. d). The company has an adverse sales volume variance of $22, 000 which shows that the actual sales volume was below that for budgeted sales for the month of November and needs to be analyzed for the reason.

References

Murray J. (n. d), What is the purpose of a budget [Online] Source: http://biztaxlaw. about. com/od/budgetingandfinance/f/whybudget. htm (Accessed on: 12 December, 2013)

Accounting Tools (n. d), What is a flexible budget variance [Online] Source: http://www. accountingtools. com/questions-and-answers/what-is-a-flexible-budget-variance. html (Accessed on: 12 December, 2013)

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