

What is a flexible budget?



Flexible budget is a budget, which by recognizing the difference between fixed and variable costs in relation to fluctuations in output, turnover or other variable factors. It is designed to change in relation to the level of activity actually attained. It sometimes referred to a multi-volume budget. The Flexible budget takes the account of range of possible volumes. Since the fixed costs do not vary with short-term fluctuations in activity it can be seen that flexible budget will consists of two parts.

The first part of flexible budget made up with fixed costs and semi variable costs. The second part indicates which consists of variable costs. What are the steps to developing a flexible budget? The following steps involved developing a flexible budget: 1. Specify the time period that is used. 2. Classify all costs into fixed, variable and semi-variable categories. 3. Determine the types of standards that are to be used. 4. Analyze the cost behavior patterns in response to past level of activity. 5. Build up the appropriate flexible budget for specified levels of activity.

What information is found on a flexible budget report? Flexible budgets are important aids to decision making which help the management in the following ways. 1. Flexible budget enable the organization to predict its performance and income levels at a given range of sales levels and activity levels. It can be seen the impact of changes in sales and production levels on revenue, expenses and ultimately income. 2. Flexible budgets enable more accurate assessment of managerial and organizational performance. How is that information used to evaluate performance?

While the preparing the flexible budgets, the information can be taken with certain levels of 100%, 75%, 50% etc. In such calculations, the variable

expenses and semi variable expenses can be changed but with respect to fixed expenses, there will be no change irrespective the level of capacity. It is one type of projection of the organization to evaluate the cost of production per unit in different capacities.

REFERENCE : 1. <http://www.cliffsnotes.com/WileyCDA/CliffsReviewTopic/Flexible-Budgets.topicArticleId-21248,articleId-21241.html> 2. http://wps.prenhall.com/bp_horngren_ima_13/0,9034,1273048-,00.html