

Flexible budget essay sample

[Business](#), [Management](#)



Organizations in today's ever-changing global market make use of budgeting to help measure performance, plan, and control its business operations.

Organizational leaders make use of flexible budgets to help take into consideration; various uncertainties that may emerge after business operations commence. According to Kimmel, Weygandt, and Kieso (2011), organizations additionally make use of flexible budgets to help them address changes in the volume of activity as well as for performance evaluation tools when used in conjunction with the static budget. Within the subsequent paragraphs "Team B," will attempt to answer what are the advantages of a flexible budget versus the static budget. How the flexible utilizes a contribution format. How a flexible budget is useful for variance analysis. Finally "Team B" will attempt to provide information pertaining to the types of variances computed when making use of a flexible budget. Advantages of a flexible budget over to a static budget

The distinct difference between a flexible and static budget is that a flexible budget projects budget data for various levels of activity, whereas the static budget is a projection of budget data at one level of activity (Kimmel et al., 2011). The flexible budget uses the master budget as its basis. The flexible budget is a series of static budgets at different levels of activity. It recognizes that the budgetary process is beneficial if it is adaptable to changed organizational operating conditions. (Kimmel et al., 2011). A static budget remains at one amount no matter the volume of the activity the company foresees, because it projects a fixed level of input, and output.

The flexible budget can help an organization continuously recalculate its expenses depending on the revenue incurred additionally an organization

can make use of a flexible budget for the entire organization. Flexible budgets make it easier to see if an investment is possible and can empower you to determine if you can afford to take a risk. Whereas, the static budget can help the organization keep certain division cost on the right track (Thompson, 2008). How a flexible budget utilizes a contribution format

The flexible budget is a more dynamic form of budget reporting that is affected only by the amount of actual revenue generated. Instead of using fixed amounts (like the static budget), the “flexible” budget makes use of percentages of the revenue garnered. The contribution margin focuses on the ‘per unit’ assets and liabilities according to Kimmel et al., (2011). The flexible budget performance evaluation tool uses this format at the end of each period to recalculate costs based on actual production.

Since the contribution margin pinpoints the percentage of revenue per unit, the flexible budget tool can use this format to isolate costs pertinent to the function of its end goal (Kimmel et al., 2011). The end goal of the flexible budget is to help an organization determine how much its needs to yield the actual output. “For example, if the output is 700, 000 units, organizations should compare the actual cost for 700, 000 units to what the company should have spent to produce these units. The contribution margin format powers the flexible budget performance by allowing the managers to pinpoint the revenue from each unit (Kimmel et al., 2011). How a flexible budget is useful for variance analysis

A flexible budget can help an organization gather budget data from more than one activity with the ability to adjust for changes in volume or activity

according to Kimmel et al., (2011). This particular type of budget is multiple static budgets combined into the flexible budget can help provide more transparency within the specified areas of an organization. When flexible budgeting is used for variance analysis, the goal is to help an organization identify the differences in total actual costs, and total standard costs (Kimmel et al., 2011). Additionally variance analysis can help provide an organization with data for any changes in the budget such as direct materials, direct labor, or manufacturing overhead variances. By using these types of budgets within the variances, organizational leaders can determine if they have caused unfavorable or favorable variances (Kimmel et al., 2011).

The unfavorable variance means the organizations actual costs exceed the standard costs and the favorable variance means the actual costs are less than the standard costs. At the end of a designated cycle normally the end of each fiscal quarter, the organization can indicate differences in total budgeted costs and total actual costs (Kimmel et al., 2011). Organizational leaders as well can make use of variance analysis to make the necessary changes its budgeted projection instead of waiting until the end of the current year. Variance analysis as well can provide accurate actual versus standard costs and allow for immediate changes to the organizations budget (Kimmel et al., 2011). The types of variances that are computed utilizing a flexible budget Warren & Reeve (2011) defines flexible budget variance as the difference between the amount the firm intends to spend and the amount that it actually spends during a given trading cycle.

According to McLaney and Atril (2007) the flexible budget as well can help an organization trace the variances between those planned estimated costs, and the actual estimates. Making use of a static budget in conjunction with the flexible budget can help an organization make assumption as well prediction regarding sales, economic, market variables, and various other factor that can affect the business prior to commencement of business operations (Kimmel et al., 2011). Flexible budget analysis can help an organization measure performance. According to Velmurugan (2010), performance variance can help organizations garner vital information regarding its performance. Velmurugan (2010) as well notes making use of flexible budget variance has two significant attributes for performance, which include effectiveness, and efficiency.

Efficiency refers to the amount of input an organization makes use of to achieve a particular level of output, whereas effectiveness refers to the measure, in which the predetermined objective is achieved according to Velmurugan (2010). Additionally, an organization can compute the following variances using its flexible budget these include the following; direct material variance, direct labor variance, value production variance, fixed production overhead variance, and sales variances. According to Kimmel et al., (2011), variance analysis is a budgetary control tool that can help an organization evaluate performance by variances between its budgeted amount, its planned amount, and the actual amount incurred or sold by the organization. According to Kimmel et al., (2011), variance analysis can help organizational leaders understand the organizations present cost, which can help control future costs of the organization. Conclusion

In today's ever-changing global market, flexible budgets are vital for business success, if an organization fails to monitor shifting expenses in comparison with its initial static budget, may have difficulties reporting its earnings properly (Kimmel et al., 2011). According to Maher (2005) the flexible budget can help an organization control cost, because it can help show the deviation from its actual performance, and planned performance. Within this paper " Team B" expands upon the advantages of flexible budgets, how the flexible budget utilizes a contribution format. " Team B" as well expands within the aforementioned paragraphs how a flexible budget is useful for variance analysis. Finally, " Team B" expands upon the types of variances, that which an organization can compute making use of a flexible budget.

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