**Budgetary Variance Model**

  How would I evaluate the performance of the Radiology department manager for a hospital in the below budget?   
  
The service unit or output for this department is the number of procedures performed. A static budget was prepared at the beginning of the year.

When examining this budget in relation to actual experience, the relevant data is included in Table 17-18. The department manager is pleased because there is a favorable $120,000 cost variance.

**How do you evaluate the effectiveness claims of the manager using the budgetary variance model?**

**What is your analysis of the department manager’s performance? Explain your reasoning clearly? Please see the answer below.**

**Table 17-18**  Radiology Department Data

*Actual Original Budget* *Variance*

Procedures 100,000 12,000 20,000 (Unfavorable)

Variable costs $1,200,000 $1,320,000 $120,000 (Favorable)

Fixed costs 600,000 600,000 —

Total costs $1,800,000 $1,920,000 $120,000 (Favorable)

Average Cost per Unit $18.00 $16.00

Variable Cost per Unit $12.00 $11.00

Fixed Cost per Unit $6.00 $5.00

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**Below is the answer that the book gives. I am not able to explain this in four pages because I do not understand it. Please explain this clearly and with extending expiations. Thank you**

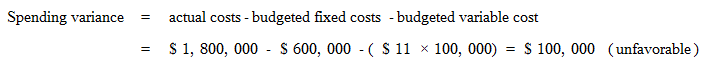
In your evaluation you can calculate spending and volume variances for the radiology department. The total variance would be calculated as follows:

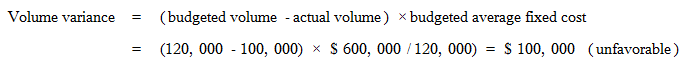
Actual cost less assigned cost (actual costs less actual volume times budgeted cost per unit)

or

$1,800,000 – (100,000 × $16.00) = $200,000 (unfavorable)

The radiology department has an unfavorable variance of $200,000, as opposed to a favorable variance of $120,000. The $200,000 unfavorable variance can be broken into spending and volume variances:





The department manager may not be responsible for the volume variance, but the unfavorable spending variance of $100,000 should be analyzed to see what caused it. More detail would permit further breakdowns by price and efficiency variance.