**8-A1**

Burton Transportation Company’s general manager reports quarterly to the company president on the firm’s operating performance. The company uses a budget based on detailed expectations for the forthcoming quarter. The general manager has just received the condensed quarterly performance report shown in Exhibit 8-10.

Although the general manager was upset about not obtaining enough revenue, she was happy that her cost performance was favorable; otherwise, her net operating income would be even worse.

The president was totally unhappy and remarked: “I can see some merit in comparing actual performance with budgeted performance, because we can see whether actual revenue coincided with our best guess for budget purposes. But, I can’t see how this performance report helps me evaluate cost control performance.”

# Exhibit 8-10

**Burton Transportation**

## Operating Performance Report

**Second Quarter, 20X1**

 **Budget Actual Variance**

Net revenue $8,000,000 $7,600,000 $400,000 U

Variable Costs

 Fuel $ 160,000 $ 157,000 $ 3,000 F

 Repairs and maintenance 80,000 85,000 5,000 U

 Supplies and miscellaneous 800,000 788,000 12,000 F

 Variable payroll 5,360,000 5,200,000 160,000 F

Total variable costs\* $6,400,000 $6,230,000 $180,000 F

Fixed Costs

 Supervision $ 180,000 $ 183,000 $ 3,000 U

 Rent 160,000 160,000 –

 Depreciation 480,000 480,000 –

 Other fixed costs 160,000 158,000 2,000 F

Total fixed costs $ 980,000 $ 981,000 $ 1,000 U

 Total fixed and variable costs $7,380,000 $7,211,000 $169,000 F

Operating income $ 620,000 $ 389,000 $231,000 U

U = Unfavorable

F = Favorable

\*For purposes of this analysis, assume that all these costs are totally variable with respect to sales revenue. In practice, many are mixed and have to be subdivided into variable and fixed components before a meaningful analysis can be made. Also, assume that the prices and mix of services sold remain unchanged.

1. Prepare a columnar flexible budget for Burton Transportation at revenue levels of $7,200,000, $8,000,000 and $8,800,000. Assume that the prices and mix of products sold are equal to the budgeted prices and mix.

2. Express the flexible budget for costs in formula form.

3. Prepare a condensed table showing the static-budget variance, the sales-activity variance, and the flexible-budget variance.