The St. Lucia Blood Bank, a private charity partly supported by government grants, is located on the Caribbean island of St. Lucia. The Blood Bank has just finished its operations for September, which was a particularly busy month due to a powerful hurricane that hit neighboring islands causing many injuries. The hurricane largely bypassed St. Lucia, but residents of St. Lucia willingly donated their blood to help people on other islands. As a consequence, the Blood Bank collected and processed over 20% more blood than had been originally planned for the month.

A report prepared by a government official comparing actual costs to budgeted costs for the Blood Bank appears below. (The currency on St. Lucia is the East Caribbean dollar.) Continued support from the government depends on the Blood Bank’s ability to demonstrate control over their costs.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **St. Lucia Blood Bank** | | | | | | | | | |
|  | | **Cost Control Report** | | | | | | | | | |
|  | | **For the Month Ended September 30** | | | | | | | | | |
|  | |  | |  | |  | |  | |  | |
|  | |  | | *Actual* | | *Budget* | | *Variance* | | | |
|  | | Liters of blood collected | | 620 | | 500 | | 120 | |  | |
|  | |  | |  | |  | |  | |  | |
|  | | Variable costs: | |  | |  | |  | |  | |
|  | | Medical supplies | | $9,350 | | $  7,500 | | $1,850 | | U | |
|  | | Lab tests | | 6,180 | | 6,000 | | 180 | | U | |
|  | | Refreshments for donors | | 1,340 | | 1,000 | | 340 | | U | |
|  | | Administrative supplies | | 400 | | 250 | | 150 | | U | |
|  | | Total variable cost | | 17,270 | | 14,750 | | 2,520 | | U | |
|  | | Fixed costs: | |  | |  | |  | |  | |
|  | | Staff salaries | | 10,000 | | 10,000 | | 0 | |  | |
|  | | Equipment depreciation | | 2,800 | | 2,500 | | 300 | | U | |
|  | | Rent | | 1,000 | | 1,000 | | 0 | |  | |
|  | | Utilities | | 570 | | 500 | | 70 | | U | |
|  | | Total fixed cost | | 14,370 | | 14,000 | | 370 | | U | |
|  | | Total cost | | $31,640 | | $28,750 | | $2,890 | | U | |

The managing director of the Blood Bank was very unhappy with this report, claiming that his costs were higher than expected due to the emergency on the neighboring islands. He also pointed out that the additional costs had been fully covered by payments from grateful recipients on the other islands. The government official who prepared the report countered that all of the figures had been submitted by the Blood Bank to the government; he was just pointing out that actual costs were a lot higher than promised in the budget.

Required:

1. Prepare a new performance report for September using the flexible budget approach. (Note: Even though some of these costs might be classified as direct costs rather than as overhead, the flexible budget approach can still be used to prepare a flexible budget performance report.)

2. Do you think any of the variances in the report you prepared should be investigated? Why?