

should that be jelly?

Jam and Peanut Butter sandwich

Step 1. Unit data - the budget for one.

Bread 2 slices at 5c = 10c
 Jam 2 spoons at 8c = 16c
 Peanut Butter 2 spoons at 10c = 20c
46c

Step 2 Write the budget

We chose 50 sandwiches

Br	100	e	5	=	5.00
Ja	100	e	8	=	8.00
PB	100	e	10	=	10.00
					<u>\$ 23.00</u>

This is the same as 50 x 46c

Step 3. The Actuals.

We do it and record the information (we made these up). We said we made 46 sandwiches

Br	40	e	?	=	55.00
Ja	30	e	?	=	36.00
PB	50	e	?	=	18.00
					<u>109.00</u>

Step 4 Variance to be explained.

This is the difference between our budget (for 50) and our Actual (for 46).

Budget	50 sandwiches	\$ 23.00
Actual	46	109.00
		<u>86.00</u> Adverse

Step 5. Flexible budget.

We rewrite the budget to base it on the actual production of 46 sandwiches.

Flexed Budget (original unit data \times 46 sandwiches)

$$\begin{array}{r}
 \text{Br } 92 @ 5c = 4.60 \\
 \text{Ja } 92 @ 8c = 7.36 \\
 \text{PB } 92 @ 10c = 9.20 \\
 \hline
 21.16
 \end{array}$$

Step 6. Planning variance.

The difference between the Budget (50 sandwiches) and the Flexed Budget (46 sandwiches).

$$\begin{array}{r}
 \text{Budget } 50 \text{ sandwiches cost } 23.00 \\
 \text{Flexed Budget } 46 \text{ sandwiches cost } 21.16 \\
 \hline
 1.84 \text{ Favourable}
 \end{array}$$

This is favourable as making fewer saves us money. We could have calculated this as 4 sandwiches fewer $(50 - 46) \times$ the unit cost of one sandwich $46c = \$1.84$. We still need to write the flexed Budget out in full as we need it for the rest of the calculations.

Don't forget to put the Planning Variance in your Variance Schedule (at Step 9).

Step 7 Line by line variances. Flexed v Actual

As we have a flexed Budget we must use this, not the original Budget from now on.

	Flexed	Actual	
Br	\$ 4.60	\$ 55.00	50.40 A
Ja	7.36	36.00	28.64 A
PB	9.20	18.00	8.80 A
	<u>21.16</u>	<u>109.00</u>	<u>87.84 A</u>

We will use these numbers as our double check

step 8 Quantity and Price variances.

$$\begin{array}{r} \text{Q} \\ \$ \end{array} \begin{array}{l} B @ B = \\ A @ B = \end{array} \quad \underline{\hspace{2cm}} \\ \text{Q variance}$$

$$\begin{array}{r} \text{Q} \\ \$ \end{array} \begin{array}{l} A @ B \\ A @ A \end{array} \quad \underline{\hspace{2cm}} \\ \$ \text{ variance.}$$

These net off to the line by line variances we did at step 7.

Bread

$$\begin{array}{r} 92 @ 5 = 4.60 \\ 40 @ 5 = \underline{2.00} \\ 2.60 F \\ 40 @ 5 = 2.00 \\ 40 @ ? = \underline{55.00} \\ 53.00 A \end{array}$$

50.40 A

Jam

$$\begin{array}{r} 92 @ 8 = 7.36 \\ 30 @ 8 = \underline{2.40} \\ 4.96 F \\ 30 @ 8 = 2.40 \\ 30 @ ? = \underline{36.00} \\ 33.60 A \end{array}$$

28.64 A

Peanut Butter

$$\begin{array}{r} 92 @ 10 = 9.20 \\ 50 @ 10 = \underline{5.00} \\ 4.20 F \\ 50 @ 10 = 5.00 \\ 50 @ ? = \underline{18.00} \\ 13.00 A \end{array}$$

8.80 A

We now put all the variances into a variance schedule to confirm we have the full explanation.

Step 9. Variance Schedule

	F	A
Planning (making sandwiches)	1.84	
Bread Quantity	2.60	
Bread Price		53.00
Jam Quantity	4.96	
Jam Price		33.60
Peanut Butter Quantity	4.20	
Peanut Butter Price		13.00
	<u>13.60</u>	<u>99.60</u>

↘ ↙
86.00 A

This was the original variance (Budget v Actual) we were trying to explain.