



جامعة صلاح الدين
كلية الادارة والاقتصاد
قسم المحاسبة
مرحلة الرابعة

Chapter One

Static Budget

مدرس المادة:

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What is a static budget?

A static budget is a financial plan set before a specific period, such as a month or a year, using predicted amounts based on historical data and assumptions about the future.

- ❖ The static budget remains unchanged regardless of deviations in revenue and expenses that may occur during the period.
- ❖ External factors like the company's overall success don't affect the static budget.
- ❖ Even if actual sales volume significantly deviates from the static budget, the amounts listed in the budget don't get adjusted going forward.
- ❖ So, companies use a static budget as the basis from which actual costs and results are compared.

Static Budget (Cont.)

Companies use the previous year's fixed budget as a starting point and then consider any variances to fine-tune the budget while keeping the larger focus on meeting long-term goals.

The budget also includes the assumed cost of achieving a desired outcome, which is relayed as a line item in the budget.

A static budget can be considered an "ideal" scenario, or a baseline for "optimal financial performance." But it can also serve as a worst-acceptable-scenario baseline.

What is the objective of a static budget?

- ❖ The primary objective of a static budget is to provide a financial plan that guides the operations of a business and to help management measure performance by comparing actuals to the plan.
- ❖ In other words, the budget is a benchmark for the company's performance and can help management identify the variances between the plan and the actuals.
- ❖ So comparing actuals to the budget lets the finance team evaluate the performance of the business and take corrective actions if necessary.

Static budget formula:

The formula for a static budget depends on the type of budget and the specific financial metrics used.

A static budget can be created for various financial statements like the income statement, balance sheet, and statement of cash flow.

For example, for an income statement, the static budget formula would be:

Static Budgeted Income Statement = Revenue - Expenses = Profit or Loss

where

Revenue = budgeted sales * budgeted price

Expenses = (budgeted cost of goods sold + budgeted operating expenses)

Static budget formula:

In the case of the **Cash Flow Statement**, the formula would be:

$$\text{Static Budgeted Cash Flow} = (\text{Budgeted Cash Inflow}) - (\text{Budgeted Cash Outflow})$$

Where:

Budgeted Cash Inflow = budgeted revenue + budgeted changes in working capital

Budgeted Cash Outflow = budgeted capital expenditure + budgeted dividends + budgeted interest payments

It's important to note that these formulas would be tailored to the specific organization, the industry, and the reporting standards they chose to follow.

Static budget example

Let's assume a retail store wants to create a budget for the next quarter.

The store management team gathers historical data and forecasts future financial results. Based on this information, they set a budget for the quarter.

The budget includes the following:

Revenue: The store expects to sell \$500,000 worth of merchandise at an average price of \$50 per item.

Cost of goods sold: The store expects to pay \$200,000 for the merchandise.

Operating expenses: The store expects to spend \$100,000 on rent, salaries, and other operating expenses.

Static budget example

Using these figures, the store creates the following static budget for the quarter:

Static Budgeted Income Statement

Static Budgeted Income Statement = Revenue - Expenses = Profit or Loss

$$= \$500,000 - \$300,000$$

$$\text{Profit or loss} = \$200,000$$

Based on the income statement, the retail store is expected to make a gross profit of \$200,000.

Static budget example

The store will then use this budget as a benchmark for performance. Once the quarter progresses, they will compare actuals to the budget to see how they perform.

If the actuals are lower than the budgeted figures, the management team can investigate the reasons for the variances and take appropriate measures.

The importance of static budgets and static planning

Static budgets have plenty of use cases. Here are some of the most common ones:

1) Act as a performance benchmark:

By comparing actuals to the budget, financial leaders can evaluate the performance of the business and take corrective actions if necessary.

This helps ensure that the business is on track to meet its financial goals and objectives.

2) Determine financial targets:

Static budget helps management set financial targets for the business.

It helps identify the financial goals of the business and allocate resources accordingly.

The importance of static budgets and static planning

Static budgets have plenty of use cases. Here are some of the most common ones:

3) Allocate resources:

Static budget and static planning often guide allocating resources such as capital, labor, and materials.

This way, it can be ensured that resources are being used efficiently.

4) Control expenses:

Static budget serves as a tool for controlling expenses.

By setting a budget and comparing actual results to the plan, unnecessary or excessive expenses can be easily identified and avoided.

The importance of static budgets and static planning

Static budgets have plenty of use cases. Here are some of the most common ones:

5) Monitor cash flow:

Static budget helps to monitor cash flow by forecasting cash inflow and outflow.

Any potential cash flow problems will be identified sooner than later so that appropriate measures can be taken.

6) Variance analysis:

A static budget helps identify variances and the reasons for them to occur.

This helps in identifying the areas which need massive improvements.

What is static budget variance?

Static budget variance refers to the difference between the budgeted or expected results and the actual ones for a specific period.

It's calculated by comparing the budgeted amounts to the actual amounts for a given period, such as a month or a year.

In other words, it's the deviation between the planned/forecasted and actual figures.

Variance can be either positive or negative.

A negative variance indicates that actual results are worse than budgeted results.

A positive variance indicates that actual results are better than budgeted results.

Static budget variance formula:

The formula to calculate static budget variance is as follows:

$$\text{Static Budget Variance} = \text{Actual Amount} - \text{Budgeted Amount}$$

For example, if a business had a budgeted revenue of \$100,000 for a certain period, and the actual revenue was \$110,000, the variance would be calculated as:

$$\text{Static Budget Variance} = \$110,000 - \$100,000 = \$10,000 \text{ (positive variance)}$$

If the actual revenue was \$90,000, the variance would be calculated as:

$$\text{Static Budget Variance} = \$90,000 - \$100,000 = -\$10,000 \text{ (negative variance)}$$

Static budget variance formula:

The formula to calculate static budget variance is as follows:

$$\text{Static Budget Variance} = \text{Actual Amount} - \text{Budgeted Amount}$$

Example 1: Webb has the following information;

1) The budgeted data as follows:

(DM \$60.Per jacket, DL \$16, V.M.O.H \$12, F.M.O.H costs for production between 0 and 12,000 jackets \$276,000, selling price \$120 per jacket).

2) The Actual data as follows:

(DM \$65.Per jacket, DL \$20, V.M.O.H \$13, F.M.O.H costs \$265000, Actual production and sales 10,000 jackets, selling price \$125 per jacket)

Required: Prepare income statement then find static budget variance.

Solution Example 1:

Income Statement Static Budget		
Revenue (12,000 * 120)		\$1,440,000
Direct Material (12,000 * 60)	\$ (720,000)	
Direct Labor (12,000 * 16)	\$ (192,000)	
V.M.O.H (12,000 * 12)	\$ (144,000)	
F.M.O.H	\$ (276,000)	
Cost of Goods Sold		\$ (1,332,000)
Net Profit & Loss		\$108,000

Solution Example 1:

Income Statement Actual Production		
Revenue (12,000 * 120)		\$1,250,000
Direct Material (12,000 * 60)	\$ (650,000)	
Direct Labor (12,000 * 16)	\$ (200,000)	
V.M.O.H (12,000 * 12)	\$ (130,000)	
F.M.O.H	\$ (265,000)	
Cost of Goods Sold		\$ (1,245,000)
Net Profit & Loss		\$5,000

Static Budget Variance = Actual Production - Static Budget

Static Budget Variance = 5,000 - 108,000

Static Budget Variance = \$ (103,000)

Negative Variance

Example 2: Zanst Corporation has this information related to its performance is given below:

Details	Actual	Budgeted
Units made and sold	28,000	27,500
Selling Price	\$11	\$12
Variable costs	\$90,000	\$3 per unit
Fixed costs	\$55,000	\$58,000

Required: Calculate Zanst's static-budget variance for (a) revenues, (b) variable costs, (c) fixed costs, and (d) operating income.

Solution Example 2:

Re.	Details	Actual Production	Static Budgeted	Variance
A	Revenue	\$ 308,000	\$ 330,000	\$ (22,000)
B	Variable Cost	\$ (90,000)	\$ (82,500)	\$ 7,500
C	Fixed Cost	\$ (55,000)	\$ (58,000)	\$ (3,000)
D	Operating Income	\$ 163,000	\$ 189,500	\$ (26,500)

Requirement:

A: Actual Revenue = $28,000 * 11 = 308,000$

Budgeted Revenue = $27,500 * 12 = 330,000$

B: Actual Variable Cost = 90,000

Budgeted Variable Cost = $27,500 * 3 = 82,500$

C: Actual Fixed Cost = 55,000

Budgeted Fixed Cost = 58,000

D: Operating Income = Revenue – Cost of Goods Sold

النهاية المحاضرة

Thank You

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