

Chapter 8: Operating Budget and Performance Reports

Operating Budget (Also, see Chapter 11)

Prime cost

$$\text{Prime Cost} = \text{Total Cost of Sales} + \text{Total Labor}$$

Controllable income

$$\text{Controllable Income} = \text{Total Sales} - (\text{Prime Cost} + \text{Total Other Controllable Expenses})$$

Operating income

$$\text{Operating Income} = \text{Controllable Income} - \text{Total Noncontrollable Expenses}$$

Performance Report

Variance \$

$$\text{Variance \$} = \text{Actual} - \text{Budget}$$

Variance Percentage

$$\text{Variance \%} = \frac{\text{Variance \$}}{\text{Budget}} \times 100$$