**Module 4 - Case**

**BUDGETING, VARIANCE ANALYSIS, AND PERFORMANCE EVALUATIONS**

**Assignment Overview**

**T&P Fashion Shops**

T&P Fashion Shops is a new chain that operates 10 stores in major malls throughout the United States. Each store manager is responsible for preparing a flexible budget for the store. T&P headquarters accumulates and analyzes the information for each store and in the aggregate.

Below is the forecast (budgeted income statement) for the Houston store showing the breakdown of fixed and variable expenses in columns two through four. The last column shows the actual results.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **T&P Fashions - Houston Store** | | | | |
|  |  | **Breakdown of Expenses (Forecast)** | |  |
|  | **Forecast** | **Fixed** | **Variable** | **Actual** |
| Revenues | $1,400,000 |  |  | $1,260,000 |
| Cost of Sales | 790,000 |  | 790,000 | 760,000 |
| Gross Profit | $610,000 |  |  | $500,000 |
| Management | 182,000 | 154,700 | 27,300 | 182,000 |
| Shop assistants | 258,000 | 154,800 | 103,200 | 262,000 |
| Rent | 23,200 | 18,560 | 4,640 | 22,000 |
| Utilities | 34,800 | 34,800 |  | 31,000 |
| Misc. expenses | 24,500 | 12,250 | 12,250 | 29,000 |
| Total expenses | $522,500 |  |  | $526,000 |
| Net income | $87,500 |  |  | $(26,000) |
|  | ========= |  |  | ========= |

Additional Information

* Variable expenses are based on revenues and we assume that the percentage remains constant for flexible budgeting purposes.
* Fixed costs are all within the relevant range.
* Other expenses are all specific to this store. Headquarters pay for marketing and corporate overhead expenses.

**Case Assignment**

**Required:**

**Computations (use Excel)**

1. Prepare a flexible budget and show variances for the year that passed. Indicate whether the flexible budget variances are favorable or unfavorable.
2. Headquarters are contemplating charging each store a 5% marketing expense based on sales. How will that affect the operating profit of the store and the money available for managerial bonuses based on actual results for the past year? Summarize the information in a table.

**Memo (use Word)**

Write a 4- or 5-paragraph memo to the division manager explaining the flexible budget variances; how to interpret the information and what action, if any to take. Comment on the 5% marketing proposal too. Start with an introduction and end with a recommendation. Each of the four or five paragraphs should have a heading.

**Short Essay (use Word)**

Start with an introduction and end with a summary or conclusion. Use headings.

* Discuss how to interpret static and flexible budget variances.
* What are the benefits of variance analysis? How can such analysis be detrimental rather than beneficial to the organization?

**Assignment Expectations**

Each submission should include two files: (1) An Excel file and (2) a Word document. The Word document shows the memo first and short essay last. Assume a knowledgeable business audience and use required format and length. Individuals in business are busy and want information presented in an organized and concise manner.

Double space

APA Format

Reference credible sources only

The following resources are **not** **acceptable** for this course, keep in mind, there are many others:

* Wikipedia.com
* Ehow.com
* About.com
* [Smallbusiness.chron.com](http://smallbusiness.chron.com/)
* Diffen.com
* [Yourbusiness.azcentral.com](http://yourbusiness.azcentral.com/)
* Investopedia.com
* Boundless.com and Lumen
* Course hero
* Chegg