**Module 4 Overview**

**Budgeting and Variance Analysis**

***Static Budget***

A static budget is prepared at the beginning of the budgeting period and is valid for only the planned level of activity. It is suitable for planning, but it is inadequate for evaluating how well costs are controlled because:

The actual level of activity is unlikely to equal the planned level of activity, thus resulting in “apples-to-oranges” cost comparisons.

***Flexible Budget***

A flexible budget provides estimates of what costs should be for any level of activity within a specified range. When used for performance evaluation purposes, actual costs are compared to what the costs should have been for the actual level of activity during the period. This enables “apples-to-apples” cost comparisons.

***Variance***

A variance is the difference between actual results and budgeted amounts. Variance analysis can assist managers for planning and control purposes. A significant variance should be reviewed for further explanations. Variances are often used in performance evaluations.