

Tohono Company's 2015 master budget included the following fixed budget report. It is based on an expected production and sales volume of 20,000 units.

TOHONO COMPANY
Fixed Budget Report
For Year Ended December 31, 2015

Sales		\$3,000,000
Cost of goods sold		
Direct materials	\$1,200,000	
Direct labor	260,000	
Machinery repairs (variable cost)	57,000	
Depreciation—machinery (straight-line)	250,000	
Utilities (25% is variable cost)	200,000	
Plant manager salaries	140,000	2,107,000
Gross profit		893,000
Selling expenses		
Packaging	80,000	
Shipping	116,000	
Sales salary (fixed annual amount)	160,000	356,000
General and administrative expenses		
Advertising	81,000	
Salaries	241,000	
Entertainment expense	90,000	412,000
Income from operations		<u>\$ 125,000</u>

PROBLEM SET B

Problem 23-1B

Preparation and analysis
of a flexible budget

P1 A1

Required

- Classify all items listed in the fixed budget as variable or fixed. Also determine their amounts per unit or their amounts for the year, as appropriate.
- Prepare flexible budgets (see Exhibit 23.3) for the company at sales volumes of 18,000 and 24,000 units.
- The company's business conditions are improving. One possible result is a sales volume of 28,000 units. The company president is confident that this volume is within the relevant range of existing capacity. How much would operating income increase over the 2015 budgeted amount of \$125,000 if this level is reached without increasing capacity?
- An unfavorable change in business is remotely possible; in this case, production and sales volume for 2015 could fall to 14,000 units. How much income (or loss) from operations would occur if sales volume falls to this level?

Check (2) Budgeted income at 24,000 units, \$372,400

(4) Potential operating loss, \$(246,100)