Exercise 10-2 (15 minutes)

1. The activity variances are shown below:

Flight Café
Activity Variances
For the Month Ended July 31

	Planning Budget	*Flexible Budget*	*Activity Variances*	
Meals	18,000	17,800		
Revenue ($4.50q)	$81,000	$80,100	$900	U
Expenses:				
Raw materials ($2.40q)	43,200	42,720	480	F
Wages and salaries ($5,200 + $0.30q)	10,600	10,540	60	F
Utilities ($2,400 + $0.05q)	3,300	3,290	10	F
Facility rent ($4,300)	4,300	4,300	0	
Insurance ($2,300)	2,300	2,300	0	
Miscellaneous ($680 + $0.10q)	2,480	2,460	20	F
Total expense	66,180	65,610	570	F
Net operating income	$14,820	$14,490	$330	U

2. Management should be concerned that the level of activity fell below what had been planned for the month. This led to an expected decline in profits of $330. However, the individual items on the report should not receive much management attention. The unfavorable variance for revenue and the favorable variances for expenses are entirely caused by the drop in activity.