

Flexible budget – Little Theatre

The Little Theatre is a nonprofit organization devoted to staging plays for children. The theater has a very small full-time professional administrative staff. Through a special arrangement with the actors' union, actors and directors rehearse without pay and are paid only for actual performances.

The Little Theatre had tentatively planned to put on six different productions with a total of 108 performances. For example, one of the productions was Peter Rabbit, which had a six-week run with three performances on each weekend. The costs from the current year's planning budget appear below.

The Little Theatre Costs from the Planning Budget For the Year Ended December 31	
Budgeted number of productions	6
Budgeted number of performances	108
Actors and directors wages	\$216,000
Stagehands wages	32,400
Ticket booth personnel and ushers wages	16,200
Scenery, costumes, and props	108,000
Theater hall rent	54,000
Printed programs	27,000
Publicity	12,000
Administrative expenses	43,200
Total	\$508,800

Some of the costs vary with the number of productions, some with the number of performances, and some are fixed and depend on neither the number of productions nor the number of performances. The costs of scenery, costumes, props, and publicity vary with the number of productions.

It doesn't make any difference how many times Peter Rabbit is performed; the cost of the scenery is the same. Likewise, the cost of publicizing a play with posters and radio commercials is the same whether there are 10, 20, or 30 performances of the play. On the other hand, the wages of the actors, directors, stagehands, ticket booth personnel, and ushers vary with the number of performances.

The greater the number of performances, the higher the wage costs will be. Similarly, the costs of renting the hall and printing the programs will vary with the number of performances.

Administrative expenses are more difficult to analyze, but the best estimate is that approximately 75% of the budgeted costs are fixed, 15% depend on the number of productions staged, and the remaining 10% depend on the number of performances.

After the beginning of the year, the board of directors of the theatre authorized expanding the theatre's program to seven productions and a total of 168 performances. Not surprisingly, actual costs were considerably higher than the costs from the planning budget. (Grants from donors and ticket sales were also correspondingly higher, but are not shown here.)

Data concerning the actual costs were as follows:

The Little Theatre Actual Costs For the Year Ended December 31	
Actual number of productions	7
Actual number of performances	168
Actors and directors wages	\$341,800
Stagehands wages	49,700
Ticket booth personnel and ushers wages	25,900
Scenery, costumes, and props	130,600
Theater hall rent	78,000
Printed programs	38,300
Publicity	15,100
Administrative expenses	47,500
Total	\$726,900

Required:

1. Prepare a flexible budget performance report for the year that shows both spending variances and activity variances.
2. If you were on the board of directors of the theatre, would you be pleased with how well costs were controlled during the year? Why, or why not?