Managerial Analysis of Green Pastures Budget Plan

Green Pastures Farm provides a service of boarding horses. In 2017, Green Pastures submitted their budget planning strategy which if on plan would have generated a net income of $170,780. Due to the downturn of the market, Green Pastures was unsuccessful in achieving their net income goal. Actual net income received was $21,610. This created an unfavorable margin of $149,170. The primary cause to the unfavorable result was due to the net sales or service revenue received. Green Pastures estimated they would have 60 mares for a total of 21,900 days. The actual result was 52 mares for 19,000 days. This caused an unfavorable revenue of $167,500.

After further review of the static budget income statement provided by Green Pastures, the management team did a good job of managing and controlling variable and fixed expenses. Variable expense performance was very favorable. Because of these costs make up almost fifty percent of the total expenditures budgeted, the results demonstrated that costs were managed appropriately. Fixed expenses also stayed on track with expected yield budget results. Fixed costs were favorable by $4000 even with the management’s decision to increase advertising and entertainment. This decision was a good decision based on the total fixed costs were still within the budget threshold.

When you look at the flexible budget report in figure 1, the primary cause for not achieving their goals was due to the actuals days. Because Green Pastures did not achieve getting the number of days as planned, it caused the variable costs to shift from their estimated values. Feed and Vet fees increased by ten percent. These are the two highest variable expenses. This caused a shift of approximately $11,000 unfavorable expenses. Based on the information provided in the flexible budget, the management team did an average job of managing expenses. The overall results were still positive, but the indication from the data shows that there were potentials for additional savings if the management team ensured the avg cost were to plan. Additionally, the management’s team to stay competitive was still a sound decision. Both variable and fixed costs had positive results. The performance on the amount of days captured was 87 percent to their budget plan. I believe that if the management team would’ve replaced the employee and not utilized the budget for increasing advertising and entertainment, the results would have been unfavorable.

In the future, the recommendation to the Green Pastures management team is to ensure a proper market study has been established and utilize the data from that study to better plan for utilization. Additionally, it is important the costs per unit are adequate to the plan and coordinated with the vendors, service providers or suppliers. This will assist with keeping the variable costs in line with the budget plan and reduce the risks of going over budget if the number of units are met.

In conclusion, I feel that Green Pastures did a fair job of managing to their budget plan based on the economical circumstances created by the downturn of the horse riding/show market. Green Pastures earned over $21k in revenue after all expenses.

Flexible Budget Income Statement

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Green Pastures Flexible Budget Income Statement For Year Ended December 31. 2017** | | | | | | | |
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|  |  |  |  |  |  | Difference |  |
|  |  | Budget |  | Actuals |  | Favorable - F Unfavorable - U |  |
| Days |  | 21,900 |  | 19000 |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Variable Costs |  |  |  |  |  |  |  |
| Feed | $5.00 | $109,500.00 | $5.49 | $104,390.00 |  | $5,110.00 | F |
| Vet Fees | $3.00 | $65,700.00 | $3.10 | $58,838.00 |  | $6,862.00 | F |
| Blacksmith | $0.25 | $5,475.00 | $0.26 | $4,984.00 |  | $491.00 | F |
| Supplies | $0.55 | $12,045.00 | $0.54 | $10,178.00 |  | $1,867.00 | F |
| **Total Variable costs** |  | **$192,720.00** |  | **$178,390.00** |  | **$14,330.00** | F |
|  |  |  |  |  |  |  |  |
| Fixed Costs |  |  |  |  |  |  |  |
| Depreciation |  | $40,000.00 |  | $40,000.00 |  | $- |  |
| Insurance |  | $11,000.00 |  | $11,000.00 |  | $- |  |
| Utilities |  | $14,000.00 |  | $12,000.00 |  | $2,000.00 | F |
| Repairs and maint |  | $11,000.00 |  | $10,000.00 |  | $1,000.00 | F |
| Labor |  | $95,000.00 |  | $88,000.00 |  | $7,000.00 | F |
| Advertising |  | $8,000.00 |  | $12,000.00 |  | $(4,000.00) | U |
| Entertainment |  | $5,000.00 |  | $7,000.00 |  | $(2,000.00) | U |
| **Total Fixed costs** |  | **$184,000.00** |  | **$180,000.00** |  | **$4,000.00** | F |
|  |  |  |  |  |  |  |  |

Figure 1

References

(Kimmel, 2016), Accounting: Tools for Business Decision Making 6th Edition, Retrieved From: [https://phoenix.vitalsource.com/books/9781119244929/epubcfi/6/42[;vnd.vst.idref=c13]!/4/14[c13-sec-0033]/26[c13-sec-0034]/6/8/2/2@0:69.0](https://phoenix.vitalsource.com/books/9781119244929/epubcfi/6/42%5b;vnd.vst.idref=c13%5d!/4/14%5bc13-sec-0033%5d/26%5bc13-sec-0034%5d/6/8/2/2@0:69.0)