

PROBLEM 10-22 Performance Report for a Nonprofit Organization [LO 10-1, LO 10-4, LO 10-6]

The KGV Blood Bank, a private charity partly supported by government grants, is located on the Caribbean island of St. Lucia. The blood bank has just finished its operations for September, which was a particularly busy month due to a powerful hurricane that hit neighboring islands causing many injuries. The hurricane largely bypassed St. Lucia, but residents of St. Lucia willingly donated their blood to help people on other islands. As a consequence, the blood bank collected and processed over 20% more blood than had been originally planned for the month.

A report prepared by a government official comparing actual costs to budgeted costs for the blood bank appears on the following page. (The currency on St. Lucia is the East Caribbean dollar.) Continued support from the government depends on the blood bank's ability to demonstrate control over its costs.

KGV Blood Bank
Cost Control Report
For the Month Ended September 30

	Planning Budget	Actual Results	Variances
Liters of blood collected	600	780	
Medical supplies	\$ 7,110	\$ 9,252	\$2,142 U
Lab tests	8,610	10,782	2,172 U
Equipment depreciation	1,900	2,100	200 U
Rent	1,500	1,500	0
Utilities	300	324	24 U
Administration	<u>14,310</u>	<u>14,575</u>	<u>265 U</u>
Total expense	<u>\$33,730</u>	<u>\$38,533</u>	<u>\$4,803 U</u>

The managing director of the blood bank was very unhappy with this report, claiming that his costs were higher than expected due to the emergency on the neighboring islands. He also pointed out that the additional costs had been fully covered by payments from grateful recipients on the other islands. The government official who prepared the report countered that all of the figures had been submitted by the blood bank to the government; he was just pointing out that actual costs were a lot higher than promised in the budget.

The following cost formulas were used to construct the planning budget:

Medical supplies	\$11.85q
Lab tests	\$14.35q
Equipment depreciation	\$1,900
Rent	\$1,500
Utilities	\$300
Administration	\$13,200 + \$1.85q

Required:

1. Prepare a new performance report for September using the flexible budget approach.
2. Do you think any of the variances in the report you prepared should be investigated? Why?