Cases

16-1 Dallas Consulting Group

"I just don't understand why you're worried about analyzing our profit variance," said Dave Lundberg to his partner, Adam Dixon. Both Lundberg and Dixon were partners in the Dallas Consulting Group (DCG). "Look, we made $80,000 more profit than we expected in 2012 (see Exhibit 1). That's great as far as I am concerned." Continued Lundberg. Adam Dixon agreed to come up with data that would help sort out the causes of DCG's $80,000 profit variance.

DCG is a professional services partnership of three established consultants who specialize in helping firms in cost reduction through time-motion studies, streamlining production by optimizing physical layout, and re-engineering operations. For each project DCG consultants spent the bulk of the total project time studying customers' operations.

The three partners each received fixed salaries that represented the largest portion of operating expenses. All three used his or her home office for DCG business. DCG itself had only a post office box. All other DCG employees were also paid fixed salaries. No other significant operating costs were incurred by the partnership.

Revenues consisted solely of professional fees charged to customers for the two different types of services DCG offered. Charges were based on the number of hours actually worked on the job.

Following the conversation with Lundberg, Dixon gathered the data summarized in Exhibit 2. He took the data with him to Lundberg's office and said, "I think I can identify several reasons for our increased profits. First of all, we raised the price for re-engineering studies to $70 per hour. Also, if you remember, we originally estimated that the 10 consulting firms in the Dallas area would probably average about 15,000 hours of work each in 2012, so the total industry volume in Dallas would be 150,000 hours. However, a check with all of the local consulting firms indicates that the actual total consulting market must have been around 112,000 hours."

"This is indeed interesting, Adam," replied Lundberg. "This new data leads me to believe that there are several causes for our increased profits, some of which may have been negative. . . . . Do you think you could quantify the effects of these factors in terms of dollars?"

EXHIBIT 1: 2012 BUDGET AND ACTUAL RESULT

		Budget	Actual	Variance
Revenues		$1,260,000	$1,340,000	$ 80,000
Expenses:	Salaries	920,000	920,000	
Income		**$ 340,000**	**$ 420,000**	**$ 80,000**

EXHIBIT 2: DETAIL OF REVENUE CALCULATIONS

	Hours	Rate	Amount
Budget:			
Re-engineering	6,000	$ 60.00	$ 360,000
Streamlining production	9,000	100.00	900,000
	15,000		$1,260,000
Actual:			
Re-engineering	2,000	$ 70.00	$ 140,000
Streamlining production	12,000	100.00	1,200,000
	14,000		$1,340,000

REQUIRED:

Use your knowledge of profit variance analysis to quantify the performance of DCG for 2012 and explain the significance of each variance to Mr. Lundberg.