

High-Low Method

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High-Low Method

- The High-Low Method is a fast and dirty way to **ESTIMATE** the variable and fixed cost of production or activities.
- It works by taking the highest and lowest levels of **ACTIVITIES** and assuming that the difference is variable cost **ONLY**.
- It works only with using those values and only if that assumption is valid.

High-Low Method

- Here is our company's setup information for High-Low Method.

High-Low Method:		
Month:	Guest Volume (x):	Utility Cost (y):
January	15,850	\$113,825
February	14,850	\$112,750
March	16,950	\$117,625
April	17,130	\$118,450
May	23,150	\$131,250
June	24,250	\$134,850
July	25,050	\$136,150
August	24,975	\$132,675
September	19,650	\$121,450
October	18,550	\$118,375
November	17,475	\$116,950
December	16,550	\$114,550

High-Low Method

- The first step is determine the high and low levels of ACTIVITY. Accountants like to focus on dollars, a common mistake.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625			
April	17,130	\$118,450			
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675			
September	19,650	\$121,450			
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			

High-Low Method

- With the High-Low identified determine the difference in activities and costs – 10,200 units and \$23,400.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625			
April	17,130	\$118,450			
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675			
September	19,650	\$121,450			
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00

High-Low Method

- Divide the difference in dollars, \$23,400, by the difference in activities, 10,200 units to determine the variable cost is $(\$23,400 \div 10,200)$ \$2.29 per unit.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625			
April	17,130	\$118,450			
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675			
September	19,650	\$121,450			
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- Now verify the low – the variable costs at 16,950 units is \$34,067.65 resulting in a fixed cost of \$78,682.35.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625	Variable unit cost:	\$2.29	\$34,067.65
April	17,130	\$118,450		Fixed Costs:	\$78,682.35
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675	Variable unit cost:	\$2.29	\$57,467.65
September	19,650	\$121,450		Fixed Costs:	\$78,682.35
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- Now verify the high – the variable costs at 25,050 units is \$57,467.65 resulting in a fixed cost of \$78,682.35.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625	Variable unit cost:	\$2.29	\$34,067.65
April	17,130	\$118,450		Fixed Costs:	\$78,682.35
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675	Variable unit cost:	\$2.29	\$57,467.65
September	19,650	\$121,450		Fixed Costs:	\$78,682.35
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- High and low fixed costs match.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625	Variable unit cost:	\$2.29	\$34,067.65
April	17,130	\$118,450		Fixed Costs:	\$78,682.35
May	23,150	\$131,250			
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675	Variable unit cost:	\$2.29	\$57,467.65
September	19,650	\$121,450		Fixed Costs:	\$78,682.35
October	18,550	\$118,375			
November	17,475	\$116,950			
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- As stated, High-Low Method is fast and dirty.
- Good for a meeting's general statement.
- Here is its fault. Different fixed costs.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625	Variable unit cost:	\$2.29	\$34,067.65
April	17,130	\$118,450		Fixed Costs:	\$78,682.35
May	23,150	\$131,250	\$2.29	\$53,108.82	\$78,141.18
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675	Variable unit cost:	\$2.29	\$57,467.65
September	19,650	\$121,450		Fixed Costs:	\$78,682.35
October	18,550	\$118,375			
November	17,475	\$116,950	\$2.29	\$40,089.71	\$76,860.29
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- When that \$2.29 variable cost is applied to any other level it will generate a different fixed cost.

High-Low Method:					
Month:	Guest Volume (x):	Utility Cost (y):			
January	15,850	\$113,825			
February	14,850	\$112,750	Low activity:	14,850	\$112,750.00
March	16,950	\$117,625	Variable unit cost:	\$2.29	\$34,067.65
April	17,130	\$118,450		Fixed Costs:	\$78,682.35
May	23,150	\$131,250	\$2.29	\$53,108.82	\$78,141.18
June	24,250	\$134,850			
July	25,050	\$136,150	High activity:	25,050	\$136,150.00
August	24,975	\$132,675	Variable unit cost:	\$2.29	\$57,467.65
September	19,650	\$121,450		Fixed Costs:	\$78,682.35
October	18,550	\$118,375			
November	17,475	\$116,950	\$2.29	\$40,089.71	\$76,860.29
December	16,550	\$114,550			
			Differential:	10,200	\$23,400.00
			Variable unit cost:		\$2.29

High-Low Method

- High-Low Method is a close estimate of variable and fixed costs if the input values are relatively consistent and factual.
- If the high or low activities have any abnormality within them the error may be substantial.
- If July has an additional \$25,000 for Independence Day celebrations its high cost may distort the analysis.

High-Low Method

The end.