**Steps in preparing an operating Budget:**

1- Identify the problem and uncertainties.

2- Obtain information.

3- Make prediction about the future.

4- Make decisions by choosing among alternatives.

5- Implement the decision, evaluate performance, and learn.

**Static Budget (Master Budget):**

Is based on the level of output planned at the start of the budget period. The static budget variance is the difference between the actual result and the corresponding budgeted amount in the static budget.

**Static Budget variance = Actual result - Static Budget amount**

**Flexible Budget:**

The budget that calculates budgeted revenues and budgeted costs based on the actual output in the budget period, and it is prepared at the end of the period after the actual output is known.

**Flexible Budget variance = Actual result – Flexible Budget amount**