High-low Method

The high-low method is a technique for estimating the variable and fixed cost components of mixed costs. The first step is to determine the approximate variable rate per unit of activity (such as units of output, units of input, miles driven, etc.). The second step is to determine the approximate amount of fixed costs during a time period (year, month, week, etc.).

Calculation of the variable cost rate						
If the fixed costs do not change as the levels of activity change, the change in the total costs is assumed to be the change in total variable costs. Therefore, the variable cost rate is the change in the total costs divided by the change in the units of activity.						
Change in total costs:						
Total costs at the <i>high</i> level of activity	\$	165,000.00	НС			
minus Total costs at the low level of activity	\$	135,000.00	LC			
= Change in total costs	\$	30,000.00	VC	(HC - LC)		
Change in total units of activity:						
Total units at the <i>high</i> level of activity		13,000	HU			
minus Total units at the low level of activity		10,000	LU			
= Change in total units of activity		3,000	U	(HU - LU)		
Variable cost rate:						
Change in total costs	\$	30,000.00	VC			
divided by the change in total units of activity		3,000	U			
= Variable cost rate	\$	10.00	VR	(VC / U)		

Calculation of the total fixed costs					
Total costs at the <i>high</i> * level of activity	\$	165,000.00	НС		
Total units at the <i>high</i> * level of activity		13,000	HU		
Variable cost rate	\$	10.00	VR (from above)		
Total amount of variable costs at high level of activity	\$	130,000.00	HVC (HU x VR)		
Total amount of fixed costs	\$	35,000.00	F (HC - HVC)		

*The calculation of the total fixed costs can also be computed by using the dollars and units at the low level of activity.

Notes:

VC Variable costs are those costs that change in proportion to a change in activity or volume.

The total costs on an accrual basis must be aligned with the units of activity. For example, the electricity used between the meter reading dates indicated on the utility bill must be aligned with the machine hours occurring between the meter reading dates.