

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 high level of activity	\$ _____	HC
<i>minus</i> Total costs at the low level of activity	\$ _____	LC
= Change in total costs	\$ _____	VC (HC - LC)

Change in total units of activity:

Total units at the high level of activity	_____	HU
<i>minus</i> Total units at the low level of activity	_____	LU
= Change in total units of activity	_____	U (HU - LU)

Variable cost rate:

Change in total costs	\$ _____	VC
<i>divided by</i> the change in total units of activity	_____	U
= Variable cost rate	\$ _____	VR (VC / U)

Calculation of the total fixed costs

Total costs at the high* level of activity	\$ _____	HC
Total units at the high* level of activity	_____	HU
Variable cost rate	\$ _____	VR (from above)
Total amount of variable costs at high level of activity	\$ _____	HVC (HU x VR)
Total amount of fixed costs	\$ _____	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.