5.5 Budgets

Name: ____________ Class: ________ Date: __________ **Total: 29 marks**

Objective

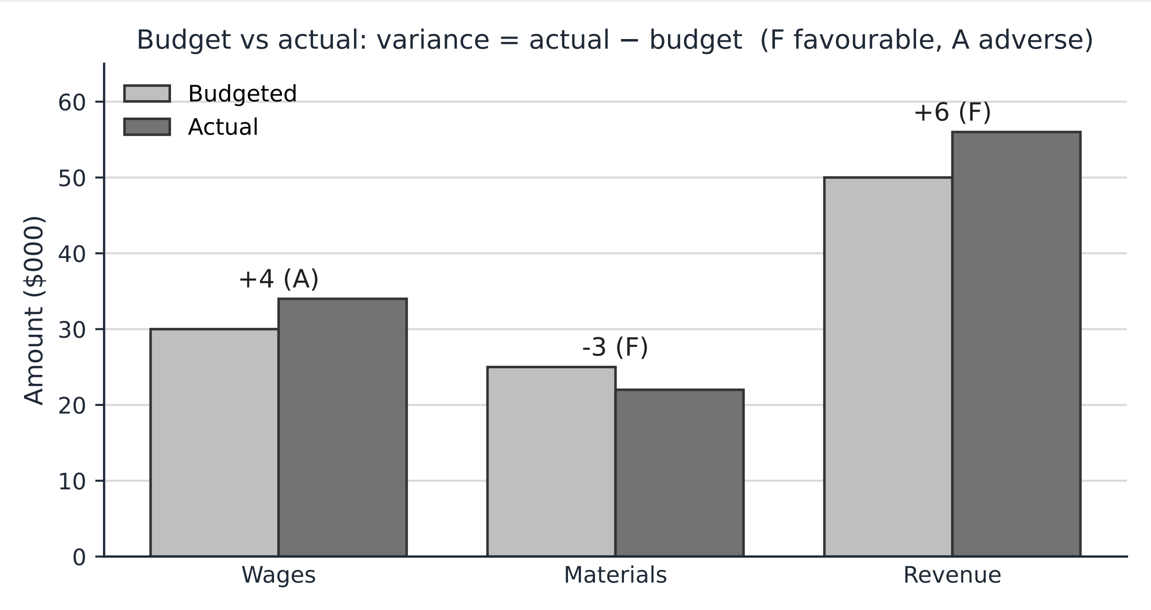
Build the skills to answer exam questions on **budgets** 预算—what a budget is, **incremental and zero-based** 增量和零基 budgeting, and **variances** 差异 (favourable and adverse).

You must be able to:

- explain the purpose of a budget and the two main types
- calculate a **variance** and say whether it is favourable or adverse
- analyse and evaluate the use of budgets to control a business

1 Worked examples

■ Budgets and variances



Variance = actual − budget: a cost under budget or revenue over budget is favourable (F); otherwise adverse (A)

$$\text{variance} = \text{actual figure} - \text{budgeted figure}$$

- **Worked (cost):** budgeted wages \$30,000, actual \$34,000 → variance = \$4,000 → costs higher → **adverse**.

- **Worked (revenue):** budgeted sales $50,000, actual $56,000 → variance = $6,000 → revenue higher → **favourable**.
- **Incremental budget** = last year ± a little; **zero-based budget** = every cost justified from zero.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *budget*. [2]

2.2 A firm budgeted $25,000 for materials but spent $28,000. Calculate the variance and state whether it is favourable or adverse. [2]

2.3 State the difference between an *incremental* and a *zero-based* budget. [2]

3 Exam-style questions

3.1 Explain one benefit to a business of setting budgets. [3]

3.2 Analyse two benefits to a business of using **zero-based budgeting**. [8]

3.3 'Budgets always improve a business's performance.' Evaluate this view. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **5.5 Budgets** past-paper sheet in the Library, or try these in **Practice mode**:

- 9609/22 N25 —Q2 (budgets, applied)
- 9609/23 N25 —Q1 (variance)
- 9609/13 J25 —Q2 (budgeting)

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a financial plan for the future —a target for income or spending over a set period (2 for a clear definition; 1 for a partial idea).

2.2 variance = \$28,000 − \$25,000 = \$3,000; **adverse** (costs higher than planned) (2; award 1 for the figure with no favourable/adverse, or correct method with the wrong figure).

2.3 an incremental budget starts from last year's figure and changes it by a small amount; a zero-based budget starts from zero and every cost must be justified each year (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 —name a benefit (helps planning; controls spending; motivates with targets; measures performance). **AO2** up to 2 —develop it, e.g. a clear spending limit stops a department overspending → costs stay under control → profit is protected (2 developed / 1 limited).

3.2 *[8]* For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains —*no wasted spending*: every cost is justified from zero → out-of-date costs are cut → money goes to where it is needed. *Better control*: managers review all spending each year → they understand their costs → tighter cost control and higher profit. Maximum 4 per benefit, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** budgets plan ahead, control costs, set targets and let managers spot variances early. **Against:** they can be guesses, may demotivate if unrealistic, can be inflexible if conditions change, and take time to prepare. Judgement: budgets help only if they are realistic, reviewed and acted on — a poorly set budget can harm performance, so the benefit depends on how well they are made and used.