

5.5 Budgets

Name: _____ Class: _____ Date: _____ **Total: 29 marks**

KEY WORDS budget 预算 • variance 差异 • incremental budget 增量预算
• zero-based budget 零基预算 • incremental and zero-based 增量和零基

Objective

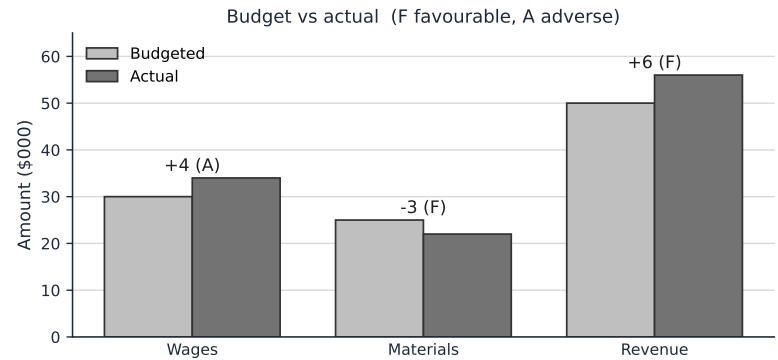
Build the skills to answer exam questions on **budgets** 预算 — what a budget is, **incremental and zero-based** 增量和零基 budgeting, and **variances** 差异 (favourable and adverse).

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



Exam: variance = actual – budget • cost under-spend = F; revenue under-earn = A

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

variance = actual figure – 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]

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.