Solutions

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

Each answer shows the steps, then the **result**.

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- out-of-date costs are cut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