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

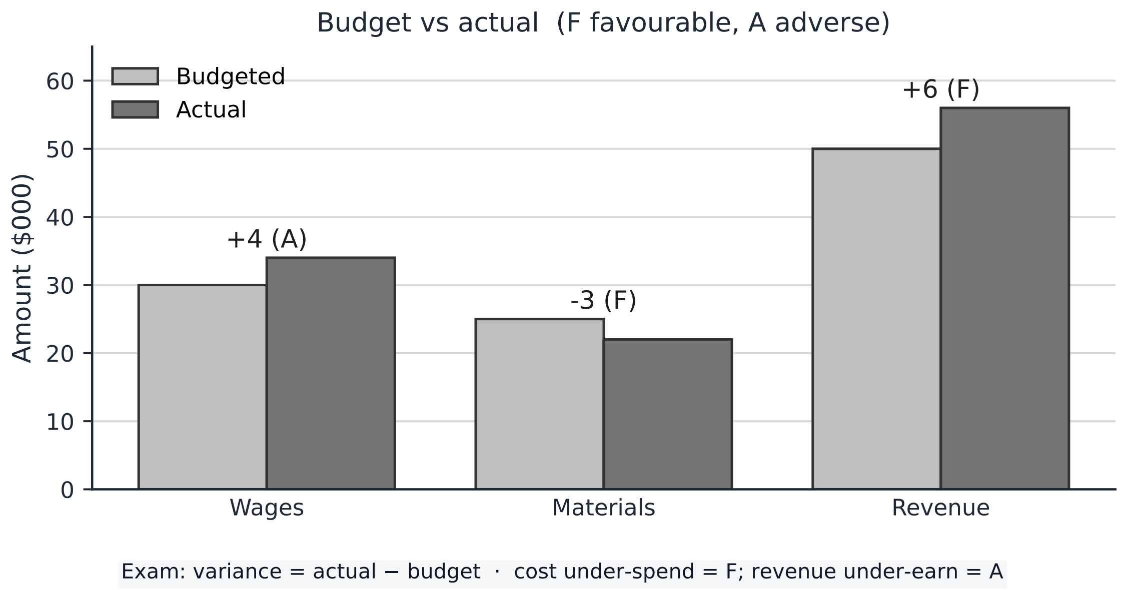
Build the skills to answer exam questions on **budgets 预算** — what a budget is, **incremental and zero-based 增量和零基** budgeting, and **variances 差异** (favourable and adverse).

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



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]