

Cambridge AS & A Level · Business 9609 · Notes

Budgets

AS

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What you need to know

By the end of this topic you should be able to:

1. **Explain what a budget is and what it is for:** a financial plan for a future period, agreed in advance and used as a target.
2. **Explain how budgets are used to measure performance:** comparing what actually happened with what was planned.
3. **Explain the benefits and drawbacks of using budgets.**
4. **Explain the meaning and use of incremental budgets, flexible budgets and zero budgeting,** and when each suits a business.
5. **Explain how budgets are used** to measure performance, allocate resources, control spending and monitor a business.
6. **Explain the meaning of favourable and adverse variances.**
7. **Calculate and interpret variances:** work out the size of a variance, say whether it is favourable or adverse, and explain what may have caused it and what managers should do about it.

Understand it

What a budget is

A **budget** is a financial plan for a set future period (a month, a quarter, a year) that states, in numbers, the revenue a business expects to earn and the money each part of it may spend. It is agreed **before** the period starts, so it works as a target. Budgets are usually set for each **budget holder**, the manager responsible for one department, product, branch or project, and then added up into a **master budget** for the whole business.

A budget is not the same as a forecast. A forecast is a prediction of what will probably happen; a budget is a plan of what the business **intends** to happen, with a named person responsible for achieving it. Forecasts of sales and costs are used to help set the budget.

What budgets are used for

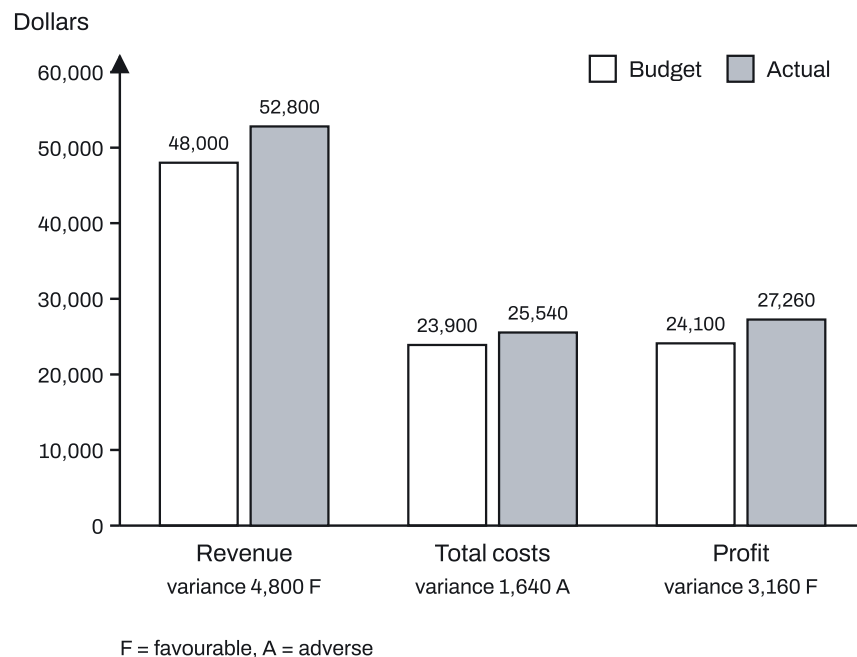
- **Planning.** Setting a budget forces managers to think ahead: how much they expect to sell, what they will need to spend, and whether the plan fits the business's objectives. Problems (a month when cash will be short, a cost that will rise) show up before they happen.
- **Allocating resources.** The business has limited money. The budget decides how much each department, product or project receives, so money goes to the priorities in the business's objectives rather than to whoever asks loudest.
- **Controlling spending.** Each budget holder knows the limit they must stay within. Spending above the limit needs permission, so costs do not drift upwards unnoticed.
- **Measuring performance.** At the end of the period, actual results are compared with the budget. The budget is the yardstick: a department that hit its targets has performed well, one that missed them needs attention.
- **Monitoring the business.** Comparing actual and budget figures every month shows which areas are going off course while there is still time to act.
- **Coordinating departments.** The sales budget drives the production budget, which drives the purchasing and staffing budgets. Setting them together makes sure departments work towards the same plan.
- **Motivating staff.** A budget holder who helped set a realistic target, and is trusted to manage the money, has responsibility and a clear goal to aim for.

Measuring performance with budgets

Tidewater Kayak Tours runs guided sea-kayak trips. For July it budgeted for 1,200 customers at 40 dollars each. Guides are paid 12 dollars for each customer they take out.

	Budget	Actual	Variance
Revenue	48,000	52,800	4,800 favourable
Guide pay	14,400	15,840	1,440 adverse
Equipment and fuel	6,500	6,100	400 favourable
Marketing	3,000	3,600	600 adverse
Total costs	23,900	25,540	1,640 adverse
Profit	24,100	27,260	3,160 favourable

Each line compares what happened with what was planned. The owner can see at a glance that July went better than planned overall (profit 3,160 dollars above budget), but also that two costs ran over. That is how a budget **measures performance**: it turns "a good month" into specific figures for each area, and each figure belongs to someone who can explain it.



Variances

A **variance** is the difference between an actual figure and the budgeted figure for it.

$$\text{variance} = \text{actual} - \text{budget}$$

What matters is not the sign but the **effect on profit**:

- A **favourable variance** is one that makes profit higher than planned: revenue **above** budget, or a cost **below** budget.
- An **adverse variance** is one that makes profit lower than planned: revenue **below** budget, or a cost **above** budget.

So the same arithmetic sign means different things for revenue and costs. Tidewater's revenue was 4,800 dollars above budget, which is good: favourable. Its marketing cost was 600 dollars above budget, which is bad: adverse. Always write the word; a minus sign on its own does not say which.

A variance can also be given as a **percentage of the budget**: Tidewater's revenue variance is $4800 \div 48000 \times 100 = 10\%$ favourable. A percentage lets managers compare variances of very different sizes.

Interpreting variances: what caused them

A variance only says **that** something differed from the plan. **Variance analysis** asks **why**, and what to do about it.

Causes of **favourable** variances:

- more customers than expected (a competitor closed, a successful promotion, good weather for a seasonal business);
- a higher price achieved than planned;

- cheaper materials or a supplier discount;
- less waste, fewer faulty products, or staff working more efficiently;
- a smaller pay rise or fewer overtime hours than budgeted.

Causes of **adverse** variances:

- fewer sales than planned (a recession, a new competitor, a product falling out of fashion);
- prices cut to win business;
- input prices rising after the budget was set (fuel, energy, raw materials);
- inefficiency, waste or breakdowns;
- a budget that was unrealistic in the first place.

A variance is not automatically good or bad news. Tidewater's guide pay was 1,440 dollars over budget, which looks adverse. But guides are paid per customer, and there were 120 extra customers: $120 \times 12 = 1440$ dollars. The overspend is exactly what the extra customers cost, and they brought in far more revenue. Likewise, a favourable cost variance may come from skimping on maintenance or training, which stores up problems for later. Managers have to look behind the number.

Once the cause is known, managers can take **corrective action**: find a cheaper supplier, retrain staff, revise the sales target, or move money from an area that underspent to one that needs it. Variance analysis also improves the **next** budget, because managers learn which figures they set too high or too low.

Three ways to set a budget

Incremental budgeting takes last period's budget (or actual figures) as the starting point and adjusts it by a small amount, often a percentage for inflation or growth. Tidewater's marketing budget of 3,000 dollars, raised by 5% for next July, becomes $3000 \times 1.05 = 3150$ dollars.

- *Benefits*: simple and quick to prepare; consistent from year to year; realistic, because it is based on what the business actually spent before; few arguments between managers, since everyone's share changes by a similar amount; suits a stable business whose activities change little.
- *Drawbacks*: past waste is built into every future budget; managers may spend their whole budget before the year ends so it is not cut next time; it does not encourage anyone to ask whether the spending is still needed; it suits a changing business badly.

Zero budgeting (zero-based budgeting) sets every budget to **zero** at the start of each period. Each budget holder must justify every item of spending from scratch, as if the activity were new, and receives money only for what they can show is needed.

- *Benefits*: waste and out-of-date spending are cut, because nothing is carried forward automatically; money goes to activities that support current objectives; managers must understand and defend their costs.
- *Drawbacks*: very time-consuming, since every item is reviewed every year; needs skilled managers to build and judge the cases; managers who argue well may win money over those whose spending matters more; can be demotivating if long-running work has to be re-justified each year.

Flexible budgeting adjusts the budget to the **actual level of output or sales**, so that actual costs are compared with what they **should** have been at that level. Variable costs are re-worked for the actual output; fixed costs stay the same.

At Tidewater the original budget allowed 14,400 dollars of guide pay for 1,200 customers. Flexed to the 1,320 customers who actually came, the allowance is $1320 \times 12 = 15840$ dollars, exactly what was paid, so the flexed variance is zero. The "adverse" 1,440 dollars was simply the cost of the extra customers, not overspending.

- *Benefits*: fairer to budget holders when output differs from the plan; shows true efficiency, separating "we made more" from "we wasted money".
- *Drawbacks*: more work, because costs must be split into fixed and variable; and a cost can only be flexed if it really does vary with output.

Benefits and drawbacks of budgets

Benefits:

- clear targets for every manager, linked to the business's objectives;
- spending is controlled, so the business is less likely to overspend or run short of cash;
- money is allocated deliberately to priorities;
- departments' plans are coordinated;
- performance can be measured and managers held to account;
- problems show up early through variances, so corrective action can be taken;
- budget holders who help set their budgets are often more motivated;
- a lender or investor can see that the business is planned and controlled.

Drawbacks:

- a budget built on poor forecasts gives misleading targets, and then misleading variances;
- it can be **inflexible**: if conditions change (a sudden rise in energy prices, a new opportunity), a fixed budget may stop managers responding;
- preparing and monitoring budgets takes managers' time;
- it measures money, not quality, customer satisfaction or staff morale;
- managers may pad their budgets (ask for more than they need) to make targets easy, or spend everything left near the year end;
- targets imposed from above, or set too high, can demotivate;
- departments may compete for money, causing conflict;
- the further ahead the budget runs, and the less stable the market, the less accurate it is.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Fact or formula	Status
A budget is a financial plan for a future period, agreed in advance and used as a target	Learn it
Variance = actual figure – budgeted figure (state the size and whether it is favourable or adverse)	Learn it
Favourable variance: revenue above budget, or a cost below budget (profit higher than planned)	Learn it
Adverse variance: revenue below budget, or a cost above budget (profit lower than planned)	Learn it
Percentage variance = $\text{variance} \div \text{budgeted figure} \times 100$	Learn it
Budgeted profit = budgeted revenue – budgeted total costs; actual profit = actual revenue – actual total costs	Learn it
Budgeted cost per unit = $\text{budgeted total cost} \div \text{budgeted number of units}$	Learn it
Incremental budget = last period's budget adjusted by a set amount or percentage	Learn it
Zero budgeting: every budget starts at zero and each item of spending must be justified	Learn it
Flexible budget: variable costs re-worked for actual output = $\text{variable cost per unit} \times \text{actual output}$; fixed costs unchanged	Learn it

How to do it

We have tagged 11 questions on this topic, all from **2024 and 2025** (Papers 1 and 2), so the exam evidence is thin: it was asked in May/June and October/November 2024 and in all three 2025 sessions. Expect any of the syllabus points, including flexible budgets, which have not yet come up. 8 of the questions have parts of more than one type, so the counts add up to 19.

Question type	Questions
Explain a benefit or use of budgets	5
Calculate a budget variance and say favourable or adverse	4
Calculate a figure from budget data (cost per unit, forecast revenue)	2
Define a budgeting method (incremental, zero)	2

Question type	Questions
Explain variance analysis (its advantage, or a cause of a variance)	2
Evaluate how important or effective budgets are	2
Explain a benefit of a specific budgeting method (incremental)	1
Explain a drawback of budgets	1

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: explaining it, and using the business in the question), **An** (analysis: a chain of causes and consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns; (1) in a calculation is one mark.

1. Explain a benefit or use of budgets (5 questions)

[3]: Paper 2 (b)(ii) straight after a variance calculation, or Paper 1 Section A (b).

1. **K (1)**: name **one** benefit or use: planning, allocating resources, controlling spending, measuring performance, monitoring, coordinating departments, motivating budget holders, spotting problems early so action can be taken.
2. **Explain (1)**: say **how** it works: "by comparing actual figures with the budget each month", "by giving each manager a spending limit", "by deciding in advance how much each product line receives".
3. **Context (1)**: on Paper 2, use the case: a figure from the table, the variance you have just calculated, or a fact about the business. On Paper 1 there is no case, but the explanation must still be developed.

Variants:

- **"One way the owner could use the budget data in the table"**: the same pattern; the use is usually monitoring or measuring performance, so point to the specific lines that went off course.
- Without the K mark nothing else scores, so open with the benefit itself. Describing what a budget **is** (a plan of future income and spending) is not a benefit; say what the business **gains**.
- Give **one** benefit and develop it. Two or three listed benefits earn only the single K mark.

2. Calculate a budget variance and say favourable or adverse (4 questions)

Paper 2 (b)(i), [3].

1. **Formula (1)**: variance = actual – budget (budget – actual is also accepted).
2. **Figures (1)**: put the right two numbers in. If the profit is not given, work it out first: revenue – total costs.
3. **Answer (1)**: the size of the variance **and the word** favourable or adverse.

Variants:

- **One budget figure in the text, the actual in a table**: read both carefully; the years or products must match.

- **Several variances at once** (revenue, direct costs, indirect costs), one mark each: each needs its size and its word. A cost **below** budget is favourable.
- **A percentage variance** is also accepted: $\text{variance} \div \text{budget} \times 100$, with the % sign.
- Units (\$, millions) do not matter, but a **minus sign is never accepted as "adverse"**: write the word.

3. Calculate a figure from budget data (cost per unit, forecast revenue) (2 questions)

Paper 2 (b)(i), [3], two or three steps.

1. Write the formula for the first step (1): for example budgeted cost per unit = budgeted total cost $\div$ number of units; or forecast revenue = last year's revenue $\times (1 + \text{growth rate})$.
2. Use the right figures (1), including any **share** or **percentage** in the case (a product's share of total revenue, a growth rate).
3. Finish the last step (1). If the case says the actual figure differed from the budget by a given variance, **add** an adverse cost variance to the budgeted cost (the actual cost was higher) or **subtract** a favourable one.

Show each stage: the last mark is given on your own earlier figures if one step went wrong.

4. Define a budgeting method (incremental, zero) (2 questions)

Paper 1 Section A (a), [2]: 2 marks for the whole idea, 1 for half of it.

- **Incremental budgeting**: the budget is set by **adjusting last period's budget** up or down, for example by an inflation percentage. "Based on last year's budget" alone is half.
- **Zero budgeting**: every budget is set to **zero** each period **and** budget holders must justify all the money they ask for. "Starts from zero" or "ignores past figures" alone is half.
- **Flexible budgeting** (not yet asked): a budget that is **adjusted to the actual level of output**, so that costs are compared with what they should have been at that output.

5. Explain variance analysis (its advantage, or a cause of a variance) (2 questions)

Paper 1 Section A (b), [3]: K (1), then a developed explanation (2).

- **An advantage of variance analysis**: name it (K): it gives managers control, makes budget holders accountable, finds problems early, shows where money is over- or under-spent, helps judge managers' performance, makes the next budget more accurate. Then explain how, as a chain: "the monthly report shows the delivery fleet's fuel costs 9% over budget (K) → the transport manager is asked to explain → routes are re-planned before the overspend grows across the rest of the year (2)."
- **A cause of a favourable (or adverse) variance**: name the cause (K), then explain **which** figure it moves and **why** it ends up better or worse than the budget: "a rival shop closing (K) sends extra customers, so actual sales revenue rises above the budgeted figure (1), giving a favourable revenue variance that the budget did not plan for (1)."

6. Evaluate how important or effective budgets are (2 questions)

Paper 1 Section B (b), [12]: 2 K, 2 App, 2 An, 6 Eval. The question names a type of business, so everything should fit it.

1. **K**: what a budget is and what it does: targets, control, allocation, variance analysis.
2. **App**: features of the named business throughout. What does it spend money on? How predictable are its sales and costs? Is it large with many departments, or small and owner-run? How does it judge success?
3. **An**: why budgets help this business, each as a chain (target → comparison → variance → action → result). Then the limits: forecasts that are hard to make in this industry; budgets measure money, not quality or customer satisfaction; other measures that may matter more (key performance indicators such as customer ratings, staff turnover, market share); a small owner-run business may plan well informally.
4. **Eval**: a judgement **for this business**: important, most effective, or one tool among several? Say what it depends on: how stable its costs and demand are, how big it is, how success is measured, how well the budgets are prepared and reviewed. Judge as you go, not only in a final paragraph that repeats earlier points.

7. Explain a benefit of a specific budgeting method (incremental) (1 question)

Paper 2 (b)(ii), [3]. The benefit must belong to **that method**, not to budgets in general: "it helps the business plan" earns nothing on an incremental-budgeting question.

1. **K (1)**: for incremental: quick, simple, consistent, realistic (built on real past figures), few disputes between managers. For zero: removes waste, links money to current objectives. For flexible: fair comparison when output changes.
2. **Explain (1)**: why the method gives that benefit (because it starts from last year's figures; because every item is questioned; because costs are re-worked for actual output).
3. **Context (1)**: the case business, or your variance figures.

8. Explain a drawback of budgets (1 question)

Paper 2 (b)(ii), [3].

1. **K (1)**: unreliable forecasts; inflexible when conditions change; time-consuming; ignores non-financial factors; budgets padded or manipulated; demotivating targets; conflict over money; less accurate in unstable markets or far ahead.
2. **Explain (1)**: what goes wrong as a result: a misleading target, a missed opportunity, wasted management time.
3. **Context (1)**: tie it to the case: rising costs in the case, a large variance you calculated, a fast-changing industry, a planned investment.

Worked examples

Example 1

Swiftpedal is a bicycle courier business that delivers documents and small parcels in a city centre. Its budget report for April:

(\$)	Budget	Actual
Revenue	62,000	57,350
Rider pay	28,000	26,900
Bike maintenance	4,500	5,200
Office, insurance and app fees	9,000	9,000

(a) Calculate Swiftpedal's profit variance for April. State whether the variance is favourable or adverse. [3]

(b) Calculate the revenue variance as a percentage of budgeted revenue. [2]

(c) Explain one way the owner could use this budget report. [3]

(a) Profit variance = actual profit – budgeted profit (1).

Budgeted profit = $62000 - (28000 + 4500 + 9000) = 20500$ dollars. Actual profit = $57350 - (26900 + 5200 + 9000) = 16250$ dollars (1).

Profit variance = $16250 - 20500 = -4250$, so **4,250 dollars adverse** (1).

(b) Revenue variance = $57350 - 62000 = -4650$, 4,650 dollars adverse (1). As a percentage: $4650 \div 62000 \times 100 = 7.5\%$ adverse (1).

(c) The owner could use the report to **measure performance line by line** (K). By comparing each actual figure with its budget, she can see that the fall in profit came mostly from revenue 7.5% below plan, while maintenance ran 700 dollars over even though there were fewer deliveries (App). That points her to two separate actions: chasing new business customers to rebuild revenue, and checking whether ageing bikes are breaking down more often (App).

Example 2

(a) Define the term flexible budget. [2]

(b) Explain one cause of an adverse cost variance. [3]

(a) A flexible budget is one that is adjusted to the actual level of output (1), so that actual costs are compared with the costs that should have been incurred at that output, not at the planned output (1).

(b) One cause is a rise in the price of raw materials after the budget was set (K). For example, a furniture maker budgets its timber costs using the supplier's price in January, but a shortage of timber pushes the price up by 15% in March (1). It pays more for every table it makes than the budget allowed, so its actual materials cost is above the budgeted figure, giving an adverse variance that has nothing to do with how efficiently the workshop is run (1).

Example 3

Greenway Landscaping designs and builds gardens. Its budget for last year allowed total costs of 312,000 dollars for 40 garden projects. It actually completed 44 projects, at a total cost of 334,400 dollars.

(a) Calculate the budgeted cost per project and the actual cost per project, and state whether the variance per project is favourable or adverse. [3]

(b) Explain why the total cost variance alone could mislead Greenway's owner. [3]

(a) Budgeted cost per project = budgeted total cost $\div$ budgeted number of projects = $312000 \div 40 = 7800$ dollars (1).

Actual cost per project = $334400 \div 44 = 7600$ dollars (1).

Variance per project = $7600 - 7800 = -200$, so **200 dollars favourable** per project: each garden cost less than planned (1).

(b) The total cost variance is $334400 - 312000 = 22400$ dollars **adverse**, which suggests the business overspent (K). But it built 44 gardens instead of 40, and more projects need more plants, materials and labour (1). Flexing the budget to 44 projects gives an allowance of $44 \times 7800 = 343200$ dollars; actual costs were 8,800 dollars below that, so Greenway was in fact **more** efficient than planned, and judging the manager on the 22,400 dollar figure would be unfair (1).

Example 4

Evaluate whether budgets are important to the success of a business that organises large outdoor music festivals. [12]

Knowledge. A budget is a financial plan, agreed in advance, setting the revenue a business expects and the amount each area may spend (K). Comparing actual figures with the budget produces variances, which show managers where to act (K).

Why budgets are important. A festival organiser commits most of its spending months before the event: artists' fees, stage hire, security, toilets and fencing all have to be booked and often paid in deposits long before ticket sales are known (App). A budget sets how much can go to each, so the headline act's fee cannot swallow the money needed for safety staff (An); without that limit, the festival could open understaffed and lose its licence for the following year (An). Ticket sales are tracked weekly against the budget (App): if sales are 20% behind target two months out, the organiser can spend more on advertising or cut the size of a second stage while contracts can still be changed (An), protecting the profit that pays for next year's event (An).

Why they may matter less. A festival's success depends heavily on things a budget cannot control: whether the line-up excites fans, the atmosphere, and reviews from the previous year (Eval). A budget measures money but not whether customers had a good time, which drives repeat ticket sales; an organiser obsessed with staying within budget might cut queues for food and water too far and damage its reputation (Eval). The budget also rests on the ticket forecast, and a new festival has no past figures to base it on, so its variances may say more about a poor estimate than about poor management (Eval).

Judgement. Budgets are very important to a festival organiser, more than to most businesses, because almost all its costs are fixed and committed before a single ticket is sold, so a plan that runs over can turn one bad year into closure (Eval). But they are not enough on their own for success: they keep the event financially safe, while the line-up and the customer experience decide whether people come back (Eval). How important they are depends on the size of the festival and how well established it is: a large, long-running event can budget accurately from past years and should treat the budget as its main control tool, whereas a first-year festival should treat it as a flexible guide and review it weekly against ticket sales (Eval).

The marks: 2 K, 2 App, 2 An, and 6 Eval for a supported judgement in the context of a festival organiser that weighs budgets against other factors and says what the answer depends on.

Common mistakes

- **Using a minus sign instead of the word.** "—4250" does not say whether it is good or bad. Write "4,250 dollars adverse"; without the word the last mark is lost.
- **Getting favourable and adverse the wrong way round for costs.** A cost above budget is adverse even though the actual number is bigger. Ask: did this make profit higher or lower than planned?
- **Forgetting to work out profit first.** If the table gives revenue and costs but not profit, the profit variance needs both profits calculated before subtracting.
- **Listing several benefits instead of explaining one.** Three named benefits with no explanation earn one mark; one benefit with its "how" and the case figures earns three (March 2025).
- **Describing instead of benefiting.** "A budget is a plan of future revenue and costs" defines the term; it is not a benefit. Say what the business gains from it.
- **A general budgeting benefit on a method question.** When the question names incremental (or zero, or flexible) budgeting, the benefit must come from that method: "quick because it starts from last year's figures", not "helps the business plan".
- **Treating every adverse variance as poor management.** A cost can be over budget because output was higher than planned. Look for the cause, and use a flexed figure where output changed.
- **Vague context.** A point that would fit any business ("it helps the company do better") gets no context mark. Use a figure from the table, your calculated variance, or a fact from the case.
- **Half definitions.** Zero budgeting needs both halves: starts from zero **and** every item must be justified.

How to get the marks

- **Command words.** *Define*: the full idea in one or two sentences. *Calculate*: formula, figures, answer with "favourable" or "adverse". *Explain*: one point, how it works, and the case. *Analyse*: chains of cause and consequence. *Evaluate*: both sides, then a supported judgement for the business named.
- **Variance calculations [3]**: formula (1), correct figures (1), size and word (1). The last mark is given on your own figures if an earlier slip was made, so write each stage.
- **Explain [3]**: the K mark comes first and unlocks the rest: name the benefit, drawback, cause or use clearly, then explain it, then apply it.
- **Use your own numbers.** On Paper 2 the (b)(ii) part follows a calculation: quoting your variance ("the 4,250 dollar adverse profit variance") is the easiest context mark.
- **Evaluate [12]**: half the marks are evaluation. Weigh budgets against other ways of judging and controlling performance (non-financial measures, the owner's experience, market conditions) and finish with a judgement for **this** kind of business that says what it depends on.
- **Name the method.** When asked about incremental, zero or flexible budgets, say the method's name in your answer and give a reason specific to it.

Quick check

1. A gym's budgeted membership revenue for March was 85,000 dollars; actual revenue was 79,900 dollars. Calculate the variance in dollars and as a percentage of the budget, and state whether it is favourable or adverse.
2. State whether each variance is favourable or adverse: (a) materials budget 12,000, actual 11,400; (b) overtime budget 1,000, actual 1,800; (c) sales revenue budget 30,000, actual 33,000.
3. A college's training budget last year was 18,000 dollars. Under incremental budgeting it is raised by 4%. Calculate this year's training budget.
4. A business budgeted to make 500 units with materials costing 6 dollars per unit. It actually made 560 units and spent 3,500 dollars on materials. Calculate the materials variance against the original budget and against a flexible budget, and say which is the fairer measure.
5. Explain one benefit to a chain of pharmacies of using incremental budgeting. **[3]**

Answers

1. $\text{Variance} = 79900 - 85000 = -5100$: 5,100 dollars **adverse**, which is $5100 \div 85000 \times 100 = 6\%$ of the budget.
2. (a) Favourable: the cost was 600 dollars below budget. (b) Adverse: the cost was 800 dollars above budget. (c) Favourable: revenue was 3,000 dollars above budget.
3. $18000 \times 1.04 = 18720$ dollars.
4. Original budget = $500 \times 6 = 3000$ dollars, so the variance is $3500 - 3000 = 500$ dollars adverse.
Flexible budget = $560 \times 6 = 3360$ dollars, so the variance is $3500 - 3360 = 140$ dollars adverse. The flexed figure is fairer: 360 dollars of the 500 dollar overspend was the cost of making 60 more units, so only 140 dollars is real overspending on materials.
5. Incremental budgeting is quick to prepare (K) because each budget starts from last year's figure and is only adjusted, for example for inflation, rather than being rebuilt item by item (1). A pharmacy chain's costs, such as staff, rent and stock, change little from year to year, so its managers can set budgets for every branch in a short time and spend their time serving customers instead (1).

Past questions to try

- **9609/11/O/N/24 Q1**: the full definition of zero budgeting, then one cause of a favourable variance.
- **9609/23/M/J/24 Q1**: part (b), a cost per unit from a budget table, adjusted by a stated variance, then one benefit of a budget.
- **9609/21/O/N/24 Q2**: part (b), a forecast revenue figure from a growth rate and a product's share, then one benefit of a budget.
- **9609/11/M/J/24 Q6**: part (b), evaluating whether budgets matter to a particular kind of business.