

## Chapter 21: Worksheet mark scheme (22 marks)

- 1** What is the difference between a cash-flow forecast and a budget? **(2)**
- A cash-flow forecast details expected cash inflows and outflows, whereas a budget shows sales targets and expected costs.
- 2** What is a variance analysis? **(2)**
- This includes calculated differences between planned and actual sales and costs. It also analyses reasons for these differences.
- 3** Give **four** reasons why businesses set budgets and produce financial plans. **(4)**
- make managers think carefully about future plans
  - ensure businesses do not spend more than they can afford
  - target setting
  - coordination: once plans are set, people have to work together to make them happen
  - constant reference to check if things are going as planned so adjustments can be made if necessary
  - used to assess performance
  - may be used for management by objectives (MBO)
- 4** State **three** limitations of budgeting. **(3)**
- inflexible: once set and agreed, budgets are fixed for the year
  - time consuming to produce and are therefore expensive
  - focused on the short term
  - everyone involved in budgeting has to be trained – slow and expensive
  - budgets for one-off projects are very difficult to make accurate
- 5 a** Complete the following plan–variance analysis for Doggyland Ltd **(5)**
- | £000               | Plan | Actual | Variance |
|--------------------|------|--------|----------|
| Sales              | 60   | 72     | 12       |
| Cost of goods sold | 30   | 40     | (10)     |
| Wages              | 10   | 15     | (5)      |
| Rent               | 4    | 4      | 0        |
| <b>Total</b>       | 16   | 13     | (3)      |
- b** Analyse the variance for Doggyland Ltd. **(6)**
- Sales were 16% more than expected, but this meant that cost of goods sold went up proportionately.
  - Wages were 50% higher than planned.
  - Rent is probably fixed and so was exactly as planned.
  - Profit was almost 19% lower than expected ( $= 3 \div 16 \times 100\%$ ). This was because of the higher wages.