Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**2.2.4 Budgets**

* 1. Identify whether each of the following statements are true or false. Justify your answer.

|  |  |
| --- | --- |
| Statement | True/False |
| A negative variance is always adverse. |  |
| Justification: |
| If actual revenue is higher than budget then there is a favourable variance. |  |
| Justification: |
| There will always be a variance between actual and budget. |  |
| Justification: |
| If all other variances are adverse the profit variance must also be adverse. |  |
| Justification: |
| An adverse variance will result in negative net cash flow. |  |
| Justification: |

* 1. Use the information provided to complete the table below:
* All sales were paid in cash at the time of purchase. Monthly sales were £35 000
* Expenditure was 40% of sales paid in the same month
* There was a £2 000 favourable variance on sales
* In month 1 the closing balance was (£3 000)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Budget | Actual | Variance |
| Revenue |  |  |  |
| Expenditure |  |  |  |
| Profit |  |  |  |
|  | Month 1 | Month 2 | Month 3 |
| Cash in |  |  |  |
| Cash out |  |  |  |
| Net cash flow |  |  |  |
| Opening balance |  |  |  |
| Closing balance |  |  |  |