2.1 Budgeting and Variance Analysis: Favourable and Adverse Variances: Test Pack

AQA 7132 · Calculators not allowed · about 15 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for every calculation. Label each variance as 'Favourable' or 'Adverse' where asked. GreenLeaf Catering Ltd, used in this pack, is fictional.

1 Ashdown Print Ltd budgeted £18,000 for paper and ink in March. It actually spent £16,500. Which one of the following correctly describes the variance?

- ☐ A) £1,500 adverse
- ☐ B) £16,500 favourable
- ☐ C) £1,500 favourable
- ☐ D) £34,500 adverse

(Total for Question 1 is 1 mark)

2 Actual performance in May: GreenLeaf sold 1,320 meals at the same price of £8. Calculate the actual revenue for May. Show your working.

(Total for Question 2 is 2 marks)

3 Marlow Cycles Ltd budgeted revenue of £20,400 and total costs of £15,300 for the quarter. Actual revenue was £18,960 and actual total costs were £15,010. Calculate the profit variance for the quarter and state whether it is Favourable or Adverse. Show your working.

(Total for Question 3 is 3 marks)

4 Explain one limitation of relying on variance analysis when managing a small business.

(Total for Question 4 is 3 marks)

5 Calculate the profit variance for May for GreenLeaf, stating whether it is Favourable or Adverse. Use budgeted profit £2,000 and actual profit £2,436. Show your working.

(Total for Question 5 is 2 marks)

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Mark scheme · 2.1 Budgeting and Variance Analysis: Favourable and Adverse Variances: Test Pack

Question 1

C cao	**B1**

Answer: C

Question 2

1,320 x 8 seen	**M1**
£10,560 cao	**A1**

Answer: £10,560.

Question 3

budgeted profit 20,400 - 15,300 = 5,100 seen	**M1**
actual profit 18,960 - 15,010 = 3,950 seen	**M1**
£1,150 Adverse cao	**A1**

Answer: £1,150 Adverse.

Question 4

identifies a valid limitation, e.g. it shows what differed from budget but not why; the budget itself may have been unrealistic; it looks at past performance; it can encourage managers to focus on short-term figures; preparing variance reports takes time and money that a small business may not have; it measures only financial results, not quality or customer satisfaction oe	**B1**
explains how the limitation reduces the usefulness of the information, e.g. an adverse variance could be due to a poor budget rather than poor performance; or staff time spent on reports is time not spent running the business oe	**B1**
develops the consequence for decision-making, e.g. managers may take the wrong corrective action or blame the wrong department; or a small business may act too late or ignore quality problems oe	**B1**

Answer: Variance analysis only shows how far results differ from the budget, not why; if the budget was unrealistic, an adverse variance may reflect a poor budget rather than poor performance, so managers may take the wrong corrective action.

Question 5

2,436 - 2,000 seen	**M1**
£436 Favourable cao	**A1**

Answer: £436 Favourable.

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