BUS.AL13 Budgeting and Variance Analysis: Favourable and Adverse Variances

AQA 7132 · Calculators not allowed · about 60 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 GreenLeaf Catering Ltd prepares a budget for May. Budgeted sales are 1,200 meals at a selling price of 8 pounds per meal. Using these figures, calculate the budgeted revenue for May. Show your working.

(Total for Question 1 is 2 marks)

2 GreenLeaf budgets variable cost per meal at 3 pounds. Calculate the total budgeted variable cost for May using budgeted sales of 1,200 meals. Show your working.

(Total for Question 2 is 2 marks)

3 GreenLeaf budgets fixed costs of 4,000 pounds for May. Using your answers to questions 1 and 2, calculate the budgeted profit for May. Show your working.

(Total for Question 3 is 3 marks)

4 GreenLeaf starts May with a cash balance of 1,500 pounds. The budget assumes all sales are received in cash and all costs are paid in May. Using budgeted revenue 9,600 pounds and total budgeted costs 7,600 pounds, calculate the budgeted closing cash balance for May. Show your working.

(Total for Question 4 is 3 marks)

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

(Total for Question 5 is 2 marks)

6 Actual variable cost per meal was 3.20 pounds in May. Using actual sales of 1,320 meals, calculate the total actual variable cost. Show your working.

(Total for Question 6 is 2 marks)

7 Actual fixed costs were 3,900 pounds in May. Using actual revenue 10,560 pounds, actual variable costs 4,224 pounds and actual fixed costs 3,900 pounds, calculate the actual profit for May. Show your working.

(Total for Question 7 is 3 marks)

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8 Using opening cash 1,500 pounds, actual receipts 10,560 pounds and actual payments 8,124 pounds for May, calculate the actual closing cash balance for GreenLeaf. Show your working.

(Total for Question 8 is 3 marks)

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9 Calculate the revenue variance for May for GreenLeaf Catering Ltd, stating whether it is Favourable or Adverse. Use budgeted revenue 9,600 pounds and actual revenue 10,560 pounds. Show your working.

(Total for Question 9 is 2 marks)

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10 Calculate the variable cost variance for May, stating whether it is Favourable or Adverse. Use budgeted variable cost 3,600 pounds and actual variable cost 4,224 pounds. Show your working.

(Total for Question 10 is 2 marks)

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11 Calculate the fixed cost variance for May, stating whether it is Favourable or Adverse. Use budgeted fixed costs 4,000 pounds and actual fixed costs 3,900 pounds. Show your working.

(Total for Question 11 is 1 mark)

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

(Total for Question 12 is 2 marks)

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13 Calculate the closing cash variance for May and state whether it is Favourable or Adverse. Use budgeted closing cash 3,500 pounds and actual closing cash 3,936 pounds. Show your working.

(Total for Question 13 is 1 mark)

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14 Evaluate how useful variance analysis is for managing GreenLeaf Catering Ltd, using the budget and variance figures provided in this pack. In your answer, consider the advantages and limitations of variance analysis, possible causes of the variances shown, and the corrective or management actions GreenLeaf's managers might take. Use evidence from the budget and variance figures to support your judgement.

(Total for Question 14 is 12 marks)

Mark scheme · BUS.AL13 Budgeting and Variance Analysis: Favourable and Adverse Variances

Question 1

- **M1** 1,200 x 8 seen
- **A1** 9,600 pounds cao
- **Answer: 9,600 pounds.**

Question 2

- **M1** 1,200 x 3.00 seen
- **A1** 3,600 pounds cao
- **Answer: 3,600 pounds.**

Question 3

- **M1** profit = revenue - (variable costs + fixed costs) stated or implied
- **M1** 9,600 - (3,600 + 4,000) seen
- **A1** 2,000 pounds cao
- **Answer: 2,000 pounds.**

Question 4

- **M1** closing cash = opening cash + receipts - payments stated or implied
- **M1** 1,500 + 9,600 - 7,600 seen
- **A1** 3,500 pounds cao
- **Answer: 3,500 pounds.**

Question 5

- **M1** 1,320 x 8 seen
- **A1** 10,560 pounds cao
- **Answer: 10,560 pounds.**

Question 6

- **M1** 1,320 x 3.20 seen
- **A1** 4,224 pounds cao
- **Answer: 4,224 pounds.**

Question 7

- **M1** profit = revenue - (variable costs + fixed costs) stated or implied
- **M1** 10,560 - (4,224 + 3,900) seen
- **A1** 2,436 pounds cao
- **Answer: 2,436 pounds.**

Question 8

- **M1** closing cash = opening cash + receipts - payments stated or implied
- **M1** 1,500 + 10,560 - 8,124 seen
- **A1** 3,936 pounds cao
- **Answer: 3,936 pounds.**

Question 9

- **M1** 10,560 - 9,600 seen
- **A1** 960 pounds Favourable cao
- **Answer: 960 pounds Favourable.**

Question 10

- **M1** 4,224 - 3,600 seen
- **A1** 624 pounds Adverse cao
- **Answer: 624 pounds Adverse.**

Question 11

- **B1** 100 pounds Favourable cao
- **Answer: 100 pounds Favourable.**

Question 12

- **M1** 2,436 - 2,000 seen
- **A1** 436 pounds Favourable cao
- **Answer: 436 pounds Favourable.**

Question 13

- **B1** 436 pounds Favourable cao
- **Answer: 436 pounds Favourable.**

Question 14

- **Level 1** (1-3): Makes simple statements about variance analysis with little or no reference to the GreenLeaf figures and few if any linked conclusions.
- **Level 2** (4-6): Describes advantages and limitations of variance analysis and refers to some GreenLeaf figures, but analysis is limited and the evaluation is not well developed.
- **Level 3** (7-9): Gives a well developed discussion of the usefulness of variance analysis, applying it to GreenLeaf figures and analysing causes and likely managerial responses, but the final judgement is only partially justified.
- **Level 4** (10-12): Provides a thorough, balanced evaluation that uses GreenLeaf figures to analyse causes of variances, considers management actions and limitations, and reaches a justified conclusion about overall usefulness for managing the business.
- **Indicative content:**
    - Advantages: variance analysis highlights differences between actual and budgeted performance, for example revenue is 960 pounds favourable and variable costs are 624 pounds adverse, giving managers prompt signals about sales success and cost control.
    - Application to GreenLeaf: higher sales volume (1,320 actual vs 1,200 budgeted) produced the favourable revenue variance of 960 pounds and increased profit by 436 pounds, suggesting demand is stronger than expected.
    - Causes of variances: revenue variance may be due to higher footfall, a successful local marketing campaign or a one-off event; variable cost adverse variance may be caused by supplier price rises, waste, or higher portion sizes, given unit variable cost rose from 3.00 to 3.20 pounds.
    - Managerial responses: to the favourable revenue variance, managers might plan to increase capacity or negotiate better supplier terms; to the adverse variable cost variance they could seek cheaper suppliers, reduce waste, review portion control, or renegotiate purchase contracts.
    - Limitations: variances do not by themselves prove cause, for example revenue could be temporarily high but not sustainable; small businesses may face timing differences in cash receipts that budgets do not capture; some variances mask mixed effects, for instance the 100 pounds favourable fixed cost variance might be due to delayed expenditure rather than permanent savings.
    - Practical issues: data quality and the timing of reports affect usefulness; managers need to investigate material variances, not overreact to small, immaterial ones, and should consider both short term and long term implications.
    - Judgement: a supported conclusion weighing the benefits of quick feedback from variance analysis for GreenLeaf against its limitations, for example that variance analysis is highly useful as an early warning and control tool provided managers investigate causes, consider materiality and combine variances with other information such as customer feedback and supplier contracts.