

What are Budgeting and Forecasting Techniques?

Worksheet

Budgeting allocates resources for a future period based on historical data and goals, while forecasting predicts future financial outcomes. Key techniques include zero-based budgeting (starting from zero), incremental budgeting (adjusting the prior year), rolling forecasts (continuous updates), and top-down vs bottom-up methods.

Questions

1. Which budgeting method requires justifying every expense from scratch?
 - A) Incremental budgeting
 - B) Zero-based budgeting
 - C) Activity-based budgeting
 - D) Flexible budgeting
2. A rolling forecast maintains what?
 - A) Fixed time horizon (e.g., 12 months)
 - B) Identical numbers each month
 - C) Only historical data
 - D) No future projections
3. Forecasting predicts ____; budgeting ____.
 - A) future outcomes; allocates past spending
 - B) past outcomes; predicts future
 - C) future outcomes; allocates resources
 - D) costs only; revenue only
4. In top-down budgeting, who sets the budget targets?
 - A) Departments propose targets
 - B) Management sets overall targets
 - C) External auditors
 - D) Customers decide
5. A retail company's 2024 sales are 500k. Using 10% growth estimate and incremental budgeting, what is the 2025 revenue forecast?
6. A department's 2024 expense budget was 50k. Using zero-based budgeting, they must justify every expense from scratch. What is the 2025 budget if justified expenses total 45k?
7. A rolling 12-month forecast is updated monthly. In January, Q1+Q2+Q3 are forecasted; in February, the forecast shifts to Q2+Q3+Q4. What horizon length remains constant?
8. Define: What is budgeting?
9. Define: Difference: zero-based vs. incremental budgeting?
10. Define: What is a rolling forecast?

Answer Key

1. B) Zero-based budgeting - Zero-based budgeting starts from zero and requires full justification for all spending, unlike incremental which adjusts the prior year.
2. A) Fixed time horizon (e.g., 12 months) - Rolling forecasts drop old periods and add new ones, keeping a constant look-ahead horizon.
3. C) future outcomes; allocates resources - Forecasting estimates future financial results. Budgeting allocates resources to achieve goals.
4. B) Management sets overall targets - Top-down: management defines overall targets, passed down to departments. Bottom-up is the reverse.
5. 2024 Sales = 500,000 Growth Rate = 10% 2025 Forecast = 500,000 $1.10 = 550,000$
6. Zero-based approach: ignore prior-year budget Justified expenses = 45,000 2025 Zero-Based Budget = 45,000
7. Rolling forecast = continuous 12-month horizon Each month, drop oldest + add newest quarter Horizon = 12 months (4 quarters)
8. Allocating resources for a future period based on historical data and organizational goals.
9. Zero-based: start from zero, justify all spending. Incremental: adjust prior-year budget by percentage.
10. Continuously updated forecast that drops old periods and adds new ones, maintaining a fixed horizon (e.g., 12 months).

Bounlu

All cards, step-by-step solutions and an AI tutor are in the Notek app.
Promy turns exam dates into automatic reminders.