

What is Budgeting?

Worksheet

A budget is a quantitative plan of expected revenues, expenses, and cash flows. It serves three roles: planning (allocate resources), control (monitor performance against plan), and motivation (drive accountability and goal alignment).

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Questions

1. If a department budgets \$100k in expenses and spends \$95k, the variance is
 - A) +\$5k favorable (under budget)
 - B) \$5k unfavorable
 - C) Zero (no variance)
 - D) +\$5k unfavorable
2. Which is NOT a primary purpose of a budget?
 - A) Planning resource allocation
 - B) Monitoring actual performance vs. plan
 - C) Replacing the need for financial statements
 - D) Motivating departments to meet targets
3. A production line budgets 1,000 units at \$50/unit = \$50k, but produces 1,050 units at \$48/unit = \$50.4k. Why the cost savings per unit?
 - A) Efficiency gained; fewer waste
 - B) Bulk discount on materials
 - C) Scale economics (more units, lower per-unit cost)
 - D) All of the above
4. The budget cycle is
 - A) Plan once, monitor forever
 - B) Plan Approve Execute Analyze Learn Adjust
 - C) Execute only, no analysis
 - D) Budget to budget, year after year, no changes
5. A marketing department budgets \$50k for digital ads in Q1, but spends \$62k. Is this good or bad, and why should they investigate?
6. A startup estimates revenue of \$200k for Year 1, but actual is \$180k (\$20k unfavorable). What should they do?
7. A production facility budgets \$500k annual labor, but Q1 actual is \$140k vs. \$125k budget. Should they be concerned?
8. Define: What is a budget?
9. Define: Main purposes of budgeting?
10. Define: What is a budget variance?

Answer Key

1. A) +\$5k favorable (under budget) - Actual \$95k < Budget \$100k, so they spent less = favorable. Variance = \$95k - \$100k = -\$5k, but a negative variance on costs is favorable.
2. C) Replacing the need for financial statements - Budgets guide future planning and control; financial statements report historical results. Both are needed-budgets don't replace statements.
3. D) All of the above - Lower per-unit cost (\$48 vs. \$50) can result from efficiency, scale, or purchasing savings-all common reasons.
4. B) Plan Approve Execute Analyze Learn Adjust - Effective budgeting is cyclical: plan, then execute with regular monitoring and review to improve future budgets.
5. Budget: \$50k; Actual: \$62k; Variance: \$12k (unfavorable, over budget) Investigate the variance: Did they run unplanned campaigns? Did CPM costs rise? Did a promotion extend into Q1? If the overspend drove higher conversions or revenue, it may be acceptable. If it was wasteful, implement controls to prevent next time. Update next period's budget based on lessons learned.
6. Analyze the revenue shortfall: Did market demand drop? Did customer churn increase? Did sales cycle extend? If structural, reduce expenses to match lower revenue (cost-cutting). If temporary, maintain some investment and plan to catch up in Year 2. Revise Year 2 forecast and adjust hiring/capex plans to match realistic revenue.
7. Variance per quarter: \$140k actual - \$125k budget = +\$15k unfavorable (3 months). Annualized run-rate = \$140k / 3 = \$46.67k, which is \$60k over \$500k budget. This IS a concern-investigate: Did overtime spike? Did headcount increase? Did wage rates rise? If Q1 is one-time (training, startup), budget may correct in later quarters. If structural, adjust full-year budget and plan staffing changes.
8. A quantitative plan of expected revenues, expenses, and cash flows for a future period, used for planning and control.
9. Planning (allocate resources), control (monitor performance), and motivation (align goals and accountability).
10. The difference between actual and budgeted amounts: Variance = Actual - Budget. Negative = over budget (unfavorable).

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