

2.2.4 Budgets

Starter

* Have you ever been given £20 to go into town to spend?

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* How much did you spend?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* Did you have to give back what was left over?

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Write a definition of budgets here:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Budgets explained

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Purpose of budgets



#1 Purpose: Planning

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#2 Purpose: Forecasting

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#3 Purpose: Communication

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#4 Purpose: Motivation

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Types of budget



Historical Budget



Zero – based Budget

Variance analysis

|  |  |
| --- | --- |
| C:\Users\Sarah Hilton\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.IE5\B2OWLNX3\green_tick[1].jpg |  |
| C:\Users\Sarah Hilton\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.IE5\B2OWLNX3\large-Alphabet-Letter-X-66.6-3871[1].gif |  |

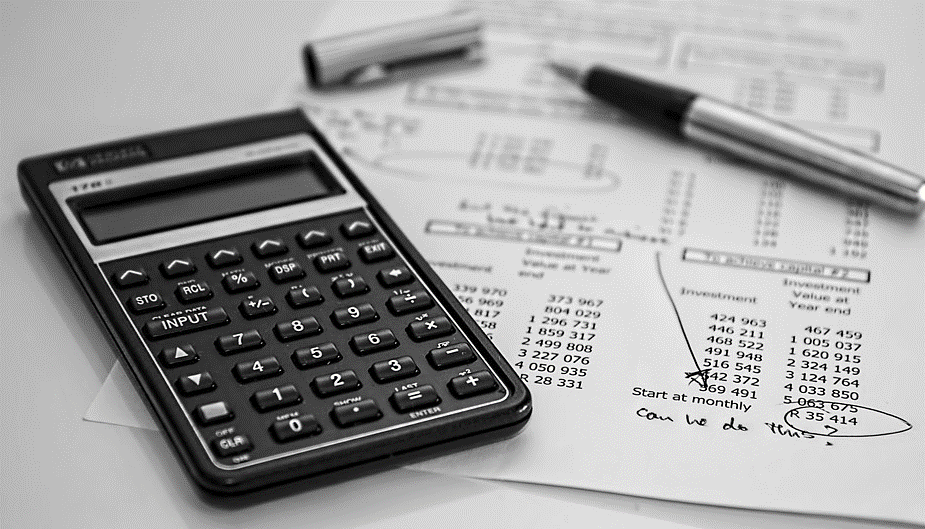
How can budgets improve the performance of a business?

Budgeted income example

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan £** | **Feb £** | **Mar £** |
| Budgeted income | 19,000 | 20,000 | 30,000 |
| Actual income | 16,600 | 22,000 | 19,000 |
| Variance |  |  |  |
| Favourable or adverse? |  |  |  |

Budgeted expenditure example

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan £** | **Feb £** | **Mar £** |
| Budgeted expenditure | 11,000 | 11,000 | 11,000 |
| Actual expenditure | 11,500 | 12,000 | 9,000 |
| Variance |  |  |  |
| Favourable or adverse? |  |  |  |

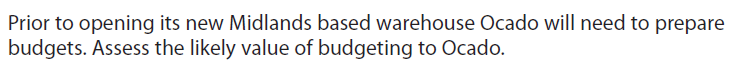


Difficulties of budgeting



Limitations of budgeting





[8]