
Flexible Budgets

Question 9

Theory

Questions and Answers

Past Exam Questions

1. What is meant by the term sensitivity analysis.
2. Outline why Henry Ltd would prepare a flexible budget. 2021 – Henry Ltd
3. Distinguish between the term contribution and profit
4. Outline why Conlon would agree to prepare a flexible budget 2018 – Conlon

2021 – Henry

What is meant by the term sensitivity analysis.

1. Sensitivity Analysis is also known as ‘what if’ analysis. It is a technique used by management accountants to show the effect on profit brought about by changes in the following:

1. Selling price
2. Sales volume
3. Variable costs
4. Fixed costs

The examples in part (b) of the question are examples of sensitivity analysis.

Outline why Henry Ltd would prepare a flexible budget.

1. To show management the cost levels at different levels of production. It is misleading to compare the budgeted costs at one level of activity with the actual costs at a different level of activity.
2. To compare actual costs and budgeted costs at the same level of activity, in order to determine if actual costs exceeded or were less than budgeted costs.
3. To compare budgeted costs and actual costs in order to identify variances. This allows corrective action to be taken.
4. To help in controlling costs or planning production levels.

2018 - Conlon

Distinguish between contribution and profit

Contribution is sales revenue less variable costs. This goes towards paying off the fixed costs. Once the fixed costs are paid off, any other contribution goes towards profit.

Profit is sales revenue less total costs (fixed and variable)

Outline why Conlon Ltd would prepare a flexible budget.

1. To show management the cost levels at different levels of production. It is misleading to compare the budgeted costs at one level of activity with the actual costs at a different level of activity.

2. To compare actual costs and budgeted costs at the same level of activity, in order to determine if actual costs exceeded or were less than budgeted costs.
3. To compare budgeted costs and actual costs in order to identify variances. This allows corrective action to be taken.
4. To help in controlling costs or planning production levels.

2018 – Jack Manning

Outline two benefits for Manning in preparing a cash budget.

Two benefits for Jack Manning in preparing a cash budget

1. It shows the surplus/ deficit at the end of the month
2. It can help Jack to decide when a bank overdraft is needed to be arranged
3. It will help Jack to decide how to invest the surplus
4. A cash budget can show the inflows and outflows for the period

2016 – Sean Burren

Outline two reasons why Sean Burren would complete a cash budget

1. A cash budget will show Sean all his inflow and outflows of cash during the period and his cash surplus / deficit at the end of the month
2. It will indicate to him when a bank overdraft may be required

2014 – Mary Harkin

Give two items of information Mary can get from the prepared cash budget

1. The cash budget will show her all inflows / outflows of cash flow during a period
2. It will show her the cash surplus / deficit at the end of each month and will indicate to her when a bank overdraft may be needed
3. She has a projected closing balance of €87,500
4. Any specific piece of information from the above prepared cash budget

2013 – Mairead Maguire

Outline two benefits for Mairead in preparing a Cash Budget

1. It shows her surplus/ deficit at the end of the month
2. It can help Mairead to decide when a bank overdraft is needs to be arranged
3. It will help Mairead to decide how to invest the surplus
4. A cash budget can show the inflows and outflows for the period
5. It helps Mairead to plan and control her business

2011 – Tarpey

Outline two benefits for Tarpey in preparing a Cash Budget

1. It shows L. Tarpey's monthly surplus/ deficit
2. It can predict overdraft requirements for the period
3. It helps with planning / control of cash

2009 – Sinead Sammon

Indicate what information Sinead can get from the prepared cash budget

1. It will show her cash inflows and outflows for the period
2. She will see what month she has a surplus/ deficit
3. She will see when a bank overdraft is needed