Name: Class:

2.2 - Financial Planning

Test your knowledge of Theme 2.2 by working out whether the following statements are true or false. Ensure that you consider each statement carefully before selecting a response. Precise knowledge is essential for success in A Level Business!

1- Sales forecasts are used to predict future sales. This allows a business to plan their marketing, source finance and source resources.	**T**	**F**
2- Sales forecasting may be unreliable due to changing economic variables, trends, and competitors' actions.	**T**	**F**
3- Sales revenue = profit per unit x quantity sold	**T**	**F**
4- Profit = total revenue - total costs	**T**	**F**
5- Fixed costs never increase or decrease over time.	**T**	**F**
6- Raw materials, interest on loans, and salaries are all examples of variable costs.	**T**	**F**
7- Average variable costs (AVC) = total variable costs x output	**T**	**F**
8- The break-even output is the number of units the business has to sell in order to cover its costs without making a profit or a loss. It is the point when total revenue is equal to total costs.	**T**	**F**

9- To calculate the break-even point, the fixed costs must be divided by the variable costs.	T	F
10- Margin of safety = actual output - break-even output	T	F
11- A business sells boxes of 100 paper clips for £3. The cost of production is 50p per unit and fixed costs total £1000. The break-even output is 400.	T	F
12- Contribution per unit = revenue - total variable costs	T	F
13- A business making 10 units has total variable costs of £500. If it sells each unit for £60, the contribution per unit is £5.	T	F
14- If the cost of raw materials increases and the selling price falls, the contribution per unit will decrease.	T	F
15- A budget consists of three sections: (1) the income budget, (2) the expenditure budget, (3) the profit budget.	T	F
16- Historical budgeting is less flexible than zero-based.	T	F
17- A profit variance occurs when the actual revenue or costs are higher or lower than expected.	T	F
18- A rise in the selling price is an example of an external cause of variance.	T	F
19- A business suffered an adverse profit variance of - £3000 when the actual profit was £36,000 but the budgeted profit had been £33,000.	T	F
20- A benefit of both budgeting and break-even analysis is that they can be included in the business plan, which may help attract sources of finance.	T	F