

## **Budget- Budgeting**

### What Is a Budget?

A budget is an estimation of [revenue](#) and [expenses](#) over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. Budgets can be made for a person, a family, a group of people, a business, a government, a country, a multinational organization or just about anything else that makes and spends money. At companies and organizations, a budget is an internal tool used by management and is often not required for reporting by external parties.

**Budgeting** is the process of creating a plan to spend your money. This spending plan is called a **budget**. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do. **Budgeting** is simply balancing your expenses with your income.

Depending on the feasibility of these estimates, **budgets** are of **three types** -- balanced **budget**, surplus **budget** and deficit **budget**. Depending on the feasibility of these estimates, **budgets** are of **three types** -- balanced **budget**, surplus **budget** and deficit **budget**

## **KEY TAKEAWAYS**

- A budget is an estimation of revenue and expenses over a specified future period of time and is utilized by governments, businesses, and individuals.
- A budget is basically a financial plan for a defined period, normally a year. It greatly enhances the success of any undertaking. As the saying goes, "if you fail to plan then plan to fail."
- Corporate budgets are essential for operating at peak efficiency. Aside from earmarking resources, a budget can also aid in setting goals, measuring outcomes and planning for contingencies.
- Personal budgets are extremely useful in managing an individual's or family's finances over both the short and long term horizon

## **Corporate Budgets**

Budgets are an integral part of running any business efficiently and effectively.

### ***Budget Development Process***

The process begins by establishing assumptions for the upcoming budget period. These assumptions are related to projected sales trends, cost trends and the overall economic outlook of the market, [industry](#) or [sector](#). Specific factors affecting potential expenses are addressed and monitored. The budget is

published in a packet that outlines the standards and procedures used to develop it, including the assumptions about the markets, key relationships with vendors that provide discounts, and explanations of how certain calculations were made.

The sales budget is often the first to be developed, as subsequent expense budgets cannot be established without knowing future [cash flows](#). Budgets are developed for all the different subsidiaries, divisions and departments within an organization. For a manufacturer, a separate budget is often developed for direct materials, labor and overhead.

All budgets get rolled up into the master budget, which also includes budgeted [financial statements](#), forecasts of cash inflows and outflows, and an overall financing plan. At a corporation, the top management reviews the budget and submits it for approval to the board of directors.

**Definition:** Budgeting is the process of [planning](#) future business activities by establishing performance goals and putting them into a formal plan. In other words, budgeting is the process of making financial goals for a company and creating a plan to achieve those goals.

## What Does Budgeting Process Mean?

Creating a budget is much more than management sitting down and coming up with performance numbers that they want to meet in the next quarter.

A [budget](#) is really plan for the company's future. Managers and board members meet and discuss where they want to see the company in years to come, what markets they want to exploit, and what products they want to create. In order to achieve any of these long-term plans, the company must have a way to create opportunities and track the progress along the way. That is exactly what a budget does.

## Example

By budgeting for the future, management can calculate increases performance and increase the likelihood of success. They typically start the budgeting process by setting future goals and analyzing past performance. Once management has a good idea of how the company has performed historically, they can start making estimates and performance goals for future expected performance.

The budget doesn't stop with just making performance goals. Management must evaluate and compare the actual performance with the expected performance periodically to see how well close the company is to achieving its goals. If certain departments aren't meeting their goals, management must

correct the problem during the period, so the company, as a whole, can meet their numbers by the end of the period.

As you can see, the budgeting process is much more than simply creating a report at the beginning of a period. It's an ongoing effect to improve the performance of the company by tracking actual results and comparing them to specific goals.

Follow these steps to put a solid budget plan into action.

Every great financial plan starts with a sound budget. If you're trying to pay off bills or save for a dream vacation, a budget is your first step toward making your financial goals a reality. Follow these steps for setting up a realistic budget that gets you where you want to go.

### ***1. CALCULATE EXPENSES***

Your first order of business is finding out exactly how much you're spending each month. Do this by consulting your bank statements, receipts and financial files. Because some expenses are intermittent, such as insurance payments, you'll get the most accurate financial picture if you calculate an average for six months to a year. Add up everything you spent for the last six to 12 months and then divide by the amount of months, which will give you your average monthly expenses.

Remember that being thorough when you add up expenses is important in creating a realistic budget. A forgotten bill really throws a wrench into your savings plan. When calculating your expenses, also factor in unexpected bills, such as unplanned car repairs. A good rule of thumb is to add an extra 10 percent to 15 percent. So if you've determined that you spend Rs.1,500 a month, add Rs.150 to Rs.225.

### ***2. DETERMINE YOUR INCOME***

Once you've figured out how much money you need to stay afloat financially each month, it's time to determine your actual income. Besides your regular salary, get an accurate picture by adding in any extra funds that come your way throughout the year, such as cash gifts, sale of items online or via garage sales, and don't forget other income sources like alimony, child support, interest, dividends and rental income.

### **3. SET SAVINGS AND DEBT PAYOFF GOALS**

In order to determine realistic savings and debt payoff goals, you must find out if you have a budget shortfall or overage. Do this by subtracting your monthly expenses from your income. If you determine you're making more money than you're spending, congratulations. This amount can be earmarked for savings and to pay off debt.

But if you determine you're spending more than you're making, it's time to do some cutting so you have something to save and don't go further into debt. The best way to figure out where you can cut from your expenses is to track your spending and record every expense for a month. Seemingly insignificant items such as a cup of coffee add up over time. For instance, even if you spend just \$5 a week on snacks, that adds up to \$260 a year, which is not insignificant.

Once you have a clear picture of where all of your money goes, be merciless in cutting expenses until your budget is in the black. Cut enough so that you have 10 percent to 20 percent of your income left over each month to add to your savings account. If you are unable to cut a sufficient amount from your budget, consider ways you can increase your income.

### **4. RECORD SPENDING AND TRACK PROGRESS**

The best way to stay on top of your budget is to record all of your expenses and income. Having to input expenses will cause you to think twice before splurging, and it's especially satisfying and motivating to record when you've met a savings goal.

### **5. BE REALISTIC**

Aim for sticking to your budget most of the time, and you're bound to reach your financial goals. Breaking your budget occasionally is OK, providing you get right back on track as soon as possible.

#### **Record for financial Management :**

Accounts register / Roznamcha , Cash Book, Ledger , Stock register, Voucher & bill files , Quotations file. Budget rule book. Bank statements.

**Plus, maintaining a budget for your business on a regular basis can help you track expenses, analyze your income, and anticipate future financial needs.**

1. Step 1: Identify Your Goals. ...
2. Step 2: Review What You Have. ...
3. Step 3: Define the Costs. ...
4. Step 4: Create the Budget.

Most small businesses don't use the term "**budget cycle**" but they use the process and go through each of its **four** phases — **preparation**, approval, execution and evaluation.

1. Planning. 2. Operation. 3. Monitoring. 4. Budget.

# The steps in preparing a budget

Many organizations prepare budgets that they use as a method of comparison when evaluating their actual results over the next year. The process of preparing a budget should be highly regimented and follow a set schedule, so that the completed budget is ready for use by the beginning of the next fiscal year.. Here are the basic steps to follow when preparing a budget:

1. *Update budget assumptions.* Review the assumptions about the company's business environment that were used as the basis for the last budget, and update as necessary.
2. *Review bottlenecks.* Determine the capacity level of the primary bottleneck that is constraining the company from generating further sales, and define how this will impact any additional company revenue growth.
3. *Available funding.* Determine the most likely amount of funding that will be available during the budget period, which may limit growth plans.
4. *Step costing points.* Determine whether any step costs will be incurred during the likely range of business activity in the upcoming budget period, and define the amount of these costs and at what activity levels they will be incurred.
5. *Create budget package.* Copy forward the basic budgeting instructions from the instruction packet used in the preceding year. Update it by including the year-to-date actual expenses incurred in the current year, and also annualize this information for the full current year. Add a commentary to the packet, stating step costing information, bottlenecks, and expected funding limitations for the upcoming budget year.
6. *Issue budget package.* Issue the budget package personally, where possible, and answer any questions from recipients. Also state the due date for the first draft of the budget package.
7. *Obtain revenue forecast.* Obtain the revenue forecast from the sales manager, validate it with the CEO, and then distribute it to the other department managers. They use the revenue information as the basis for developing their own budgets.
8. *Obtain department budgets.* Obtain the budgets from all departments, check for errors, and compare to the bottleneck, funding, and step costing constraints. Adjust the budgets as necessary.

9. *Obtain capital budget requests.* Validate all capital budget requests and forward them to the senior management team with comments and recommendations.
10. *Update the budget model.* Input all budget information into the master budget model.
11. *Review the budget.* Meet with the senior management team to review the budget. Highlight possible constraint issues, and any limitations caused by funding problems. Note all comments made by the management team, and forward this information back to the budget originators, with requests to modify their budgets.
12. *Process budget iterations.* Track outstanding budget change requests, and update the budget model with new iterations as they arrive.
13. *Issue the budget.* Create a bound version of the budget and distribute it to all authorized recipients.
14. *Load the budget.* Load the budget information into the financial software, so that you can generate budget versus actual reports.

The number of steps noted here may be excessive for a smaller business, where perhaps just one person is involved in the process. If so, the number of steps can be greatly compressed, to the point where a preliminary budget can possibly be prepared in a day or two.