Management aids

Budgetting process

- Review the previous period.
- Calculate existing revenue.
- Set out fixed costs.
- List variable costs.
- Forecast extra spending.
- Scrutinize cash flow.
- Make business decisions.
- Communicate it clearly.

Goals of the Budgeting Process

- **1. Aids in the planning of actual operations**
- The process gets managers to consider how conditions may change and what steps they need to take, while also allowing managers to understand how to address problems when they arise.
- **2. Coordinates the activities of the organization**
- Budgeting encourages managers to build relationships with the other parts of the operation and understand how the various departments and teams interact with each other and how they all support the overall organization.

- **Communicating plans to various managers**
- ***Communicating plans to managers is an important social aspect of the process, which ensures that everyone gets a clear understanding of how they support the organization. It encourages communication of individual goals, plans, and initiatives, which all roll up together to support the growth of the business. It also ensures appropriate individuals are made accountable for implementing the budget.***
- **. *Motivates managers to strive to achieve the budget goals***
- ***Budgeting gets managers to focus on participation in the budget process. It provides a challenge or target for individuals and managers by linking their compensation and performance relative to the budget.***

. Control activities

- Managers can compare actual spending with the budget to control financial activities.
- **. Evaluate the performance of managers**
- Budgeting provides a means of informing managers of how well they are performing in meeting targets they have set.

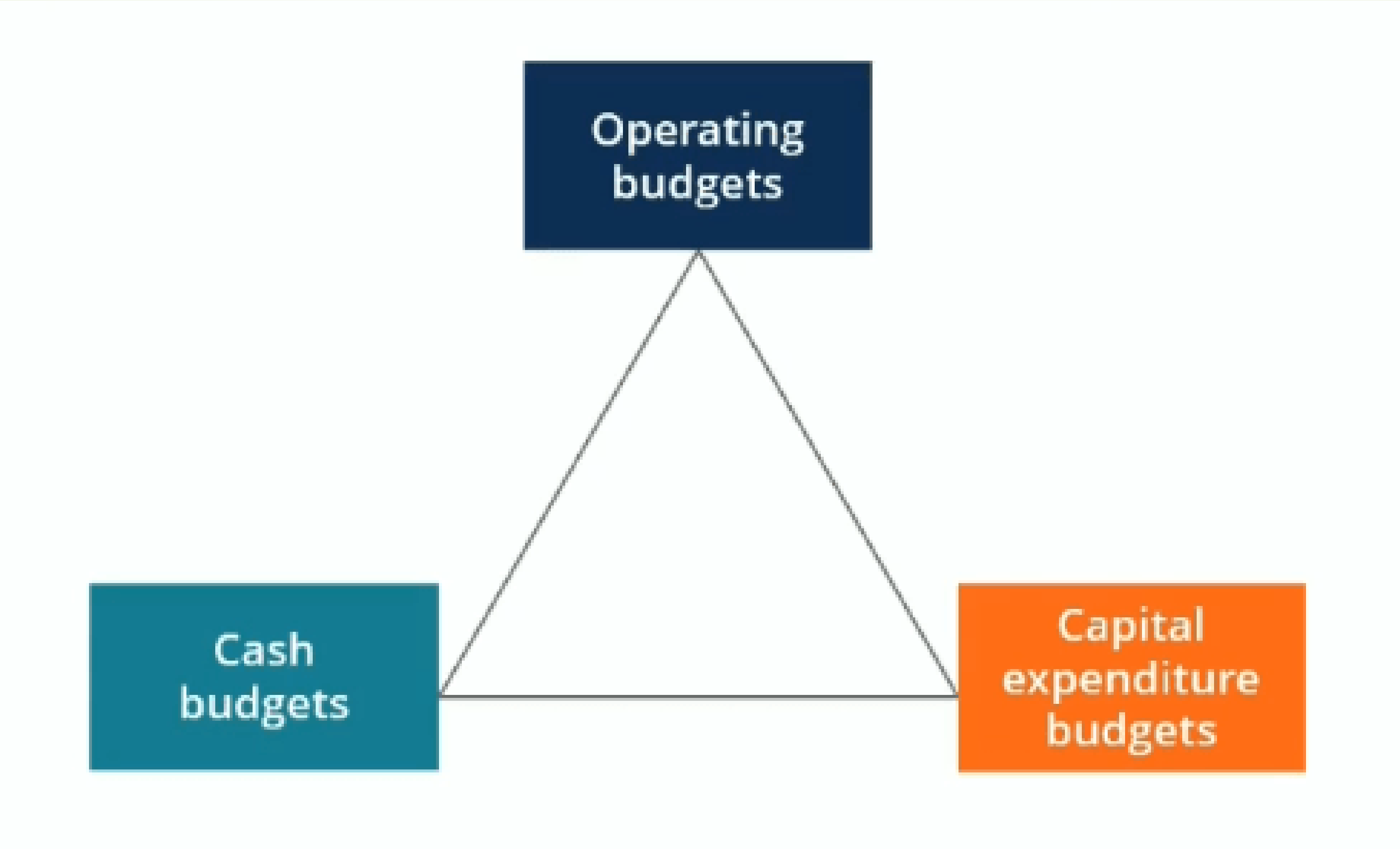
Types of Budget

- **. Operating budget**
- Revenues and associated expenses in day-to-day operations are budgeted in detail and are divided into major categories such as revenues, salaries, benefits, and non-salary expenses.

. Capital budget

- Capital budgets are typically requests for purchases of large assets such as property, equipment, or IT systems that create major demands on an organization's cash flow. The purposes of capital budgets are to allocate funds, control risks in decision-making, and set priorities.

- **3. Cash budget**
- Cash budgets tie the other two budgets together and take into account the timing of payments and the timing of receipt of cash from revenues. Cash budgets help management track and manage the company’s cash flow effectively by assessing whether additional capital is required, whether the company needs to raise money, or if there is excess capital.


Operating budgets
Cash budgets
Capital expenditure budgets

- **The Process**
- The budgeting process for most large companies usually begins four to six months before the start of the financial year, while some may take an entire fiscal year to complete. Most organizations set budgets and undertake variance analysis on a monthly basis. Starting from the initial planning stage, the company goes through a series of stages to finally implement the budget. Common processes include communication within executive management, establishing objectives and targets, developing a detailed budget, compilation and revision of budget model, budget committee review, and approval.
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THANK YOU