

## **BUDGET**

**2.1 DEFINITION:** A **budget** is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms.

Budgeting lies at the foundation of every financial plan. It doesn't matter if you're living paycheck to paycheck or earning six-figures a year, you need to know where your money is going if you want to have a handle on your finances. Unlike what you might believe, budgeting isn't all about restricting what you spend money on and cutting out all the fun in your life. It's really about understanding how much money you have, where it goes, and then planning how to best allocate those funds. Here's everything you need to help you create and maintain a budget.

### **Budgeting Basics**

Do you know why a budget is so important? On the surface it seems like creating a budget is just a tedious financial exercise, especially if you feel your finances are already in good order. But you might be surprised at just how valuable a budget can be. A good budget can help keep your spending on track and even uncover some hidden cash flow problems that might free up even more money to put toward your other financial goals.

### **How to Create a Budget**

The hardest part of creating a budget is sitting down and actually creating one. It's like staring at a blank piece of paper when you need to write something and that first step seems like a massive hurdle. Don't worry--I've broken down the budget creation process into a few easy to follow steps. You'll be able to sit down and create a basic budget in just a few minutes.

### **Traits for Budgeting Success**

Once you're taken the time to create a budget, now it's time to make sure you follow it. Budgeting can be like going on a diet—you start with good intentions, but after a few weeks or months you drift away from your plan. Don't let that happen to you. Here are a few basic traits that will ensure budgeting success.

### **Basic Budget Worksheet**

If you're having difficulty coming up with all of the various expense categories for your budget, I've created a budget worksheet that can help you organize everything. This worksheet has the most common expenses and can help you keep track of everything in an orderly fashion.

### **How Overspending Breaks Your Budget**

The main reason to create a budget is to help you keep your finances under control by keeping track of how much money you're spending and where it goes. When you begin to stray from your budget it's usually because of spending too much money somewhere. But if you have a budget that tells you exactly how much you're supposed to spend, why is it so easy to overspend? There are a number of reasons we overspend, so when you understand what causes overspending, you can help put a stop to it and keep your budget on track.

### **Try Using Cash to Keep Spending Under Control**

Swiping plastic has become incredibly easy. With both credit cards and debit cards, we can be in and out with a purchase in a matter of seconds. Unfortunately, this convenience comes at a cost. By using plastic we can begin to lose track of how much money is actually being spent. Sure, two dollars here, 4 dollars there, it doesn't seem like much at the time of purchase, but if you aren't careful they can really add up and bust your budget. One trick to help keep your daily spending under control is to use cash instead of your credit or debit cards. It might not be as fast, but it helps you visualize just how much money you're actually spending.

### **Etymology**

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A budget (derived from old French word *bougette*, purse) is a quantified financial plan for a forthcoming accounting period.

A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms.

### **Purpose**

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Budget helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise. It also helps coordinate the activities of the organization by compelling managers to examine

relationships between their own operation and those of other departments. Other essentials of budget include:

- To control resources
- To communicate plans to various responsibility center managers.
- To motivate managers to strive to achieve budget goals.
- To evaluate the performance of managers
- To provide visibility into the company's performance
- For accountability

In summary, the purpose of budgeting is tools:

1. Tools provide a forecast of revenues and expenditures, that is, construct a model of how a business might perform financially if certain strategies, events and plans are carried out.
2. Tools enable the actual financial operation of the business to be measured against the forecast.
3. Lastly, tools establish the cost constraint for a project, program, or operation.

### **Business start-up budget**

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The process of calculating the costs of starting a small business begins with a list of all necessary purchases including tangible assets (for example, equipment, inventory) and services (for example, remodeling, insurance), working capital, sources and collateral. The budget should contain a narrative explaining how you decided on the amount of this reserve and a description of the expected financial results of business activities. The assets should be valued with each and every cost. All other expenses are like labour factory overhead all freshmen expenses are also included into business budgeting.

### **Corporate budget**

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The budget of a company is often compiled annually, but may not be a finished budget, usually requiring considerable effort, is a plan for the short-term future, typically allows hundreds or even thousands of people in various departments (operations, human resources, IT, etc.) to list their expected revenues and expenses in the final budget.

If the actual figures delivered through the budget period come close to the budget, this suggests that the managers understand their business and have been successfully driving it in the intended direction. On the other hand, if the figures diverge wildly from the budget, this sends an 'out of control' signal, and the share

price could sufferer. campaign planners incur two types of cost in ant campaign, the first is the cost of human resource necessary to plan and execute the campaign. the second type of expense that campaign planners incur is the hard cost of the campaign itself.

### **Event management budget**

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A budget is a fundamental tool for an event director to predict with a reasonable accuracy whether the event will result in a profit, a loss or will break-even. A budget can also be used as a pricing tool.

There are two basic approaches or philosophies, when it comes to budgeting. One approach is telling you on mathematical models, and the other on people.

The first school of thought believes that financial models, if properly constructed, can be used to predict the future. The focus is on variables, inputs and outputs, drivers and the like. Investments of time and money are devoted to perfecting these models, which are typically held in some type of financial spreadsheet application.

The other school of thought holds that it's not about models, it's about people. No matter how sophisticated models can get, the best information comes from the people in the business. The focus is therefore in engaging the managers in the business more fully in the budget process, and building accountability for the results. The companies that adhere to this approach have their managers develop their own budgets. While many companies would say that they do both, in reality the investment of time and money falls squarely in one approach or the other.

### **Government budget**

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The budget of a government is a summary or plan of the intended revenues and expenditures of that government. There are three types of government budget: the operating or current budget, the capital or investment budget, and the cash or cash flow budget.

#### **United States[**

The federal budget is prepared by the Office of Management and Budget, and submitted to Congress for consideration. Invariably, Congress makes many and substantial changes. Nearly all American states are required to have balanced budgets, but the federal government is allowed to run deficits.

#### **India**

The budget is prepared by the Budget Division of Department of Economic Affairs of the Ministry of Finance annually. This includes supplementary excess grants and when a proclamation by the President as to failure of Constitutional machinery

is in operation in relation to a State or a Union Territory, preparation of the Budget of such State. The railway budget is presented separately by the Ministry of Railways.

## **Philippines**

The Philippine budget is considered the most complicated in the world, incorporating multiple approaches in one single budget system: line-item (budget execution), performance (budget accountability), and zero-based (budget preparation). The Department of Budget and Management prepares the National Expenditure Program and forwards it to the Committee on Appropriations of the House of Representative to come up with a General Appropriations Bill (GAB). The GAB will go through budget deliberations and voting; the same process occurs when the GAB is transmitted to the Philippine Senate.

After both houses of Congress approves the GAB, the President signs the bill into a General Appropriations Act (GAA); also, the President may opt to veto the GAB and have it returned to the legislative branch or leave the bill unsigned for 30 days and lapse into law. There are two types of budget bill veto: the line-item veto and the veto of the whole budget.

## **Personal or family budget**

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In a personal or family budget all sources of income (inflows) are identified and expenses (outflows) are planned with the intent of matching outflows to inflows (making ends meet). In consumer theory, the equation restricting an individual or household to spend no more than its total resources is often called the budget constraint.

Elements of a personal or family budget usually include, **fixed expenses, monthly payments, insurance, entertainment, and savings**.

There are many informational sites and software available for use in personal and family budgeting.

## **2.2 TYPES OF BUDGETS:**

- **Sales budget** – an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.
- **Production budget** - an estimate of the number of units that must be manufactured to meet the sales goals. The production budget also estimates the

various costs involved with manufacturing those units, including labor and material. Created by product oriented companies.

- **Capital budget** - used to determine whether an organization's long term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.
- **Cash flow/cash budget** – a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.
- **Marketing budget** – an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.
- **Project budget** – a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.
- **Revenue budget** – consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.
- **Expenditure budget** – includes spending data items.