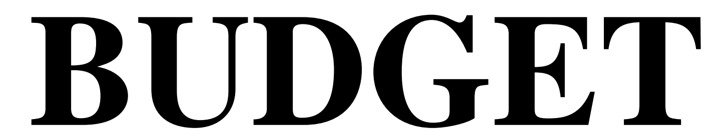

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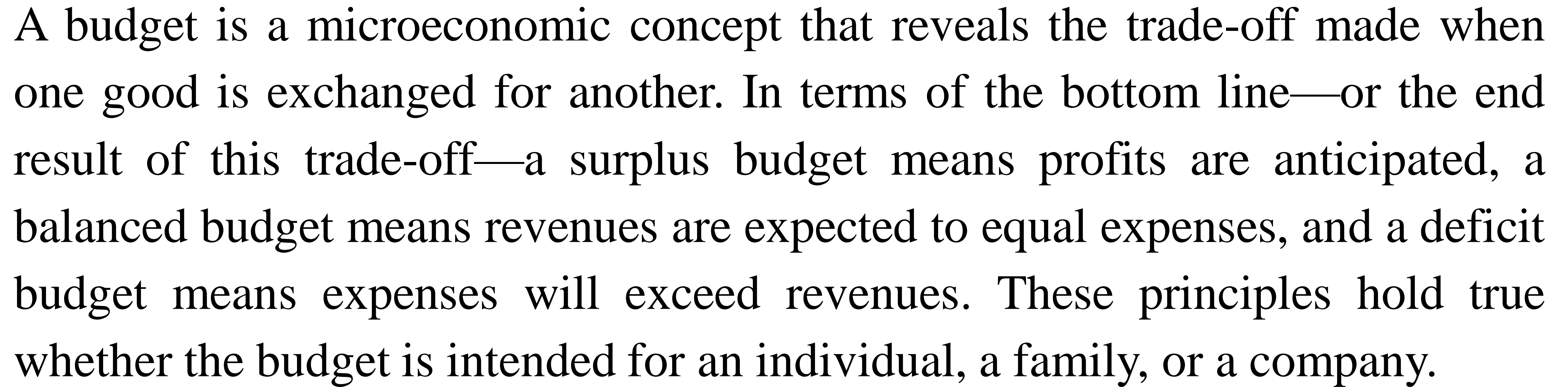
I. What Is a Budget?

A budget refers to an estimation of revenue and expenses that's made for a specified future period of time. Budgeting usually occurs on an ongoing basis, with individual budgets being re-evaluated regularly.

Budgets can be made for any entity that needs or wants to spend money, including governments and businesses, people, and households of any income level.



A budget is a microeconomic concept that reveals the trade-off made when one good is exchanged for another. In terms of the bottom line—or the end result of this trade-off—a surplus budget means profits are anticipated, a balanced budget means revenues are expected to equal expenses, and a deficit budget means expenses will exceed revenues. These principles hold true whether the budget is intended for an individual, a family, or a company.

First, let's take a quick look at, the personal budgeting and then budgeting process for a corporation.

II. Personal Budgets

Individuals and families can have budgets, too. Creating and using a budget is not just for those who need to closely monitor their cash flows from month to month because money is tight. Almost everyone can benefit from budgeting—even people with large paychecks and plenty of money in the bank may find it difficult to cover the expense of an unexpected home repair.

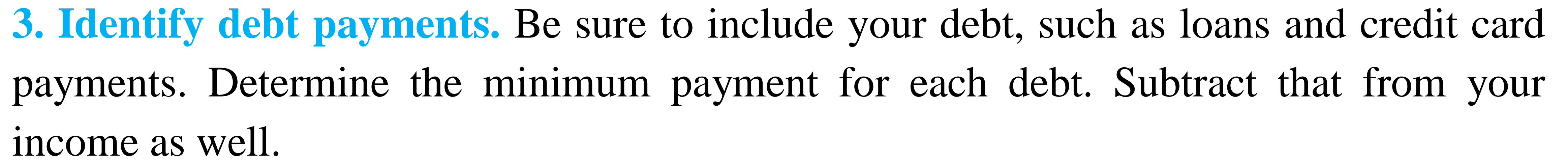
To manage your monthly expenses, prepare for life's unpredictable events, and afford big-ticket items without going into debt, budgeting is essential. Keeping track of how much you earn doesn't require you to be a math whiz and doesn't mean you can't buy the things you want.

What it does mean is that you can maintain control over where your money goes and enjoy greater financial confidence and success.

A. How to Create a Budget

The specifics of budgeting will depend on your personal financial situation and goals. In most cases, though, the approach is the same no matter where you stand financially. Follow these seven steps to create your budget and adjust it as needed to reach specific financial goals.

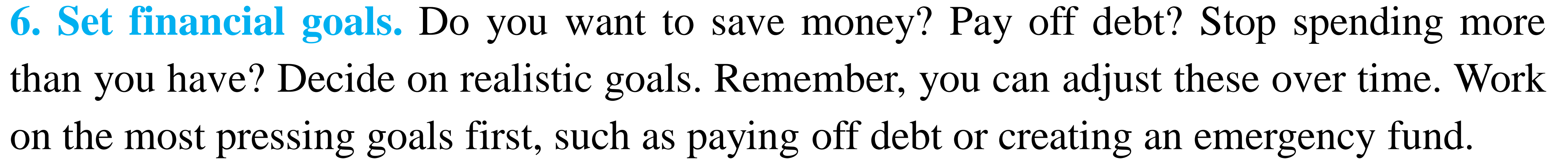
1. **Add up all your income.** This should include all income sources, such as a wages, salaries, tips, Social Security payments, disability, alimony, and investment income.
2. **Calculate your expenses.** These are expenses you must pay each month, such as your mortgage or rent, food, transportation costs including gas, insurance premiums, taxes, childcare, internet service, your cell phone bill, and other utility payments.



3. Identify debt payments. Be sure to include your debt, such as loans and credit card payments. Determine the minimum payment for each debt. Subtract that from your income as well.

4. Review your spending. Keep track of every dollar you spend, whether you pay with a credit card or cash, to determine what your real expenses are. Keep your receipts and note down additional spending that you hadn't budgeted for.

5. Create a spending plan. The amount of income you have left is what you can spend on discretionary expenses. These can include additional debt payments or rainy day savings. Your plan should also include things like entertainment or surprise expenses. Give every dollar a job, based on your goals and what you discovered when you tracked your spending.



6. Set financial goals. Do you want to save money? Pay off debt? Stop spending more than you have? Decide on realistic goals. Remember, you can adjust these over time. Work on the most pressing goals first, such as paying off debt or creating an emergency fund.

7. Adjust each month. Each month, look at your spending and whether you progressed toward or achieved goals, Reevaluate and adjust where you assign your discretionary spending. A flexible budget will help you avoid overspending.

Once you've created a budget, you may have to do some juggling, especially in the first few months. This means adjusting spending here and there so that you stay within your planned budget for income and expenses. And be sure to put it in writing: If you see it and commit to it, you'll have more incentive to stick to it.

B. The importance of Budget:

A budget helps create financial stability. By tracking expenses and following a plan, a budget makes it easier to pay bills on time, build an emergency fund, and save for major expenses such as a car or home. Overall, a budget puts you on stronger financial footing for both the day-to-day and the long-term.

- It Helps You Work Toward Long-Term Goals
- It Can Keep You from Overspending
- It Can Make Saving for Retirement Easier
- It Helps You Prepare for Emergencies
- It Can Reveal Spending Habits

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

Budgeting is the tactical implementation of a business plan. To achieve the goals in a business's strategic plan, we need a detailed descriptive roadmap of the business plan that sets measures and indicators of performance. We can then make changes along the way to ensure that we arrive at the desired goals.

A. Translating Strategy into Targets and Budgets

There are four dimensions to consider when translating high-level strategy, such as mission, vision, and goals, into budgets.

- Objectives are basically your goals, e.g., increasing the amount each customer spends at your retail store.
- Then, you develop one or more strategies to achieve your goals. The company can increase customer spending by expanding product offerings, sourcing new suppliers, promotion, etc.
- You need to track and evaluate the effectiveness of the strategies, using relevant measures. For example, you can measure the average weekly spending per customer and average price changes as inputs.
- Finally, you should set targets that you would like to reach by the end of a certain period. The targets should be quantifiable and time-based, such as an increase in the volume of sales or an increase in the number of products sold by a certain time.

B. Goals of the Budgeting Process

Budgeting is a critical process for any business in several ways.

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.

3. Communicating plans to various managers

It 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.

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.

5. Control activities

Managers can compare actual spending with the budget to control financial activities.

6. Evaluate the performance of managers

Budgeting provides a means of informing managers of how well they are performing in meeting targets they have set.

C. Types of Budgets

A robust budget framework is built around a master budget consisting of operating budgets, capital expenditure budgets, and cash budgets. The combined budgets generate a budgeted income statement, balance sheet, and cash flow statement.

1. 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.

2. 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.

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.