



What is A Budget?

- Budgets are **plans** that outline how money will be spent
- EVERYONE has a budget, from the Chancellor to YOU!
 - Yours is probably not written down
 - that's the only difference!
- They normally cover a 12 month period
- Each department in a firm will have it's own budget
- The departmental manager is responsible for ensuring that the money spent is within the budget





Creating A Budget

● This is a 4-stage process:

1

Undertake Research

e.g. forecast sales

2

**Produce
Department Budget**

e.g. based upon forecast

3

Review Department Budgets

e.g. senior managers will review, agree or amend budgets

4

Budget Begins

e.g. spending will be closely monitored





An Example Budget - Production

Budget is for 1 year

PRODUCTION DEPARTMENT BUDGET - May 2006 - April 2007

Item	Monthly expenditure £
Sheet aluminium	12,000
Wheels	8,900
Tyres	9,500
Wages	16,500
Maintenance	4,000
Electricity	1,750
Moulds	850
Total	53,500

Breaks production costs down

Lists how much each is expected to cost per month

Production Manager is responsible for not overspending each month

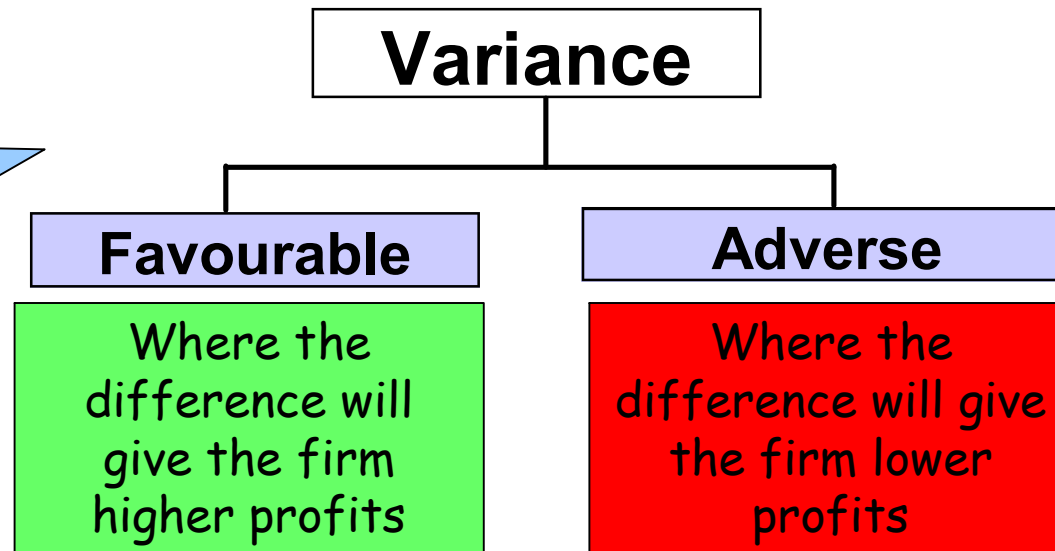


Monitoring Budgets - Variance

- It is important to check that a budget is being stuck to
- The difference between the planned and actual figures is called a **variance**.

$$\text{Variance} = \text{Actual Value} - \text{Planned Value}$$

- There are 2 types of variance:





Why Bother With A Budget?

- Writing a budget requires targets to be set
- Targets must be realistic, so managers will have to look at what the business is capable of
- This means departments will have to communicate
- It concentrates workers minds on what has to be done
- It helps plan spending to achieve the targets
- Problems can be identified before it is too late
- By comparing a budget with what actually happened a business can check on its performance and identify weak areas of the business

