



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 it's own budget
- The departmental manager is responsible for ensuring that the money spent is within the budget





Why Bother With A Budget?

- Writing a budget requires targets to be set
- This target 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
- Problems can be identified before it is too late
- By comparing a budget with what actually happened a business can identify weak area





Budgets & Variance

- 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:

Be Careful!
It's easy to be confused by these!

