

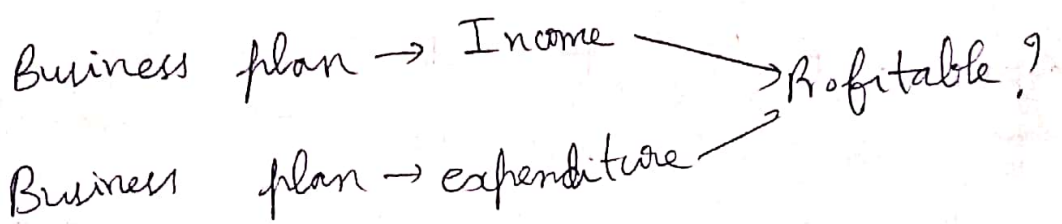
↳ Budgeting:)

- A budget is a financial plan.
- It is a projection (forecast) of what will happen financially if some strategies and decisions are implemented.
- Eg. of a budgeting activity: The extent of loan one can afford to buy a new car is one's budget.

↳ Why Budgeting?

- Forecast of income and expenditure for profitability
- Tool for decision-making
- A means of business monitoring.

- Forecast of income and expenditure:
  - To make business plans. If some strategies, events, plans are implemented, business → profit or not?
  - Forecast business → income & expenditure ⇒ profit.



- Tool for decision-making:
    - Budgeting provides a financial framework for the decision-making process.
    - Checks if a proposed course of action was already planned.
    - Expenditure should be controlled properly in business.
- Eg: Advertisement Budget = 1000 ⇒ expenditure for advertisement > 1000 then cancel the advertisement.

- Monitoring business performance:
  - Can be done once in every financial year's beg.
  - Variance = ~~Actual~~ Budget expenditure - actual expenditure
  - Variance % =  $\left( \frac{\text{Variance (total)}}{\text{Budget expenditure (total)}} \right) \times 100.$

Eg:

	(\$)	(\$)	(\$)	
Purpose	Budget Expenditure	Actual Expenditure	Variance	Variance %
Production	500	350	150	30
Package	200	275	-75	<del>was</del> -37.5
Transportation	200	250	-50	-25
Advertisements	100	180	-80	-80
Telephone	300	490	-190 210	70
Banking	200	300	-100	-50
Total	1500	1345	155	3.66%

Must be 0.  

$$= \frac{\text{Variance}}{\text{Budget}} \times 100.$$

### ↳ Principles of budgeting:

- 1. Be conservative, not optimistic →
- While budgeting don't think that everything will go as expected

- 1. Overestimate expenses &
- 2. Underestimate income.

• Add extra expenses as unforeseen events/expenses may come out anytime. → "CONTINGENCIES"

insurance against unforeseen expenses.

### 2. Team work and Consultation →

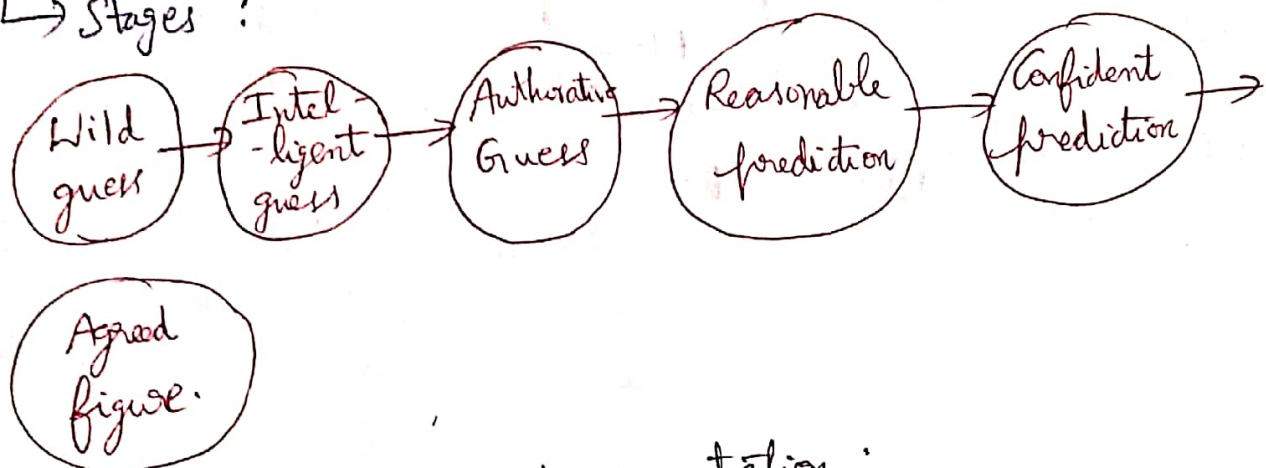
↳ Budgeting is compiled only by 1 person. Yet, discussions with ppl → knowledge/idea on → how much expenditure allow? , expected reasonable income → as a team → do budgeting.



↳ Involving many ppl slows down processing but answers are accurate & dependable.  
3. Allow plenty of time for it.

↳ Iterative process  
↳ Spend weeks together & plan a good budget.

↳ Stages :



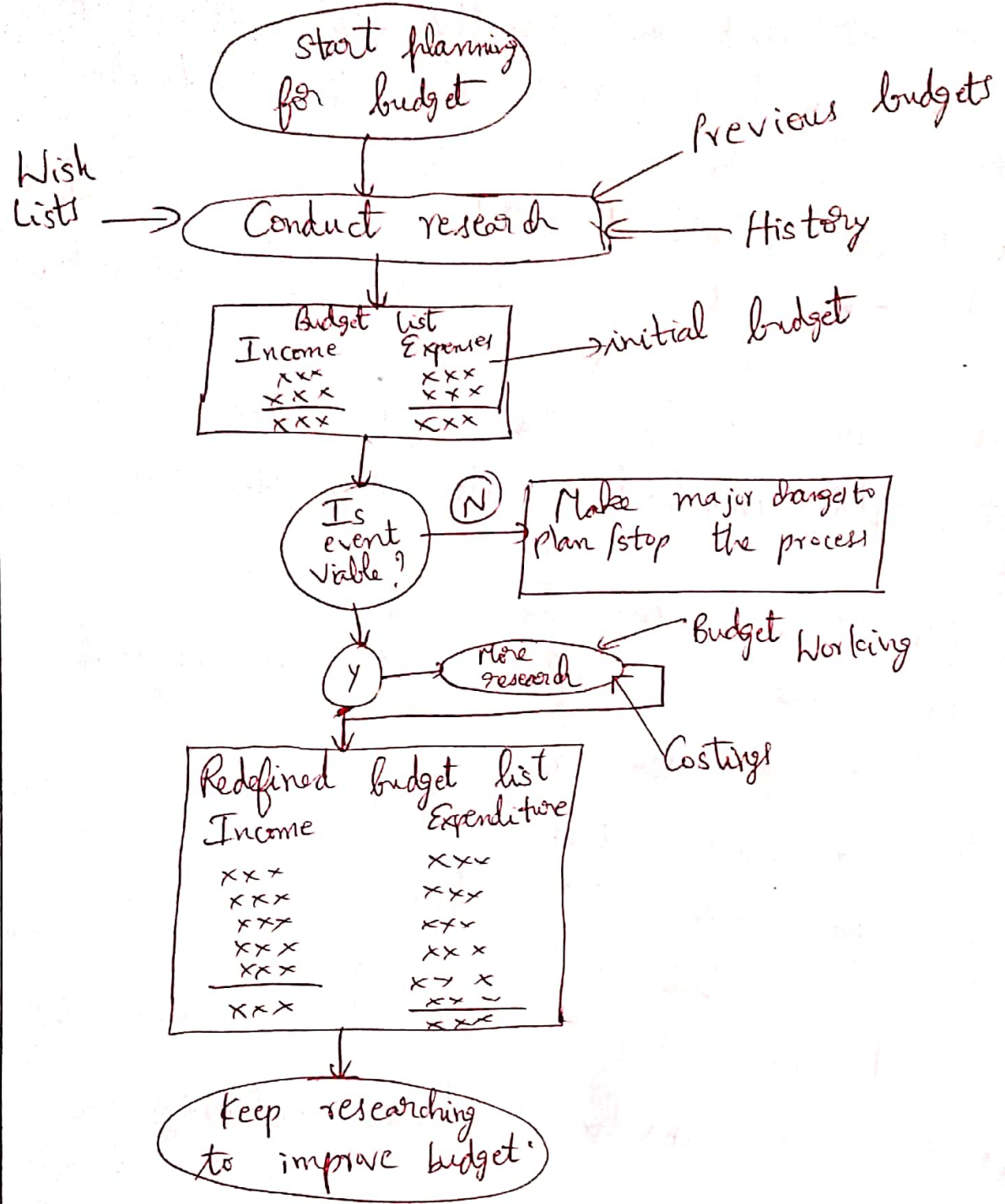
4. Excellence in documentation :

↳ Budget → prepared → clearly written, well-labelled columns & ~~rows~~ rows of tables and figures.  
↳ Assuming that it is to be shared with a lot of ppl with ↓ level of financial literacy → budget → prepared.  
↳ Formulae & neatly presented calculations → useful → if authors refer it later.

↳ Costs → directly  
                    ↓  
                    indirect } both must be included while budgeting.

↳ Budgeting process must be divided among individuals having knowledge of a specific part.

# ↳ Process of budgeting :



## Phases :

- ① Initial event planning phase
- ② Estimate event income
- ③ " " costs
- ④ Prepare a budget for income & expenditure.



↳ Direct cost :

↳ A cost that is directly attributable to a service, event, program or other activity conducted by the organisation.

↳ Indirect cost: (Overhead cost)

↳ A cost that is not directly attributable to a service, event, program or other activity conducted by the organisation.

↳ Direct costs involved while conducting an event :

- Staffs to monitor the event
- Trophies, medals, certificates etc., for the winner
- Advertising / promotion costs
- Food facilities at the event
- Venue facilities like tents.
- Purchasing equipments.
- Transportation.

↳ Indirect costs involved while conducting an event :

- Lease for land, office, office equipment needed for event.
- Building maintenance
- Depreciation of equipment, motor vehicles.
- Administrative salaries
- Telephone, photocopies, printing (administrative purposes)

## ↳ Cashflow forecast:

→ To predict what will happen to bank balance when the business runs out of funds.

→ Solution: Create an over-draft facility. Banks will do this only when they are sure that the business can repay the loan.

## → Benefits:

↳ when the business will need an <sup>over-draft</sup> ~~overflow~~ → this is known.

↳ to help assure the bank manager that the business will ~~always have~~ a trve bank balance. → be able to recover to

→ Overdraft is a facility provided by the bank to help run a business, <sup>to continue draw</sup> even when the ~~bank~~ <sup>business</sup> has exhausted all its funds. Business pays <sup>bill</sup> using money from bank.

-ve bank balance → Overdraft.

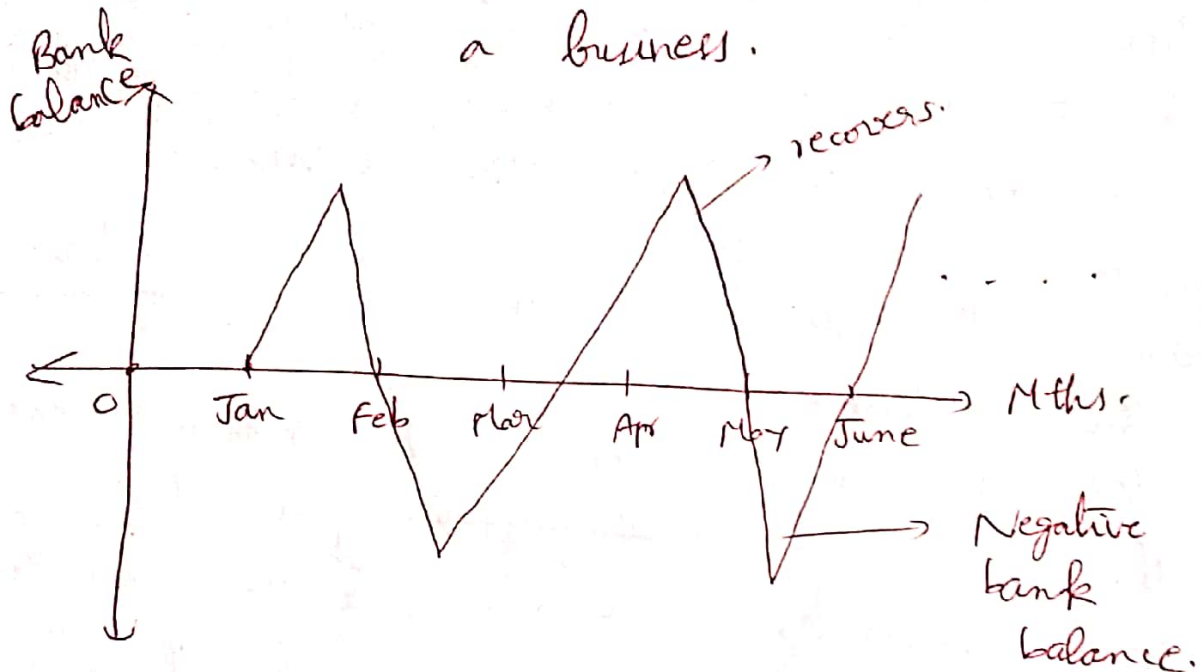
→ Overdraft limit → limit upto which bank balance of the business can go below zero.

Eg: if  $\rightarrow = \$5000$ , then the business balance in its bank account should not go below \$5000.



→ Banks charge businesses a fee to create an overdraft.

Bank balance of a business.



↳

## BUDGET.

→ usually prepared for 1 year.

→ A budget is a quantitative expression of the operational plans of an organisation for the future accounting period.

→ Essentials of a budget:

- ↳ Prepared in advance
- ↳ Related to the objective to be achieved in the future.
- ↳ Budget is a monetary statement that helps the mgmt think, plan & act as a team to render better services @ affordable costs.



## ↳ Types of budgets:

→ **Balanced budget** → Govt. budget when:

$$\text{estimated Govt. receipt} = \text{estimated Govt. expenditure}$$

→ **Surplus budget** → Govt. budget when:

$$\text{estimated Govt. receipt} > \text{estimated Govt. expenditure}$$

→ **Deficit budget** → Govt. budget when:

$$\text{estimated Govt. receipt} < \text{estimated Govt. expenditure}$$

→ Govt. ↓ national savings ⇒ investment ↓, real interest rate ↑. (★) for eco. growth (long-run)  
⇒ deficit budget ↓ eco. growth.