



# Budget Planning

This article will teach you end-to-end budget planning.

## Budget planning

Budget planning is the process of allocating and managing your income and expenses over a given period of time. It involves assessing your current financial situation, setting financial goals, and planning to achieve those goals.

PMI has defined a three-step budget planning approach.

- Plan cost management, 
- Estimate costs 
- Determine budget

## Plan cost management

The plan outlines how the team estimates, budgets, manages, oversees, and controls expenditures. This is also a "How to" plan process. PMI recommends developing and sharing this plan.

## Estimate costs

An estimate cost involves estimating the costs of the resources required to complete the project. There are three types of costs: direct, indirect, and reserves.

- Direct costs are expenses incurred directly in the process of producing a good or providing a service. These are paid out of the project budget. The project manager must calculate and request these funds from the sponsor. For example, labor costs, raw materials
- Indirect costs are the overhead expenses that aren't directly connected to a product or service's manufacture or delivery. These expenses are difficult to link to a particular

item, service, or undertaking. Indirect costs could be the cost of venues, utilities, full-time employee salaries, and often required training funded by the company.

- Reserves are the percentage of the project budget set aside for unplanned or unanticipated expenditures throughout the project. There are two types of reserves: contingency and management reserves. Contingency Reserves are allocated to support known or identified risks, whereas management reserves are allocated to support unknown risks.

## Determine costs

Determining cost is the process that involves aggregating and calculating the estimated costs of the project activities to establish a cost baseline. This baseline represents the authorized budget for the project and is used to monitor and control project costs. A solid budget documents direct costs, indirect costs, and reserves.

## Conclusion

Budget planning is an essential financial tool that provides individuals and organizations with financial discipline, control, and flexibility to achieve their financial goals. The budget must reflect the individual or organization's financial situation accurately by considering all types of costs while planning.