Chapter 6 - Budgeting

1. Budgets links with strategic plans and objectives
   - The development of plans for businesses involve 5 steps:
     - (1) Establish mission, vision and objectives
     - (2) Undertake a position analysis
     - (3) Identify and assess the strategic options
     - (4) Select strategic options and formulate plans
       - a **budget** is a business plan for the short terms typically 1Y, and expressed in financial terms. It defines precise targets concerning:
         - cash receipts and payments
         - sales volumes and revenues
         - detailed inventories requirements
         - detailed labour requirements
         - specific production requirements
     - (5) Perform review and control
   - Exercising control:
     - **Control**: the process of making planned events actually occur = compelling events to conform to plan (valid definition in any context).
     - MA has an important role to play in the control process. It is possible to state many in financial terms.
     - Where actual outcomes are in variance with B, the variance should be highlighted by financial informations for managers to take decisions about them.
     - The planning and control process:
       - Establish mission, vision, and objectives; Undertake a position analysis; Identify and assess strategic options; Select strategic options and formulate plans
       - Prepare budgets
       - Perform and collect information on actual performance
       - Identify variances between planned (budgeted) and actual performance
       - Respond to variances and exercise control
       - Revise plans (and budgets) if necessary.

2. Times horizons of plans and budgets
   - Setting strategic plans is typically a major exercise performed about **every 5 years** and budgets are usually set **annual** for the forthcoming year, broken down into monthly budgets which vary for seasonal periods (ie. retail & christmas)
   - Time horizons may however vary with the respective business (ie. Tech = shorter, like overnight)

3. Budgets and forecasts
   - **Budget** is a plan, not a forecast.
     - Plan => determination/intention to achieve the target
     - Forecast = predictions about the future of the environment

4. Periodic and continual Budgets
   - **Periodic budgets**: prepared for a particular period (usually 1Y).