Budgets and Cash flow forecasts

Budget- A financial plan for the forthcoming year that is drawn up to help a business achieve its objectives.

Budgeting- The four stage process of planning,monitoring and recording these plans whilst considering variance analysis and making adjustments to financial plans.

Budgeting Process
1) Planning costs,revenue and profits
2) Monitoring and recording actual revenues & costs
3) Variance analysis- Comparing planned and actual budget
4) Making appropriate adjustments to the plans

Variance- It occurs when there is a difference between the budgeted figure and the actual figure.
- Can be either Favourable or Adverse

Variance= Actual figure- Budgeted figure

*Main types of budgets drawn up:

*1) **Sales budget**-Forecasts the number of units of each product that the business aims to sell next year,the price of level that will be charged and the corresponding amount of sales revenue that is likely to be received.

*2) **Production budget**-Forecasts the number of units of each product that the business aims to produce over the next year.

*3) **Marketing budget**- Often used to control costs in the marketing department.It may show how money allocated is spent

*4) **Labour budget**- The employees needed to produce the output and make sales and their costs in terms of wages and salaries

*Master budget- A combination of all types of budget which will result in the predicted final amount of money required.

Advantages of budgeting
- Provides targets for managers and their teams
- Motivates staff as they feel included in the preparation of financial plans
- Using variance analysis,the areas of the business that need improvement are highlighted
- Better control over business expenditure
- Allows the business to identify financial problems at an early stage
- Reduces fraud- unnecessary spending is avoided and stops staff from spending money fraudulently as the budget holders permission is required to access the money

Disadvantage of budgeting
- Unrealistic targets and plans can demotivate staff
- Staff not involved In the budgeting process might feel neglected so low motivation
- Inflexible budgets can hinder business opportunities.

Cash Flows

Net cash flow- Refers to the difference between the cash flowing into the business and cash flowing out of the business.The money available for the daily running of a business.