

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 define 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).