

## Budgeting

**Budget**

All budgets are 100% based in the Future. All figures are future, possible figures. Nothing has happened yet. The figures are always “what if we” figures. It is a plan with numbers. It is a Quantified plan.

**Budgeting Control**

Occurs when we create the budget, then compare it with the reality that occurs. Its purpose is to answer the question, “Are we succeeding or not, according to the plan”?

**Benefits of budgets**

1. **Proper Analysis**
  - We create a plan that is based on a proper analysis not on guesses or estimates.
2. **Co-ordinate**
  - It allows the co-ordination of activities between departments.
3. **Measure Performance**
  - It measures performance in quantifiable terms.
4. **Communication**
  - Improve communication between departments.
5. **Efficiency**
  - A common goal leads to improved efficiency of staff.
6. **Motivation**
  - A common goal leads to improved motivation of staff.

**Master Budget**

The One Overall Controlling Budget. “The Big One”, the Budget that is the most important of all Budgets. All the other budgets are done solely to provide the numbers to put into this Master Budget. It is usually a Budget Trading Account.

**Budget****To answer the question****Budget trading a/c**

*Need  
to do*



If we can make and sell this much, how much money will we make?

**Production cost budget**

*Need  
to do*



If we're going to make this much, how much will it cost us to make it?

**Raw Materials budget**

*Need  
to do*



If we're going to make this much, how many Kg do we need buy?

**Production budget**

If we're going to sell this much,  
Given what we have and need to have left over,  
then how much do we need to make?

**Principle budgeting factor**

What stops the budget figures going up forever?

What if they make and sell 1, or 100, or 10,000 or 1 million or 100 million, why not a billion, a trillion a google (1 with 100 zeros after it, or  $10^{100}$ )? Why not sell  $4^{72}$ , (the number of atoms in the universe)?

Usually Reality is *Limited* by what the firm can sell, by “Sales Volume”, or perhaps by what they can make. The Leaving Certificate course only uses Sales Volume as a principal budgeting factor.

The Budget makes sense only within a range of numbers. A “common sense” range. This *limit* is the Principle Budget Factor.