

BUDGETING

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April 28, 2019

US Chapter of

The Institute of Chartered Accountants of Nepal

Topics to be covered

- What is budget and forecast?
- Major differences between budget and forecast
- Importance and significance of budget
- Starting points of budget process
- Budget Cycle
- Best practices and Special items
- Components of a master budget and Sample master budget
- Challenges in budgetary process
- Tools for preparing budget and what is changing in budgetary world

What is a budget and a forecast?

- Budget is an estimation of business performance over a specified period of time. Master budget is compilation of organization's individual budget components to predict overall financial condition.
- Forecast is calculated periodically (mostly quarterly) to see how business is currently performing. It is calculated normally for free cash flow components (normally it doesn't go all the way to cashflow and balance sheet).

Major differences between budget and forecast

Budget	Forecast
Detail representation of expected results, financial positions and cashflow	Estimate of what actually will be achieved
Prepared once a year	It is prepared at FCF level
Compared with actuals to determine the variance	Revised periodically (quarterly)
Over/Under performance vs budget can change MBO	This may be used to adjust short term operational considerations
	Doesn't get compared with actuals
	Changes will not normally impact MBO

Importance and significance of budget

- Provides future direction and vision for the business
- Ensures resources are adequate for achieving the planned performance
- Enforces optimum use of resources
- Protects business against unnecessary spending
- Helps to communicate priorities to all level of organization
- Identify the strength and weakness of a business

Starting point of budgetary process

- Budgetary process starts with overall vision of the management; how they want to shape the business for next year and so forth
- Once management finalize the vision for the year it should enlist the objectives
- Once the objectives are finalized, action items will be formulated
- These items guides the budgetary process

Budget Cycle

The general cycle of budget goes something like:

- Finance sets company goals
- Budget guidance is pushed out to the business units
- Period of collaboration between Finance and Business Units to build dept-specific budgets
- Finance rolls up company-wide numbers
- Review/Edit as necessary with business units
- Final roll-up and budget submission
- Budget Approval

Best practices

- There should be clear direction on how you expect departments to build their budget. Ex. Are they expected to budget flat YoY? Are specific groups expected to meet a pre-determined gross margin?
- Review trends in all budget and forecast submissions to see where future/proposed trends are not aligning with current trends. This applies to both revenue and expense.

Best practices (Cont.)

- Provide clear deadlines and checkpoints for your business partners. The old is saying is that “we can budget for an entire year” since things are constantly changing. Have clear deadlines of when information is due and when pencils are down (and mean it!) for all changes.
- Be able to highlight all major changes and their justification for your roll up exercise. Did you add an entire new stream of revenue? If so, what is the level of confidence in it’s budgeted performance? Did we add XXX new FTEs? How do we expect that they will earn us additional revenue, or help the organization be more efficient?

Special items

- Special items would include new projects that require a non-standard increase in expenses, proposals for new streams of revenue, M&A, etc.
- New initiatives
- Special expenditures (Super Bowl) add

Components of a master budget and Sample master budget

- Sales Budget
- Production Budget
- Direct Materials Purchases Budget
- Direct Labor Budget
- Overhead Budget
- Ending Finished Goods Inventory Budget
- Cost of Goods Sold Budget

Components of a master budget and Sample master budget

- Projected Income Statement
- Projected Balance sheet
- Projected statement of Cashflow
- Sample master budget (Separate presentation from Excel)

Challenges in budgetary process

- Organizational alignment on company goals. It is key to have buy-in across the organization as to where we should invest, or divest, in order to reach the company's goals. The challenge is getting all business units on the same page as it relates to the future of the business, as it won't always benefit their group in terms of resource allocation
- Another challenge is that there is never enough money to go around! This becomes a challenge for Finance/FP&A as we have to understand where we can push on a revenue estimate that was lower than expected, or cut on expenses that aren't an urgent need, or don't align with trend of current spend
- Traditional budgeting approach has consistently shown high inaccurate assumptions, and tedious manual input

Tools for preparing budget

- Traditionally budgeting was done in Excel spreadsheet
- Now, most of the companies use software like Hyperion, NetSuite, SCORO, CENTAGE, FLOAT, PLANGURU ETC.
- These software helps to automate the budget process
- RPA is coming into picture in budgetary world as well.

Questions

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Thank you