

# Sample essay on budgets and the budgeting process

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## **Importance of Budgets and the Budget Process**

Budgeting is a planning process that involves laying out predetermined ways of spending either personal or organizational funds. Budgeting arises from the need to allocate funds in a logical manner taking into consideration that there always exists unlimited wants and limited resources. The budgeting process is closely linked to the creation of a scale of preferences of the various ways in which funds can be utilized. Therefore, budgeting helps in ensuring that the basic needs are addressed prior to misappropriation of funds on less important costs. Budgeting helps to address the issue of urgency in meeting various costs that a person or business faces. The budgeting process involves the determination of the most important things to an individual or organization.

The prioritization of expenses helps to ensure that one does not end up spending more than one earns. This has the effect of mitigation of debts since one is conscious of the expenditure for a given period. It sets forth a plan on how to spend, starting with the most important ones and finally on less important ones if the funds allow. This management of one's funds allows one to analyze how one is spending funds and hence identify possible inefficiencies or even cases of fraud. This is especially crucial if one plans to undertake future projects such as investing and purchase of expensive assets. Huge projects require sufficient planning especially as concerns finances. The best way to save for such expenses is through having periodical budgets that take into account the need to make significant deductions to facilitate lump sum collection of funds (Dugdale & Lyne, 467).

Personal budgets act as a very helpful guide for persons who are impulse

buyers. This is a very common practice among middle and high-income earners. It is especially disadvantageous since it results in the purchase of goods that are not needed or which turn out not to be good as they appeared to be during the time of purchase. However, such discipline against impulse buying is only possible using a budgeting tool that is strict and periodically predetermined. Budgeting takes into account that expenses are repetitive and hence can be predicted with ease. This is especially so for the basic expenses such as rent, food and the like. Budgeting proves to be very beneficial for individuals and organizations especially during hard economic times such as recessions. The knowledge of future expenditures and allocation of resources aids in mitigating problems that might arise from the shortage of funds when they are critically needed (Robin, 872).

Despite the fact that the budgeting process is predictive in nature, it takes into account the possibility of unforeseen expenses and sets aside funds to meet such expenditure. Budgeting creates a safety cushion against going into bad debts. This is especially common in instances where purchases are made on credit, as opposed to cash, terms. This means that through having a budget the owner reduces the risk of bankruptcy. Insolvency is a common problem for many businesses and the best way to ensure that the firm remains solvent is through measuring the revenues vis-à-vis the expenditure incurred in starting and running a business. Therefore, entrepreneurs should learn to incorporate the budgeting process into their business culture in order to ensure that the firm is perpetual. Budgeting is crucial for management of finances of organizations and individuals as well.

## **Works Cited**

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