

# Free budgets and budgeting process essay sample

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## **Importance of budgets**

For the effective operations of the company, the budgeting process is considered a prerequisite. It is a detailed plan to evaluate the incomes and expenses of a business in the forthcoming period. A budget provides a realistic outlay for the expected earnings and spending pattern of the business which facilitates the planning and control function of the management. Through this activity, a company can segregate the total outlay for each business function and this can save precious time of the management on planning the capital resource management for each activity. The major benefit of making a budget is an effective control over the company expenses according to the objectives and needs. A budget also provides an effective performance evaluation tool to gauge the performance of the company over a specific period and to understand whether the performance was better off or worse as compared to the budget. Any potential pitfalls can then be identified to improve performance in the future. A budget can also be prepared for the capital growth of the business. A company can maintain its budget according to current and future capital need and that can provide a guideline as to how much needs to be saved over time to meet the capital needs of the company.

## **Budgeting process**

The process of creating an effective budget comprises of several elements that have all individual importance. A budgeting process is initiated by identifying the business objectives and goals and what the business is trying to achieve. It may include profit, revenue, growth, cost saving, economies of

scale etc. The next thing to decide is who needs to be a part of the budgeting process. It can include key management, departmental heads and the key personnel from the relevant departments. The key here should be to ensure the effective involvement of all those who have the necessary information, experience and expertise, as well as the influence over the activities enlisted. It is followed by data gathering process whereby necessary data is collected and noted for putting into use. The relevant data can be extracted by respective and authentic sources i. e. previous budget, management reports, feasibility studies, cost and rate list etc. Expenses can be further categorized for simplicity and accuracy. All the budget items must be in line with the items of the financial statements. An important point to note here is that all the line items and elements must be decided upon on the basis of authentic and accurate assumptions. If the budget is not based on realistic assumptions, it wouldn't make much of a sense and would just be a wastage of precious time and resources. Once all the revenue and expense line items have been realistically included, it would provide an outlay of a comprehensive budget. Further alterations on the basis of changes in assumptions and other factors can be put into consideration from time to time and the budget can be updated accordingly.

## **Conclusion**

The budget is a very important process for every business as it provides the basis for planning, control and decision making for the business. Without a proper budget, there would be no specific systems and policies and the operations would not be well managed. However, effective and realistic

budget is ensured by the proper budgeting process and making sure all the integral elements have been put into consideration.