

## **Successful Business Budgeting**

**By Vaughan Jones - ONE Scribe**

### **Summary**

This article deals with the steps needed to successfully draft an accurate budget for a business.

### **Steps to take for success business budgeting**

Preparing a budget is a daunting task for most people but, following these steps in a structured manner, will simplify it substantially.

Step 1. Hold a management meeting with the accountant or the bookkeeper and the department managers. Draw up a budget plan, setting tasks to be performed by which people, assigning accountability to department managers, setting milestone completion dates, set budget meeting dates and the final completion date and criteria for the completed final budget.

Step 2. Get the financial statements and detailed management reports for the previous financial year, or the forecast Income Statement derived from the business plan if this is a new business. The Income Statement should have the following columns:

Account; Total Actual; Total budget; Total Variance; Monthly actual; monthly budget; monthly variance. These monthly columns must be grouped per month for monthly analyses.

The figures appearing in the previous year's operating results, Income Statement, are used as a basis upon which calculations of the new year's budget figures can be calculated.

Step 3. Analyze the information contained in the Income Statement of the previous financial year, or period.

3.1 Sales. Why is there a variance; what factors could have caused the difference between budgeted figures and actual results? Analyze this per individual product or groups of products, depending on whether you manufacture them yourself or purchase to resell.

3.2 Cost of sales. Why is there a difference between actual and budget? Were the production variances unaccounted for? Analyze this per individual product or groups of products, depending on whether you manufacture them yourself or purchase to resell.

3.3 Analyse your distribution costs variances. Why is actual substantially different to the budgeted figures? Analyze this per individual product and for customer groupings. Analyze this also per individual product or groups of products, depending on whether you manufacture them yourself or purchase to resell.

3.4 Analyze the differences in each of the expense accounts. Why do they differ to th budgeted figures?

3.5 List the best ways in which to deal with each of the above-mentioned in order to set accurate figures for the new year's budget/

3.6 Individually re-cost all your products, using the information gained from 2 above, and remember, this is for the full year ahead. This is why you are doing these calculations for each month individually, as this also covers seasonal variants and differences.

Remember to include:

Cost of products, or raw materials  
Direct manufacturing costs  
Direct labor costs  
Direct warehousing & distribution costs  
Provide an amount for breakage & pilfering  
Delivery & warehousing costs  
Manufacturing overheads:  
    Factory rent  
    Machinery usage  
    Machinery repairs & maintenance  
Packaging  
    Cleaning costs  
    Consumable stores usage  
Warehousing overheads  
Distribution overheads.

Step 4. Once these items have been analysed comprehensively, put it all together in a new projected budgeted Income Statement for the year ahead. Analyse this information and reset the projected Income Statement over and over until the profit margins needed will be achieved.

N.B. On the next page is a Projected Budgeted Income Statement template as an example. Please note that there must be a column for every month in the year for which is being budgeted. The total across of all twelve months are in the 2019 Budget column.

To read more along these lines, follow the information in the author's biography.

### **Author's bio**

Vaughan Jones is an accountant with 35 years experience, and he is a writer of books and articles to help the business owners better manage their business.

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