DAR ES SALAAM SCHOOL OF JOURNALISM

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OUR MOTTOR: MEDIA FOR DEMOCRACY

TOPIC FOUR
BUDGETING

DEFINITION

A budget is a quantitative plan for acquiring and using resources over a specified time period. Individuals often create household budgets that balance their income and expenditures for food, clothing, housing, and so on while providing for some savings. Once the budget is established, actual spending is compared to the budget to make sure the plan is being followed. Companies use budgets in a similar way, although the amount of work and underlying details involved far exceed a personal budget.

A budget is a tool for planning, implementing, and controlling activities for optimum utilization of scarce resources in a business. It explains the company's objectives and the course of action it will choose to achieve its goals in detail. Also, it mentions the controls to be put in place for achieving its successful implementation.

BUDGETING PROCESS

The budgeting process is the process of putting a budget in place. This process involves;

1. Planning and forecasting
2. Implementing
3. Monitoring and controlling
4. Evaluating the performance of the budget.

BUDGET CLASSIFICATIONS

1) Based on time

Long-term Budget: The budget designed by the management for a long-term, i.e. three to ten years is called as long-term budget.

Short-term Budget: As the name suggests, the budget which is prepared for a period ranging from one to two years, is called short-term budget.

2) Based on Capacity/ Flexibility

Fixed Budget: The budget created for a fixed activity level, i.e. the budget remains constant regardless of the level of activity, is called as fixed budget.

Flexible Budget: The budget which changes with the change in the level of activity is a flexible budget. It identifies the fixed cost, semi-variable cost and variable cost, to show the expected results at different volumes.

3) Based on Functional

Sales Budget: Sales budget is used to determine the quantity of anticipated sales and the expected selling price per unit.

Production Budget: It is prepared to indicate the production for the specified period and is expressed in the units of outputs produced.

Materials Budget: The budget prepared to show the quantities of direct material and raw material required to manufacture the finished product.

Purchase Budget: Purchase budget is designed to estimate the quantity and value of different items to be bought at different points of time, considering the production schedule and inventory required.

Cash Budget: The budget highlights the cash needed by the business in a specified period, taking into account all the receipts and payments of the business

TYPES OF BUDGET

There are four common types of budgets that businesses use: (1) incremental, (2) activity-based, (3) continuous, and (4) zero-based.

1. INCREMENTAL BUDGET

Incremental budgeting takes last year's actual figures and adds or subtracts a percentage to obtain the current year's budget. It is the most common method of budgeting because it is simple and easy to understand.

2. ACTIVITY-BASED BUDGETING

Activity-based budgeting is a budgeting approach that determines the amount of inputs required to support the targets or outputs set by the company. For example, a company sets an output target of Tshs. 100 million in revenues. The company will need to first determine the activities that need to be undertaken to meet the sales target, and then find out the costs of carrying out these activities.

3. CONTINUOUS OR ROLLING BUDGET

A budget continuously updated by adding a further accounting period (month or quarter) when the earlier accounting period has expired. For instance, the budget can be extended for another month or quarter at the end of each month or quarter.

4. ZERO-BASED BUDGETING

As one of the most commonly used budgeting methods, zero-based budgeting starts with the assumption that planned expenditure for existing programmes should start from base zero, which means that each year's budget is compiled as if the programmes were being launched for the first time.

IMPORTANCE OF BUDGETING

- Budgeting estimates revenue, plans expenditure and restricts any spending that is not part of the plan.
- Budgeting ensures that money is allocated to those things that support the strategic objectives of the business.
- A well communicated budget helps everyone understand the priorities of the business
- The process of creating a budget provides opportunities to involve different staffs, resulting in them sharing the organization’s vision; and
- Engaging the team in reviewing and comparing the budget with actuals can provide information that highlights the strengths and weaknesses of the business.
- It discloses the weaknesses, inefficiencies and deviations in an organization promptly and provides a means to overcome them for the purpose of achieving goals.


THANK YOU :)

Any Question?

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