**Types of Budgets

For Finance Executives, it is necessary to be familiar with the various types of budgets to understand the whole picture. The types of budgets include master, operating (for income statement items comprised of revenue and expenses), financial (for balance sheet items), cash, static (fixed), flexible, capital expenditure (facilities), and program (appropriations for specific activities such as research and development, and advertising). These budgets are briefly explained below.

Master Budget
A master budget is an overall financial and operating plan for a forthcoming calendar or fiscal year. It is usually prepared annually or quarterly. The master budget is really a number of subbudgets tied together to summarize the planned activities of the business. The format of the master budget depends on the size and nature of the business.

Operating and Financial Budgets
The operating budget deals with the costs for merchandise or services produced. The financial budget examines the expected assets, liabilities, and stockholders' equity of the business. It is needed to see the company's financial health.

Cash Budget
The cash budget is for cash planning and control. It presents expected cash inflow and outflow for a designated time period. The cash budget helps management keep cash balances in reasonable relationship to its needs and aids in avoiding idle cash and possible cash shortages. The cash budget typically consists of four major sections:
1. Receipts section, which is the beginning cash balance, cash collections from customers, and other receipts
2. Disbursement section, comprised of all cash payments made by purpose
3. Cash surplus or deficit section, showing the difference between cash receipts and cash payments
4. Financing section, providing a detailed account of the borrowings and repayments expected during the period

Fixed Budget
The static (fixed) budget is budgeted figures at the expected capacity level. Allowances are set forth for specific purposes with monetary limitations. It is used when a company is relatively stable. Stability usually refers to sales. The problem with a static budget is that it lacks the flexibility to adjust to unpredictable changes.

In industry, fixed budgets are appropriate for those departments whose workload does not have a direct current relationship to sales, production, or some other volume determinant related to the department's operations. The work of the departments is determined by management decision rather than by sales volume. Most administrative, general marketing, and even manufacturing management departments are in this category. Fixed appropriations for specific
projects or programs not necessarily completed in the fiscal period also become fixed budgets to the extent that they will be expended during the year.
Examples are appropriations for capital expenditures, major repair projects, and specific advertising or promotional programs.**

**INTRODUCTION**

**Businesses use budgets to plan for future activities and to set various goals and objectives within the company. They help the organization set specific expectations which aid in evaluating performance throughout the company. Budgeting helps organizations implement specific strategies to**

**meet goals and objectives. It is important to note that a budget is an estimate and will often need to be adjusted over time.

In order to properly plan and set goals, several different budgets must be created. This article discusses some of the more common budgets used by businesses.

Sales Budget - The sales budget is an estimate of future sales, often broken down into both units and dollars. It is used to create company sales goals.

Production Budget - Product oriented companies create a production budget. It is an estimate of the number of units that must be manufactured in order to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, such as labor, material, and other expenses.

Cash Flow Budget - The cash flow budget is a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.

Marketing Budget - The marketing budget is an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.

Project Budget - The project budget is a prediction of the costs associated with a particular company project. These costs include labor, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each.**

**.

Master Budget - The master budget is a summary of the plans created for the subunits of the company. It is used to create projected financial statements. The master budget results in the creation of a pro forma income statement and a pro forma balance sheet. These are also referred to as a budgeted income statement and a budgeted balance sheet. Potential investors and lenders want to see the projected financial statements in order to make decisions that will ultimately affect the company**

[**1**](http://www.associatedcontent.com/article/225986/what_types_of_budgets_do_businesses.html?image=83333)[**2**](http://www.associatedcontent.com/article/225986/what_types_of_budgets_do_businesses.html?image=83334)**X**

**Businesses use budgets to plan for future activities and to set various goals and objectives within the company.**

**Credit: Tara/Morguefile  |  © Tara/Morguefile**

**Capital Budget - The capital budget is a prediction of company needs in regard to fixed assets, such as buildings, vehicles, machinery, and other equipment. It includes the cost of upgrading present assets, the cost of acquiring new assets, costs associated with maintenance of the assets,**

**and fees associated with the assets. The capital budget helps the company plan for the acquisition and upkeep of these assets, which may include use of available cash or outside financing.**

**Some Types of Budgets**

**REVENUE BUDGETS**

**The revenue budget is a forecast because it is based on projecting future sales. Managers must take into consideration their competitors, advertising budget, sales force effectiveness and other relevant factors, and they must make an estimate of sales volume. Then, based on estimates of demand at various prices, managers must select an appropriate sales price. The result is the revenue budget.**

**EXPENSE BUDGETS**

**Found in all units within a firm and in not-for-profit and profit-making organisations alike. Expense budgets list the primary activities undertaken by a unit to achieve its goals and allocate a dollar amount to each. Managers give particular attention to so-called fixed expenses&emdash;that is, those that remain relatively unchanged regardless of volume. As production drops, the variable expenses tend to control themselves because they fall with volume.**

**CASH BUDGETS**

**Cash budgets are forecasts of how much cash the organisation will have on hand and how much it will need to meet expenses. This budget can reveal potential shortages or the availability of surplus cash for short-term investments.**

**CAPITAL EXPENDITURE BUDGETS**

**Investments in property, buildings and major equipment are called capital expenditures. These are typically substantial expenditures both in terms of magnitude and duration. The magnitude and duration of these investments can justify the development of separate budgets for these expenditures. Such capital expenditure budgets allow management to forecast future capital requirements, to keep on top of important capital projects, and to ensure that adequate cash is available to meet these expenditures as they become due.**

**Approaches to Budgeting**

**INCREMENTAL BUDGETS**

**The incremental (or traditional) budget has two identifying characteristics. First, funds are allocated to departments or organisational units. The managers of these units then allocate funds to activities as they see fit. Second, *an incremental budget develops out of the previous budget. Each period's budget begins by using the last period as a reference point.* Only incremental changes in the budget request are reviewed. Each of these characteristics, however, creates a problem.**

**The incremental budget is particularly troublesome when top management seeks to identify inefficiencies and waste. In fact, inefficiencies tend to grow in the incremental budget because it's easy for them to get hidden. In the typical incremental budget, nothing ever gets cut. *Each budget begins with the funds allocated for the last period&emdash;to which unit managers add a percentage for inflation and requests for those new or expanded activities they seek to pursue.* Top management only looks at the requests for incremental changes. The result is that money can be provided for activities long after their need is gone.**

**PROGRAM BUDGETS**

**Program budgets allocate funds to groups of activities (programs) that are needed to achieve a specific objective. As such, they are designed to deal with one of the major problems of incremental budgets; that is, funds are allocated to activities, not to departments.**

**ZERO-BASE BUDGETS**

**Zero-base budgeting (ZBB), originally developed by Texas Instruments, requires managers to justify their budget requests in detail from scratch, regardless of previous appropriations. It's designed to attack the second drawback we mentioned in incremental budgets: activities that have a way of becoming immortal.**

**ZBB shifts the burden of proof to the manager to justify why his or her unit should get any budget at all.**

**ZBB is no panacea. Like incremental budgeting, it has its own set of drawbacks. It increases paperwork and requires time to prepare; the important activities that managers want funded tend to have their benefits inflated; and the eventual outcome rarely differs much from what would occur through an incremental budget.**

**Preparing a Budget**

**Most computer accounting packages will enable you to draw up an incremental budget automatically - the program simply takes the totals for the previous year and allots them accordingly. You can then change whatever items you wish, but at least you have guidance as to the current year's expenditure.**

**You can also draw up a zero based budget using an accounting package - instead of using totals from the current year, the program merely draws up a list of items in the current budget and lets you enter the figures for the coming year.**

**I am not an accountant and not too happy with financial aspects of management, but I have managed large budgets. In one of my jobs, for example, we had to be within 5% of the budgeted total at the end of the financial year: if you looked like spending too much, you simply refused to spend anything in the last weeks or months ignoring the pleas and cries of your staff and departments - if you looked like not spending enough, you went beserk and procured items you might not really need. The problem was that if you were more than 5% under budget, you had no hope of getting the same amount again, and certainly no hope of getting any increase, regardless of changes to your programs!**

**Program budgets are difficult because you have nothing to go on. You have to make estimates and try to cover all contingencies. This happens to me now when I apply for funding for the community organisation I run when we want to develop new projects. Applying for *continuing* funding for the Scheme itself is no problem - the computer produces an incremental budget and I make minor changes to it. The problem arises when we think we could try something new - if we could get money for it.**

**What we have to do is some problem solving exercises -**

* **what do we want to achieve?**
* **how will we go about it?**
* **what resources will we need?**
* **how many people?**
* **how much time?**
* **what rates of pay?**
* **what can go wrong and how can we plan for emergencies?**

**Here is a sample budget which I use in my sessions on planning conferences and workshops. You should be aware that if it were available to you as a spreadsheet, you could adjust expenditure figures and see what the outcome would be on the balance. To maintain a slight profit, you could then see how to adjust the income categories. A major international IT conference went horribly wrong in this part of the world recently when organisers planned on some 3000 registrants per day - they allegedly got 30! The conference was wrapped up on day 3 when disgusted delegates went home; State and federal governments were involved in the subsequent investigations.**

## Budget types

**Sales budget: The sales budget is an estimate of future sales, often broken down into both units and dollars. It is used to create company sales goals.**

**Production budget: Product oriented companies create a** [**production budget**](http://en.wikipedia.org/wiki/Production_budget) **which estimates the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, including labor and material.**

**Cash Flow/Cash budget: The** [**cash flow**](http://en.wikipedia.org/wiki/Cash_flow) **budget is a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.**

**Marketing budget: The marketing budget is an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.**

**Project budget: The project budget is a prediction of the costs associated with a particular company project. These costs include labor, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each.**

**Revenue budget: The Revenue Budget consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.**

**Expenditure budget: A budget type which include of spending data items.**

***Rolling budget* can be diffiend as: Budget or plan that is always available for a specified future period by adding a period ( month, quarter or year ) to the period that just ended. also called *CONTINUOUS BUDGET***

**Rolling budget is a budget prpared with a fixed planning horizon.To achieve this, the budget is constantly being added to at the same rate as time is passing.it's very useful for companies experiencing rapid change, as they require forecasting for much shorter time periods**

**.**

**Sale budget=**

 **Operating plan for a period expressed in terms of sales volume and selling prices for each class of product or service. Preparation of a sales budget is the starting point in budgeting since sales volume influences nearly all other items.**

**Sales budget is the most important budget while making the overall budget for the organization for a fiscal year. It is important in this sense that how would anybody make fiscal budget for organization if he don't know about how much to sale or what are the organization's sale would be. If you know the sales volume of units of product you want to sale in a fiscal year then you will make production budget according to that sales requirement in mind you will have production information in mind you will purchase raw material, hire labour according to requirements. So if you don't know about how much you want to sale then how would you budget other things and how would you compare your performance at the end of fiscal year.**

**A personal budget is a** [**finance plan**](http://www.answers.com/topic/financial-plan) **that allocates future personal** [**income**](http://www.answers.com/topic/income) **towards** [**expenses**](http://www.answers.com/topic/expense)**,** [**savings**](http://www.answers.com/topic/saving-2) **and** [**debt**](http://www.answers.com/topic/debt) **repayment. Past spending and personal debt are considered when creating a personal budget. There are several methods and tools available for creating, using and adjusting a personal budget.**