PROPEL BUSINESS LAB

SESSION VII

BUDGETING

AGENDA

SESSION VII

6:00p.m. - 6:05p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

6:05p.m. - 6:30p.m.: Definition & Purpose of Budgeting?

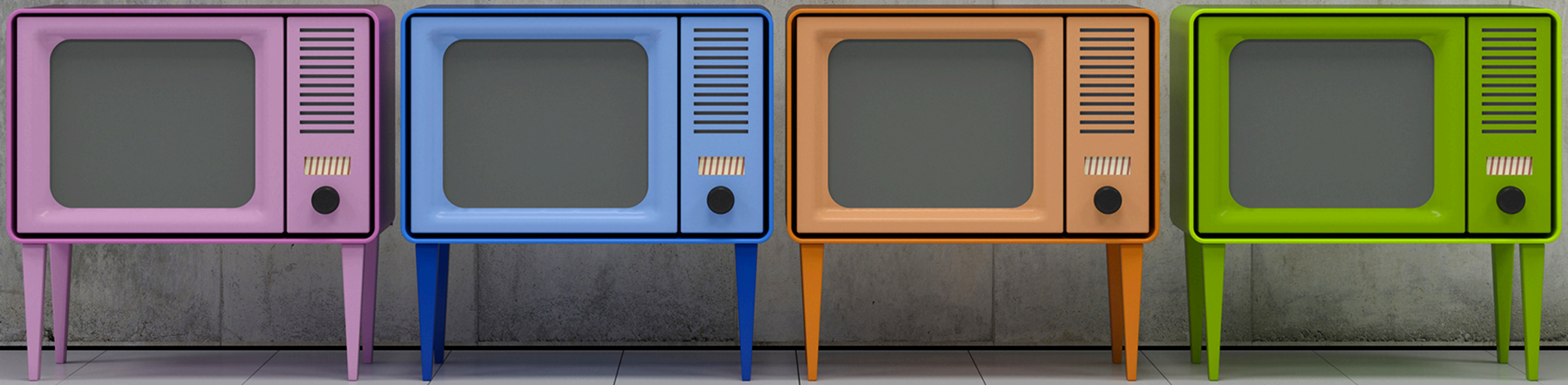
6:30p.m. - 7:30p.m.: Types of Budgeting Methods *(10-minute break after this session)*

8:30p.m. - 8:55p.m.: From Concepts to Action

8:55p.m. - 9:00p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

"You must gain control over your money, or the lack of it will forever control you."

(Dave Ramsey)



BUDGETING 101

WHAT IS A BUDGET?

It is a plan for the coordination of resources and expenditures. In simple terms, it is an estimate of the money the business owner expects to make versus what the owner expects to spend in the course of conducing business.

(expected revenues -vs- expected expenses)

PURPOSE OF BUDGETING

1. Enhances decision-making
2. Aids in preparation for emergencies
3. Allows management to allocate anticipated resources
4. Provides more control over expenses
5. Aids in identifying potential issues before they arise
6. Provides the opportunity to align spending with company objectives and strategic goals

https://online.hbs.edu/blog/post/importance-of-budgeting-in-business

KEY TERMS

- **Revenues:** Represents overall funds made by the company in the course of conducting business.
- **Expenses:** Represents money spent by the company in the course of conducting business.
- **Sales:** Represents funds made by the company in the course of selling goods and/or services.
- **Gross Margin:** Represents revenue minus the cost of goods sold.
- **Net Income/Profit:** Represents gross margin minus expenses.
- **Loss:** Occurs when the business has more expenses than revenues during one accounting period.
- **Overhead/Factory Burden:** Generally refers to indirect labor and indirect costs.

KEY TERMS, CONT'D

- **Variable Costs:** Costs that change as the quantity of the good or service that a business produces changes.
- **Fixed Costs:** Business expenses that are not dependent on the level of goods or services produced by the business.
- **Recurring Expenses:** Costs that occur on a regular basis and is necessary for the ongoing operation of a business
- **Break-Even Analysis:** The point at which total cost and total revenue are equal.

Break-Even Sales = Fixed Costs / (Sales - Variable Costs)

Break-Even Units = Fixed Costs / (Sales Price Per Unit - Variable Costs Per Unit)

- ***Target Profit:*** *The profit a business desires to generate within a specific time period.*

Target Profit = (target profit + fixed costs) / contribution margin per unit

TYPES OF

BUDGETING METHODS

TYPES OF BUDGETING METHODS

- **Incremental Budgeting:**
- **Activity-Based Budgeting:**
- **Zero-Based Budgeting:**

TYPES OF BUDGETING

	INCREMENTAL BUDGETING	ACTIVITY-BASED BUDGETING	ZERO-BASED BUDGETING
DEFINITION	The process of adjusting the existing or previous fiscal period budget by an increment or percentage to obtain a new budget.	Includes thoroughly analyzing activities to predict operating budgets and future costs. The term "activity" refers to cost drivers and relevant activities that incur a cost.	A method that starts fresh by assuming that all department budgets begin at zero and must be rebuilt from scratch each fiscal period.
PROS	Useful for established organizations with a historical record of profits and losses. This method is typically fast and cost-effective.	Most popular in major industries, such as manufacturing, construction, and healthcare. This approach allows users to identify the exact costs for every operational activity.	Ideal for companies of all sizes that want to focus on specific goals for a specific period. Ultimately allows company leaders to focus on their top goals and avoid unnecessary spending
CONS	Tends to promote unnecessary spending and is likely to ignore external factors such as inflation or changing market conditions.	Can be very expensive to implement and highly time-consuming compared to traditional budgeting methods.	Tends to be a very time-consuming approach because of how often budgets need to be evaluated and adjusted.

FROM CONCEPTS TO ACTION

FROM CONCEPTS TO ACTION

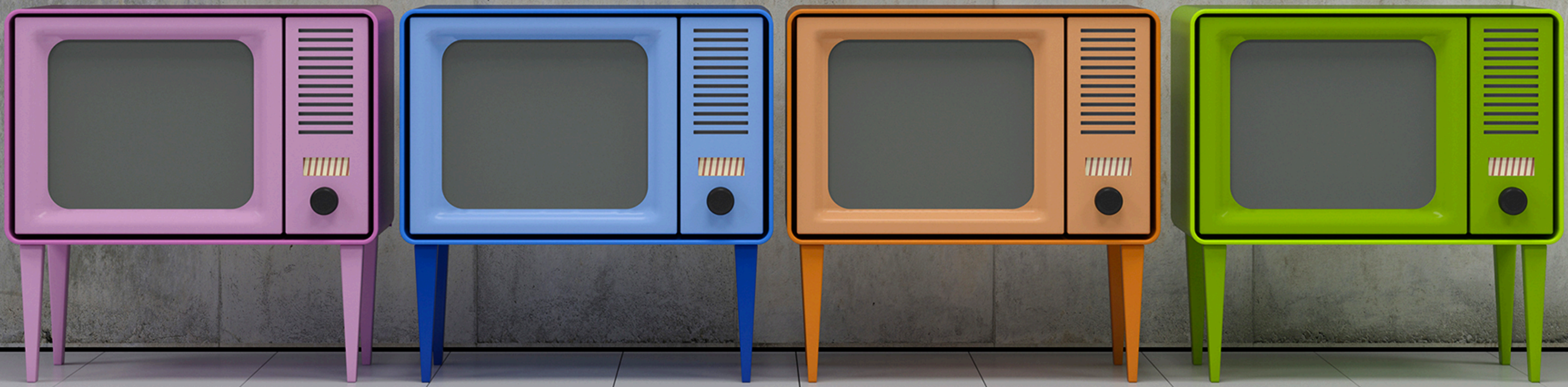
ESTABLISHING YOUR STARTING POINT

- **CALCULATE THE INITIAL COSTS TO OPEN THE BUSINESS OR TO EXPAND THE CURRENT BUSINESS OR NONPROFIT ORGANIZATION.** *(THIS STEP WILL DEPEND ON YOUR GOALS AND WILL REQUIRE RESEARCH.)*
- **ESTIMATE THE COMPANY'S MONTHLY SALES.**
- **DETERMINE THE COMPANY'S FIXED EXPENSES.**
- **DETERMINE THE COMPANY'S VARIABLE EXPENSES.**

LET'S REFLECT...

Reflect on the factors we discussed pertaining to your pricing strategy.

How often do you think a business should adjust prices for its goods and/or services?



PRE-WORK FOR SESSION VIII

ASSIGNMENTS

SESSION VII

1. Read through the Session VIII Presentation.

2. Read the additional resources provided in the program outline for Week #7.

QUESTIONS, COMMENTS, OR CONCERNS?

LET'S
PROPEL