

CREATING A BUDGET

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Using a budget is a good way for an organization to review and monitor the performance and achievements of management and the organization as a whole. The level of detail needed in preparing a budget depends on the organization's structure and types of activities to be monitored.

A budget should consist of realistic projections about how much revenue can be generated and what the associated expenses will be. Projections should be based on past activity and realistic expectations of future operations. The overall goals of the organization should also be considered.

The budget process for an upcoming year should begin several months before the beginning of the new fiscal year (or budget year, if different). Management, staff and board members should all participate in the budgeting process to set realistic goals for which they can later be held accountable.

Steps in the Budget Process

- Review historical activity, achievements and fiscal performance for the past year (or years). Our company can assist you in compiling data for use in this process. Actual Profit and Loss statements can be exported to Excel to use as a starting point for the budget and detailed reports of revenues and expenses can be prepared for analysis.
- Determine costs that are fixed (those that do not fluctuate with the organization's level of activity) and costs that are variable (those that do fluctuate with the organization's level of activity).
- Determine and agree on the goals and objectives to be achieved in the upcoming year. Set realistic short and long-term goals that fit with the organization's strategic plan or mission.
- Estimate the revenues and costs required to achieve your objectives, including staff, supplies and other resources. Make sure to take into account upcoming changes and areas of expense that can have significant fluctuations. Keep in mind that a projected increase in revenues will likely have a corresponding increase in variable costs. Don't forget to consider external factors like the economy.
- When budgeting for personnel costs, be sure to plan for any increased staff that may be associated with an anticipated increase in revenues. There may be many hidden costs associated with hiring new staff. Consider recruiting costs, training, support, office space, furniture, equipment and supervision costs in addition to salaries and benefits.
- Review the revenue and expense projections. At different times organizations may incur a deficit, realize a surplus, or just break even. Determine if the overall projections are reasonable and if they support the

organization's goals.

- Consider the accounting structure, chart of accounts and type of reporting you need in order to compare the budget projections to actual. Your representative can assist in this part of the process. See also Budget Reporting Options document (describes the types of budget reporting that can be provided).
- Review Budget vs. Actual reports throughout the year and adjust your plans and expectations accordingly.