



Budgets Policy and Procedure

Overview

Ace Finance is committed to providing accurate, timely and user friendly financial statements, including budgets and variance reports. This policy explains the budget process, types of budgets and provides guidance on seasonal budget preparation.

Purpose of the policy

- To ensure that clients understand what the budget process involves.
- To ensure that Ace Finance staff, working on behalf of clients, provide consistently high standard financial data and statements.

Scope of the policy

This policy applies to all Ace Finance bookkeeping staff providing bookkeeping work for clients.

Budget preparation

A budget is a plan of action which reflects goals set by management. Budgets give clear guidelines by which a business can operate. If budgets goals are achieved then business goals are achieved. Budgets are based on estimates of the financial results of future business activities.

Budgets must be flexible so they can reflect changes in economic circumstances through a process of review, to make sure targets are realistic.

Budget Process

1. Prepare budgets based on past performance and predictions of performance
2. Compare actual results to budget targets in the Variance Report
3. Investigate significant variations between the budget and actual figures

Budgets provide information for:

Planning	Co-ordinating	Controlling
<p>Written plan for future activities.</p> <p>People from all sections of a business develop their own plan and discuss how their section contributes to budget targets and overall business performance.</p>	<p>To achieve budget goals all sections must work together. The numeric information about future activities and the day-to-day decisions can be more easily made.</p> <p>Sales Budget – impacts on purchases, production and stock levels.</p> <p>Production Budget – meets targets to have the stock to sell.</p> <p>Purchases – dependent on the Sales Budget, purchase raw materials and/or stock.</p> <p>Capital Expenditure Budget – plans for future purchases of fixed assets.</p>	<p>A Performance Report compares budget targets to actual results. Any major differences can be investigated and corrective action taken.</p> <p>A variance between budget and actual figures may be the result of:</p> <p>Poor management – action must be taken to improve efficiency.</p> <p>Invalid Budget estimates – budget figures must be revised.</p> <p>Changes in economic circumstances – budgets must be revised to reflect economic conditions.</p>

	Expense Budget – keeps to targets for costs of sales, production and other operating costs.	
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Types of Budgets

Sales Budget	Prepared to show the forecasted unit sales and dollar sales for a period (number of goods sold and total revenue expected). This budget is used as the basis for other budgets.
Production Budget	The quantity of goods that must be manufactured to maintain stock levels to achieve sales targets.
Purchases Budget	Guidelines for stock purchases to maintain stock levels and purchases of materials for production targets.
Expense Budget	Expected operating expense levels at the desired level of sales.
Capital Expenditure Budget	Based on other budgets. Summarises expected purchases or renovations of non-current assets. Capital expenditure may be needed to buy or renovate equipment to achieve production targets or to increase efficient to meet expense goals.
Cash Budget	Based on the other budgets it provides information about expected liquidity. Looks at the cash balance at the start of a period, expected receipts and payments and the forecasted ending cash balance.
Budgeted Income Statement	A summary of budgets showing expected profitability. Shows all forecasts for sales, purchases and expenses.
Budgeted Balance Sheet	Shows the expected net effect of all budgets on liquidity. The expected assets, liabilities and equity at the end of a period.

Once the Performance Report is done the unfavourable variances ('U' stands for unfavourable) are investigated and corrective action taken.

The Budgeted Income Statement follows the same format as we have used in the past. The Income Statement Performance Report also has two additional columns, Actual and Variance.

Seasonal budgets

Budgets can be prepared on an annual basis.

For more timely information, Elite Legal Partners prepares budgets for shorter periods.

Seasonal budgets:

- Annual - 1 January to 31 December
- Financial year - 1 July to 30 June
- Quarters - 3 months
- Monthly