

Budget—Even If It’s on the Back of a Napkin

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A budget on the back of a napkin is better than no budget at all. Even the simplest of budgets will make management think about the coming year’s future direction and performance goals for the business.

Budgeting Helps the Business Look Forward to the Coming Year

Budgeting is important because it makes executives, management, and employees provide clarity to the direction the business will be taking in the coming fiscal year. Budgeting helps to determine, in advance, where the company will be focusing resources and capital, both financial and human. In addition, budgeting can provide a means by which to measure and evaluate the business’s and individual performance during the course of the fiscal year. Measuring budget to actual performance helps a business and individuals identify what activities are working during the current year and what activities need to be adjusted because they are underperforming.

Budgeting for All Levels and Aspects of the Business

Budgeting is a process that should help educate all levels of the business on the direction of the company for the coming fiscal year. Budgeting involves reviewing all areas of the business both financially and operationally. During a company’s budgeting process, management should review:

- Revenues
- Cost of goods sold
- Operating expenses
- Employee headcounts
- Product development
- Capital equipment

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While budgeting for all levels and aspects of the business, it is important that executives get input from the employees who are actually responsible for the areas of the business’s operations being budgeted for.

Another important part of the budgeting process is providing consistent reporting back to the areas of responsibility on their budget to actual performance during the fiscal year. The ability to provide budget versus actual comparisons to management and their employees is invaluable as a means for providing feedback to everyone on their performance and the performance of the business. For executives budgeting helps to determine if the business is actually achieving the company’s goals that they established at the start of the fiscal year. Reviewing budget versus actual information on a routine basis can show what parts of the budget are performing according to the plan and what parts of the plan need improvement or attention during the remainder of the fiscal year. Companies that operate without a budget tend to evaluate their performance only on an annual basis, at the end of the fiscal year, which causes overreaction to issues in a dramatic manner.

Budgeting Provides a Means to Help Control the Business

Budgeting is a process that helps a company control spending by allocating funds and establishing management guidelines on what and how much to spend on specified business activities during a given month. The ability to provide employees with budgeting guidelines for making business decisions is critical to the success of a company, as expenses can be controlled at the source of the expense. A simple reminder to management and employees when there is no more money in the budget—stop spending.

Major business opportunities are never missed due to a budget. When a business opportunity is out of budget guidelines, it will cause management to pause and think about the ramifications of their business decision in advance of taking action. The benefit of a budget in this situation is to get executives and management to take the time to thoroughly review a major business decision before taking action.

Start Budgeting This Year

Budgeting is a choice that the management of a company makes related to how they want to run the business. No accounting standards, industry organization, or governmental body requires that a company budget, though budgeting is one of the most important things a company can do to prepare for the next fiscal year. Often the main reason that owners and executives fail to budget is that they want to avoid being held accountable for their actions and the business performance during the fiscal year. When budgeting is taken seriously by a company, budgeting provides business executives, the front line managers, and their employees, the opportunity to participate in developing the direction of the business and take financial and operational responsibility for their actions.

Budgeting can be as simple as writing the company’s goals on the back of a napkin or developing elaborate spreadsheets that roll up cost centers into departments that consolidate the budgets for several entities. The key is that budgeting is a process of establishing goals for a business, monitoring the business’s progress towards achieving the goals set for the business and the employees responsible for attaining the goals, while reevaluating and revising the business goals as needed during a fiscal year.

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Start budgeting today even if it is on the back of a napkin, you will be glad you did.

The Siburg Company, LLC is a boutique consulting firm specializing in the areas of financial and operational consulting, business development, and mergers and acquisitions. We invite you to call us if your company needs help getting the budgeting process started or to discuss your current business needs.

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