

BUILD IT

*Building a Personal or Corporate Budget
Model that works!*

Presented by

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Professor

Today's agenda

- Budget crossword puzzle #1
- Build It Backwards
- What is a budget?
- What are the 2 purposes of a budget?
- What it is *not*?
- Types of budgets
- Examples
- PDMA model
- Variance analysis – what to do?
- Budget puzzle #2

Build It Backwards

- Start with the end in mind
- What do you want the outcome to be
- Plan from the future back to today
- Budgets are tied to strategies



What is a budget?

- A **budget** (from old [French](#) *bougette*, purse) is a list of all planned expenses and revenues. It is a plan for saving and spending. A budget is an important concept in microeconomics. In other terms, a budget is an organizational plan stated in monetary terms.
- The purpose of budgeting is to:
 - Provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out.
 - Enable the actual financial operation of the business to be measured against the forecast.
- The budgeting process may be carried out by individuals or by companies to estimate whether the person/company can continue to operate with its projected income and expenses.

What are the 2 purposes of a budget?

Planning

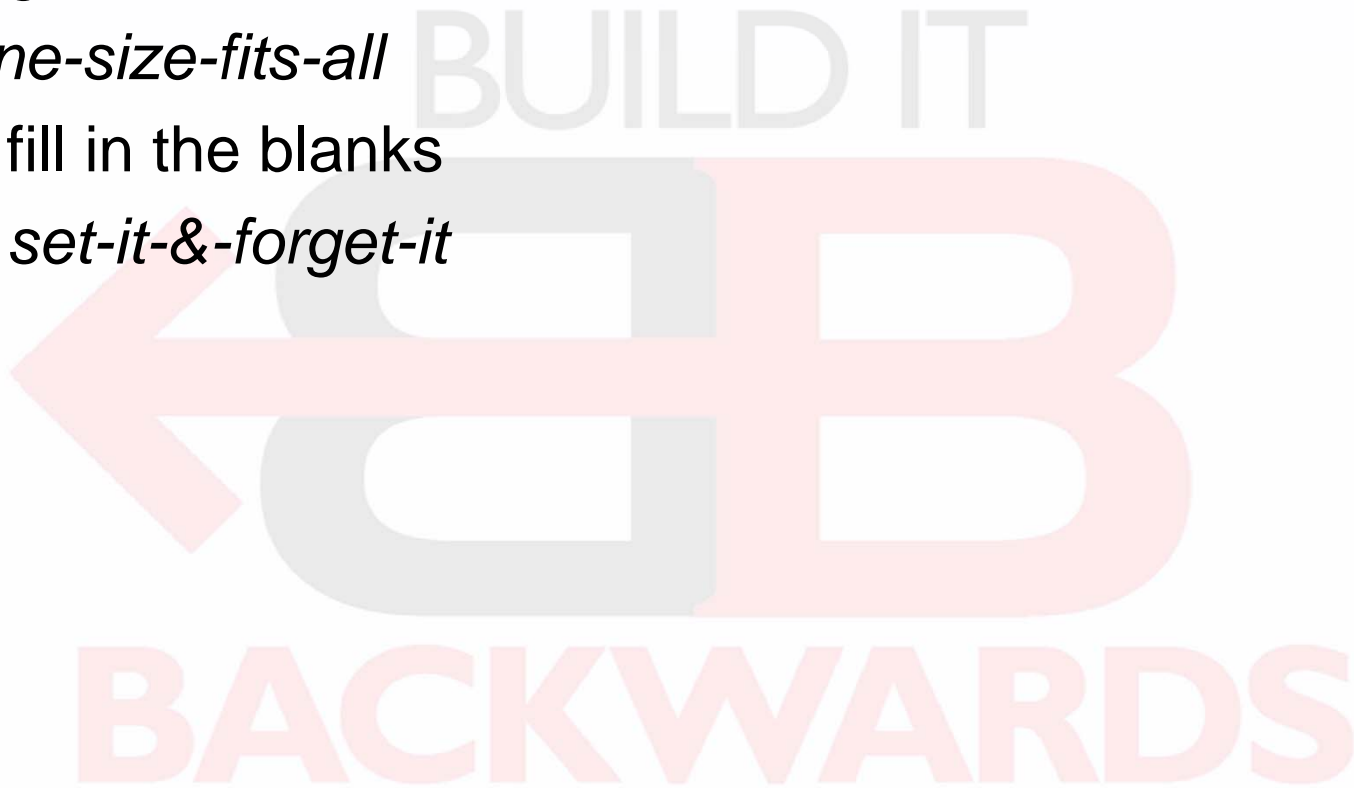
- What revenues will come in?
- What fixed expenses must be paid?
- What variable expenses will be necessary?
- What discretionary expenses will come up?

Control

- How frequently will the budget be monitored?
- What range (+/-) will be allowed as *normal* business?
- Will the variances be calculated manually or automatically?
- Who will be responsible for reviewing the report?
- Who will be held accountable for corrective actions?
- What is the process if the variance persists?
- How will the results be used to prepare the next forecast leading to the next budget?

What it is *not*?

- Not a panacea
- Not a guarantee
- Not *one-size-fits-all*
- Not a fill in the blanks
- Not a *set-it-&-forget-it*



Types of budgets

- Static (traditional)
- Flexible Budget
- Rolling Budget
- Zero-Based Budget (ZBB)
- Activity-Based Budget (ABB)
- Sales Budget
- Production Budget
- Cash Flow Budget
- Marketing Budget
- Project Budget
- Capital Budget
- Master Budget

Expense categories

- Fixed vs. variable
- Direct vs. indirect
- Period vs. product
- Controllable vs. non-controllable
- Discretionary vs. non-discretionary

- Opportunity costs
- Standard costs
- Marginal costs
- Sunk costs

Examples-

Personal Monthly Budget									
PROJECTED MONTHLY INCOME		Income 1			PROJECTED BALANCE (Projected income minus expenses)				\$0
		Extra income			ACTUAL BALANCE (Actual income minus expenses)				\$0
		Total monthly income	\$0		DIFFERENCE (Actual minus projected)				\$0
ACTUAL MONTHLY INCOME		Income 1							
		Extra income							
		Total monthly income	\$0						
HOUSING									
	Projected Cost	Actual Cost	Difference						
Mortgage or rent		\$0							
Phone		\$0							
Electricity		\$0							
Gas		\$0							
Water and sewer		\$0							
Cable		\$0							
Waste removal		\$0							
Maintenance or repairs		\$0							
Supplies		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
ENTERTAINMENT									
	Projected Cost	Actual Cost	Difference						
Video/DVD		\$0							
CDs		\$0							
Movies		\$0							
Concerts		\$0							
Sporting events		\$0							
Live theater		\$0							
Other		\$0							
Other		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
TRANSPORTATION									
	Projected Cost	Actual Cost	Difference						
Vehicle payment		\$0							
Bus/taxi fare		\$0							
Insurance		\$0							
Licensing		\$0							
Fuel		\$0							
Maintenance		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
INSURANCE									
	Projected Cost	Actual Cost	Difference						
Home		\$0							
Health		\$0							
Life		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
LOANS									
	Projected Cost	Actual Cost	Difference						
Personal		\$0							
Student		\$0							
Credit card		\$0							
Credit card		\$0							
Credit card		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
TAXES									
	Projected Cost	Actual Cost	Difference						
Federal		\$0							
State		\$0							
Local		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
SAVINGS OR INVESTMENTS									
	Projected Cost	Actual Cost	Difference						
Retirement account		\$0							
Investment account		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
GIFTS AND DONATIONS									
	Projected Cost	Actual Cost	Difference						
Charity 1		\$0							
Charity 2		\$0							
Charity 3		\$0							
Total		\$0	\$0	\$0					
LEGAL									
	Projected Cost	Actual Cost	Difference						
Attorney		\$0							
Alimony		\$0							
Payments on lien or judgment		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
PERSONAL CARE									
	Projected Cost	Actual Cost	Difference						
Medical		\$0							
Hair/nails		\$0							
Clothing		\$0							
Dry cleaning		\$0							
Health club		\$0							
Organization dues or fees		\$0							
Other		\$0							
Total		\$0	\$0	\$0					
TOTAL PROJECTED COST									\$0
TOTAL ACTUAL COST									\$0
TOTAL DIFFERENCE									\$0

Personal budgeting websites

- www.bargaineering.com
- www.thecentsiblelife.com
- www.consumerismcommentary.com
- www.stretcher.com
- www.getrichslowly.com
- www.thesimpledollar.com
- www.wisebread.com
- www.financialintegrity.org
- www.simpleliving.net

Corporate example

SALES FORECAST													Year 1
	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Total
Small Projects	85,000	85,000	85,000	85,000	85,000	170,000	170,000	85,000	170,000	85,000	85,000	170,000	1,360,000
Medium Projects	250,000	0	250,000	250,000	250,000	250,000	250,000	250,000	0	250,000	250,000	0	2,250,000
Large Projects	0	500,000	0	0	0	500,000	0	0	500,000	0	0	500,000	2,000,000
TOTAL SALES	335,000	585,000	335,000	335,000	335,000	920,000	420,000	335,000	670,000	335,000	335,000	670,000	5,610,000
SCHEDULE OF EXPECTED CASH COLLECTIONS													Total
Small Projects	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Total
Payment 1	21,250	21,250	21,250	21,250	21,250	42,500	42,500	21,250	42,500	21,250	21,250	42,500	340,000
Payment 2	0	21,250	21,250	21,250	21,250	21,250	42,500	42,500	21,250	42,500	21,250	21,250	297,500
Payment 3	0	0	21,250	21,250	21,250	21,250	21,250	42,500	42,500	21,250	42,500	21,250	276,250
Payment 4	0	0	0	19,550	19,550	19,550	19,550	19,550	39,100	39,100	19,550	39,100	234,600
TOTAL Small Projects	21,250	42,500	63,750	83,300	83,300	104,550	125,800	125,800	145,350	124,100	104,550	124,100	1,148,350
Medium Projects	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Total
Payment 1	25,000	0	25,000	25,000	25,000	25,000	25,000	25,000	0	25,000	25,000	0	225,000
Payment 2	0	0	75,000	0	75,000	75,000	75,000	75,000	75,000	75,000	0	75,000	600,000
Payment 3	0	0	0	75,000	0	75,000	75,000	75,000	75,000	75,000	75,000	0	525,000
Payment 4	0	0	0	0	70,000	0	70,000	70,000	70,000	70,000	70,000	70,000	490,000
TOTAL Medium Projects	25,000	0	100,000	100,000	170,000	175,000	245,000	245,000	220,000	245,000	170,000	145,000	1,840,000
Large Projects	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Total
Payment 1	0	50,000	0	0	0	50,000	0	0	50,000	0	0	50,000	200,000
Payment 2	0	0	0	0	150,000	0	0	0	150,000	0	0	150,000	450,000
Payment 3	0	0	0	0	0	0	0	150,000	0	0	0	150,000	300,000
Payment 4	0	0	0	0	0	0	0	0	0	0	140,000	0	140,000
TOTAL Large Projects	0	50,000	0	0	150,000	50,000	0	150,000	200,000	0	140,000	350,000	1,090,000
Total Collections	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Total
Total Collections	46,250	92,500	163,750	183,300	403,300	329,550	370,800	520,800	565,350	369,100	414,550	619,100	4,078,350
Beginning Accounts Receivable 12/31/03	250,000	0	0	0	0	0	0	0	0	0	0	0	250,000
TOTAL CASH COLLECTIONS	296,250	92,500	163,750	183,300	403,300	329,550	370,800	520,800	565,350	369,100	414,550	619,100	4,328,350

Direct labor budget

Employment Status	Direct	Department	Employee	Month and Year												Year 1		
				Benefits Salary	Monthly Salary	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total
Full Time	Direct	Creative	0	66,000	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
Full Time	Direct	Creative	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	Creative	0	44,000	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	44,000
Full Time	Direct	Creative	0	44,000	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	44,000
Full Time	Direct	Creative	0	44,000	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	44,000
Full Time	Direct	Creative	0	44,000	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	3,667	44,000
Full Time	Direct	Creative	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	Production	0	88,000	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	7,333	88,000
Full Time	Direct	Production	0	55,000	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	55,000
Full Time	Direct	Production	0	55,000	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	55,000
Full Time	Direct	Production	0	55,000	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	4,583	55,000
Full Time	Direct	Technology	0	99,000	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	99,000
Full Time	Direct	Technology	0	66,000	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
Full Time	Direct	Technology	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	Technology	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	Technology	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	Technology	0	77,000	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000
Full Time	Direct	QA	0	57,500	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	4,792	57,500
Full Time	Direct	QA	0	46,000	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	3,833	46,000
Total				1,225,500	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	1,225,500



Cash budget

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Year 1 Total
Beginning Cash Balance	700,000	678,315	392,881	238,696	104,061	189,427	60,642	93,107	295,973	462,988	514,153	610,769	4,341,012
Customer Collections	296,250	92,500	163,750	183,300	403,300	329,550	370,800	520,800	565,350	369,100	414,550	619,100	4,328,350
Total Cash Available	996,250	770,815	556,631	421,996	507,361	518,977	431,442	613,907	861,323	832,088	928,703	1,229,869	8,669,362
Disbursements													
Direct Labor	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	102,125	1,225,500
Selling & Admin	209,939	222,439	209,939	209,939	209,939	239,189	214,189	209,939	226,689	209,939	209,939	226,689	2,598,770
Income Tax	5,871	53,371	5,871	5,871	5,871	117,021	22,021	5,871	69,521	5,871	5,871	69,521	372,546
Total Disbursements	317,935	377,935	317,935	317,935	317,935	458,335	338,335	317,935	398,335	317,935	317,935	398,335	4,196,816
Cash Surplus (Deficit)	678,315	392,881	238,696	104,061	189,427	60,642	93,107	295,973	462,988	514,153	610,769	831,534	4,472,546
Financing													
Borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayment	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending Cash Balance	678,315	392,881	238,696	104,061	189,427	60,642	93,107	295,973	462,988	514,153	610,769	831,534	4,472,546

Balance sheet

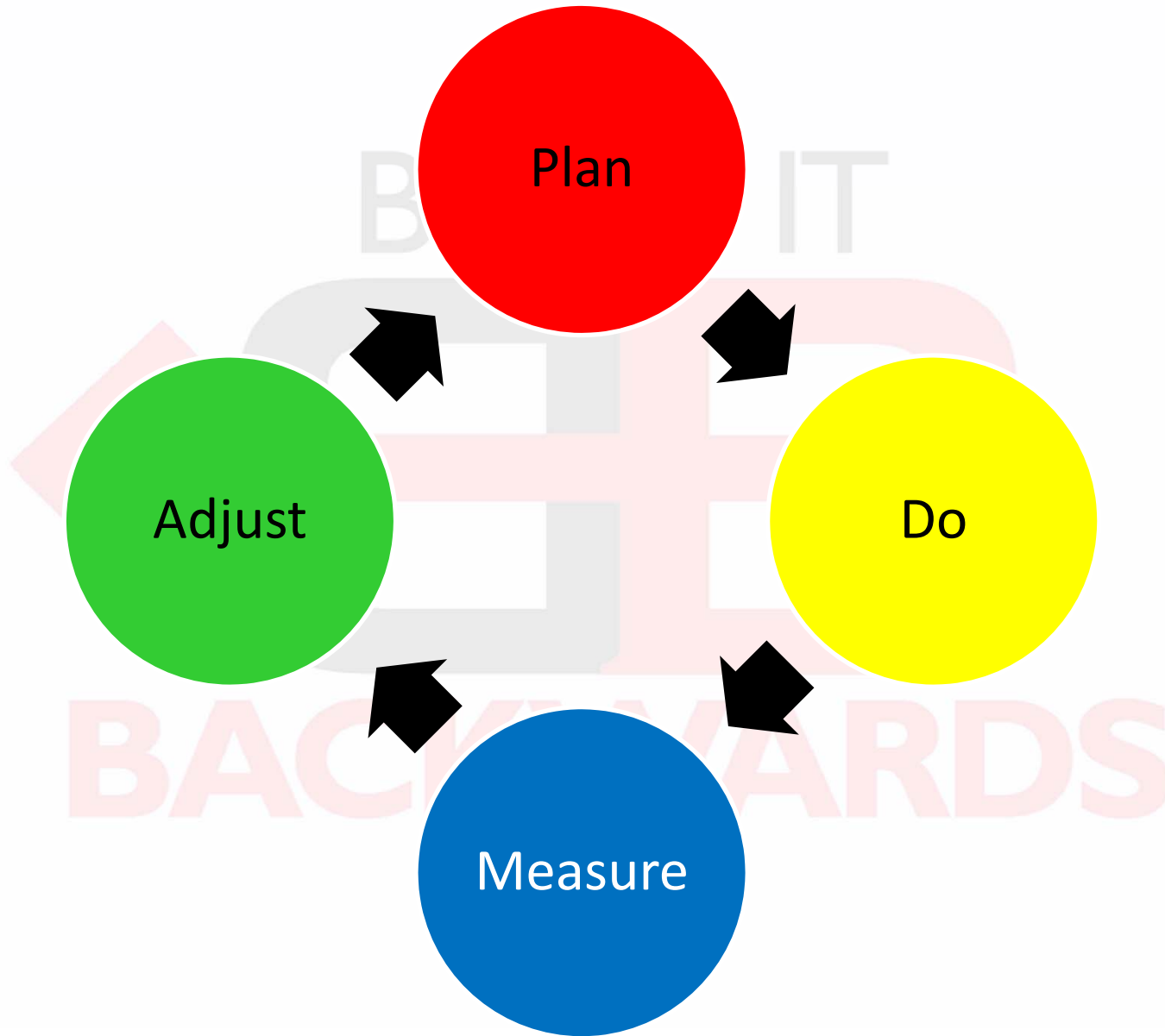
	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Year 1 Total
Current Assets													
Cash	678,315	392,881	238,696	104,061	189,427	60,642	93,107	295,973	462,988	514,153	610,769	831,534	4,472,546
Accounts Receivable	585,000	585,000	335,000	335,000	335,000	920,000	420,000	335,000	670,000	335,000	335,000	670,000	5,860,000
Total Current Assets	1,263,315	977,881	573,696	439,061	524,427	980,642	513,107	630,973	1,132,988	849,153	945,769	1,501,534	10,332,546
Fixed Assets													
Land	0	0	0	0	0	0	0	0	0	0	0	0	0
Build & Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0
Accumulated Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Long-Term Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	1,263,315	977,881	573,696	439,061	524,427	980,642	513,107	630,973	1,132,988	849,153	945,769	1,501,534	10,332,546
Current Liabilities													
Accounts Payable	312,064	324,564	312,064	312,064	312,064	341,314	316,314	312,064	328,814	312,064	312,064	328,814	3,824,270
Income Tax Payable	5,871	53,371	5,871	5,871	5,871	117,021	22,021	5,871	69,521	5,871	5,871	69,521	372,546
Total Current Liabilities	317,935	377,935	317,935	317,935	317,935	458,335	338,335	317,935	398,335	317,935	317,935	398,335	4,196,816
Stockholder's Equity													
Common Stock-No Par													0
Retained Earnings	4,669,028	213,482	23,482	23,482	23,482	468,082	88,082	23,482	278,082	23,482	23,482	278,082	6,135,730
Total Stockholder's Equity	4,669,028	213,482	23,482	23,482	23,482	468,082	88,082	23,482	278,082	23,482	23,482	278,082	6,135,730
Total Liability & Stockholder Equity	4,986,963	591,417	341,417	341,417	341,417	926,417	426,417	341,417	676,417	341,417	341,417	676,417	10,332,546

Income statement

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Year 1 Total
Sales	335,000	585,000	335,000	335,000	335,000	920,000	420,000	335,000	670,000	335,000	335,000	670,000	5,610,000
Cost of Sales													0
Cost of Sales	112,458	124,958	112,458	112,458	112,458	141,708	116,708	112,458	129,208	112,458	112,458	129,208	1,429,000
Gross Profit	222,542	460,042	222,542	222,542	222,542	778,292	303,292	222,542	540,792	222,542	222,542	540,792	4,181,000
Gross Margin	66%	79%	66%	66%	66%	85%	72%	66%	81%	66%	66%	81%	
Contribution Margin	222,542	460,042	222,542	222,542	222,542	778,292	303,292	222,542	540,792	222,542	222,542	540,792	4,181,000
Operating Expenses													0
Non-Variable Selling Expense	40,573	40,573	40,573	40,573	40,573	40,573	40,573	40,573	40,573	40,573	40,573	40,573	486,880
Salaries	93,313	93,313	93,313	93,313	93,313	93,313	93,313	93,313	93,313	93,313	93,313	93,313	1,119,750
Rent	22,833	22,833	22,833	22,833	22,833	22,833	22,833	22,833	22,833	22,833	22,833	22,833	274,000
Professional Fees	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	105,000
Legal Fees	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
G&A	17,720	17,720	17,720	17,720	17,720	17,720	17,720	17,720	17,720	17,720	17,720	17,720	212,640
Total Operating Expenses	193,189	193,189	193,189	193,189	193,189	193,189	193,189	193,189	193,189	193,189	193,189	193,189	2,318,270
Net Operating Income	29,353	266,853	29,353	29,353	29,353	585,103	110,103	29,353	347,603	29,353	29,353	347,603	1,862,730
Interest Expense/Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Taxes	5,871	53,371	5,871	5,871	5,871	117,021	22,021	5,871	69,521	5,871	5,871	69,521	372,546
NET INCOME	23,482	213,482	23,482	23,482	23,482	468,082	88,082	23,482	278,082	23,482	23,482	278,082	1,490,184

BACKWARDS

PDMA model



Questions?

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Build It Backwards^(TM)

Turning Roadblocks into Roadmaps^(SM)

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Consulting & Training in:

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