

Business planning tools

Learning Aim B2:

Understand the tools businesses use to plan for success

Business planning tools

- Budgeting
- Cash flow forecasting

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Budgeting:

A budget is a plan for the future.

It identifies how a business plans to spend its revenue and where the money for any expenditure will come from.

It's a plan. If a business has a plan it can help it deal with costs and generate revenue.

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A budget should include **estimates** of expenditure and revenue. It needs to take into account any possible changes to costs and sales revenue.

Estimates of:

- ▣ Sales numbers
- ▣ Sale price
- ▣ Fixed costs
- ▣ Variable costs

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Q. What are the benefits to a business of drawing up a budget?

The business will have an estimate of costs and revenue for the coming year.

It will be able to aim to make a profit.

It will be able to try to keep to its costs.

Budgeting will help a business identify if it can carry on as it is, if it is able to expand or if it needs to do something about its costs.

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Budgetary control:

The budget is the plan.

Budgetary control is the review of whether the business has achieved its budget goals or not.

It means to measure actual performance – normally at least once a month

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Q. What are the benefits of budgetary control for a business?

Budgetary control lets a business monitor its budget and check it against the plan.

It can see if costs are being kept to and revenue is on target,

As a result it can make changes to control costs or to increase revenue if things aren't going to plan. If things are going to plan it might be able to invest or expand.

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Q. Why might budgeting be hard for a new business owner?