

9.9: Ongoing Budgeting Process

Learning Objectives

- List what needs to be documented in the ongoing budgeting process

For effective budgeting, the firm must first select its approach—zero-based or incremental. For zero-based budgeting, a manager needs a full list of expected revenue and expense items for the upcoming season. In this way, they can build their budget plan to show all the necessary information. That said, most retailers use incremental budgeting.

To facilitate the budgeting process, the retail manager needs to engage in an ongoing budget process. That means that the retail manager must closely monitor actual sales, cost of goods sold, and expenditures to see how closely actual performance aligns with the budget or plan that was originally created. Differences and their causes are noted so that decision-makers can make adjustments to operations. For instance, if an item is under-performing budget assumptions, the manager might promote the item, reduce its price, or seek to cancel future orders.

The company may use this same information about performance relative to budget to make adjustments at a more macro-level. Changes to the budget can be made across categories, division, or business units, allocating funds to certain areas while reducing funds for other areas. For example, if the cereal category is under-performing while the produce category is exceeding expectations, a retailer may reallocate funds from cereal to spur even greater growth in produce. Similarly, if a chain of stores operates several banners, funds may be shifted between those business units.

As you can see, budgeting is an ongoing process for a firm. The job is not over when the budget is finalized. Instead, performance is continually monitored, relative to the budget. To ensure financial goals are attained, adjustments are made when necessary. Further, differences between the budget plan and actual results, and their causes, are taken into consideration for future budget preparation.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9244>

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