

5.1: Introduction to Budgets

Seeing the value of reaching a goal is often much easier than seeing a way to reach that goal. People often resolve to somehow improve themselves or their lives. But while they are not lacking sincerity, determination, or effort, they nevertheless fall short for want of a plan, a map, a picture of why and how to get from here to there.

Pro forma financial statements provide a look at the potential results of financial decisions. They can also be used as a tool to plan for certain results. When projected in the form of a **budget**, figures become not only an estimated result but also an actual strategy or plan, a map illustrating a path to achieve a goal. Later, when you compare actual results to the original plan, you can see how shortfalls or successes can point to future strategies.



Figure 5.1.1 : © 2010 Jupiterimages Corporation

Budgets are usually created with a specific goal in mind: to cut living expenses, to increase savings, or to save for a specific purpose such as education or retirement. While the need to do such things may be brought into sharper focus by the financial statements, the budget provides an actual plan for doing so. It is more a document of action than of reflection.

As an action statement, a budget is meant to be dynamic, a reconciliation of “facts on the ground” and “castles in the air.” While financial statements are summaries of historic reality, that is, of all that has already happened and is “sunk,” budgets reflect the current realities that define the next choices. A budget should never be merely followed but should constantly be revised to reflect new information.

This page titled [5.1: Introduction to Budgets](#) is shared under a [CC BY-NC-SA 3.0](#) license and was authored, remixed, and/or curated by [Anonymous](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [5.1: Introduction to Budgets](#) by Anonymous is licensed [CC BY-NC-SA 3.0](#). Original source: <https://2012books.lardbucket.org/books/individual-finance>.