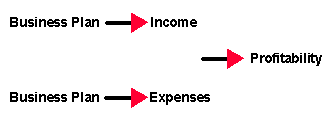
**The Purpose of Budgeting**

In the context of business management, budgeting has three different purposes:

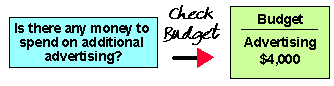
* A forecast of income and expenditure (and thereby profitability)
* A tool for decision making
* A means to monitor business performance

**Forecast of income and expenditure**

Budgeting is a critically important part of the business planning process. Business owners and managers need to be able to predict whether a business will make a profit or not. A budget is basically a model of how the business might perform, financially speaking, if certain strategies, events, plans are carried out.

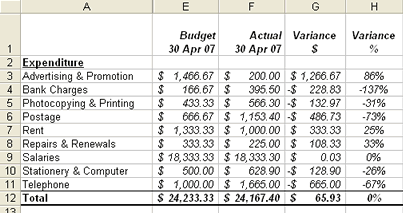
In constructing a Business Plan, the manager attempts to forecast Income and Expenditure, and thereby profitability.

**Tool for decision making**

Once the budget has been set, the budget provides a financial framework for the decision making process i.e. is the proposed course action something we have planned for or not.

In managing a business responsibly, expenditure must be tightly controlled. When the budget for advertising has been fully expended, the decision on "can we spend money on advertising" is likely to be "no".

**Monitoring business performance**

Once a budget is in place, it enables the actual [business performance](http://www.leoisaac.com/budget/bud036.htm) to be measured against the forecast business performance i.e. is the business living up to our expectations.

In the figure opposite, "[variance](http://www.leoisaac.com/budget/bud025.htm)" is the difference between budgeted expenditure and actual expenditure.