



Budget Concepts for Non-Financial Leaders

An Online Continuing Education Course for Engineers

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Budget Concepts for Non-Financial Leaders

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COURSE OVERVIEW

We designed this course for the non-financial leader who wants (or needs) to understand how budgets are developed, the more common terms used in budget discussions, and how they are useful for planning future expenditures based on historical data.

We will show you how to select and collect the data needed to forecast expenditures for greater efficiency in resource allocation.

Additionally, there are many questions designed to stimulate your thinking or discussion with peers or your leaders. The more you engage in researching how these topics are addressed in your organization will go a long way to increasing your retention of the concepts and make it easier to participate in budgetary discussions in the future.

LEARNING OUTCOMES

You will increase your value to the project or your employer as a leader if you understand and can apply these concepts that you will learn in this course:

1. The Need for a Budget
2. Important Topics to Consider When Developing a Budget
3. The Questions to Consider When Developing a Budget
4. Other Little Considered Topics for Developing a Budget
5. Why the Quality of Leadership Skills Must Be Considered When Developing a Budget
6. How to Develop a Budget Using Historical Data
7. How to Use Various Data Forecasting Methods and When
8. The Organization's "General Ledger": What It Is and Why You Should Know
9. How and Why to Use "Break Even" Points in Determining Equipment and Staffing Needs
10. Understanding and Applying the Concepts of "Capacity" and "Forecasting"
11. Each Department's Role and Responsibility in Managing Their Share of the Budget
12. Developing a Budget Monitoring Process

Please note: This course does not pretend to be a resource for financial professionals. It is designed for those who need to understand the broad "why" of budgets but not the details of "how". It will help leaders delegate non-critical financial tasks to subordinates and help develop their confidence so that more of the leader's financial workload can be shifted to them.

BUDGETING BASICS



The dictionary defines budgeting *as “a plan or schedule that estimates the cost of living or operating during a certain time period”*.

What budgeting do you do in your personal life? How do you manage it?

What similarities do we expect to see in a business or government organization?

The budget year is called a “**fiscal year**” abbreviated **FY**. It normally runs 12 months but not always January to December. The fiscal year is broken into four, three-month quarters.

Two critical topics for any organization’s survival are **income** and **expenses**. What are typical sources of these with your organization?

INCOME:

This is typically from the sale of your organization’s products or services in the private sector or, in the public sector, from tax revenues.

EXPENSES:

There are three broad categories of expenses that you must understand:

1. Fixed:

The *predictable and unchanging* expenses during the fiscal year such as building leases; (or mortgage payments); software licenses; insurance premiums; perhaps utilities flat rate costs.

2. **Variable:**

Variable expenses are unscheduled events and their related expenses such as weather, acts-of-God, fleet vehicles in wrecks, government legislation raising compliance requirements and, thus, the cost of compliance.

The Y2K computer programming projects that many companies undertook were examples of variable costs since they hadn't planned for it and weren't sure how much the "fix" would cost (if they chose to do it.)

3. **Semi-variable: *Somewhat predictable change*** based more on "when" than by "how much" such as fleet fuel expense, seasonal overtime, or the "flu season".

The Y2K History

The Year 2000 problem (also known as the Y2K problem, the Millennium bug, the Y2K bug, or simply Y2K) was a problem for both digital (computer-related) and non-digital documentation and data storage situations which resulted from the practice of abbreviating a four-digit year to two digits.

In the first half of the 20th century, well before the computer era, business data processing was done using unit record equipment and punched cards, most commonly the 80-column variety employed by IBM, which dominated the industry. Many tricks were used to squeeze needed data into fixed-field 80-character records. Saving two digits for every date field was significant in this effort.

In the 1960s, computer memory and mass storage were scarce and expensive. Early core memory cost one dollar per bit. Popular commercial computers, such as the IBM 1401, shipped with as little as 2 Kbytes of memory. Programs often mimicked card processing techniques. Commercial programming languages of the time, such as COBOL and RPG, processed numbers in their character representations. Over time the punched cards were converted to magnetic tape and then disk files, but the structure of the data usually changed very little. Data was still input using punched cards until the mid-1970s. Machine architectures, programming languages and application designs were evolving rapidly. Neither managers nor programmers of that time expected their programs to remain in use for many decades. The realization that databases were a new type of program with different characteristics had not yet come.

- http://en.wikipedia.org/wiki/Year_2000_problem

For example, if we are a business with many vehicles and are not planning any major changes in fleet size or coverage area, we can estimate about what to expect this year for fuel. We know what we paid last year and that gas prices will probably increase mid-spring and decrease after Labor Day but we do not know specifically how much like we know the fixed cost of insurance premiums.

Also, we can expect an **increase in overtime** during vacation periods (we can estimate with some confidence how much); an **increase in electricity costs** during the summer when we run more air conditioning, or the “flu season” may **decrease employees** at work thus **driving up the cost of temps** if we use them and what kind we need: i.e., generalist or specialist temps like accounting professionals.

Why should organizational leaders like you be aware of their employer’s budget process?

[The more you understand the budget process, the better prepared you become to help develop and manage it. This increases your value to the organization for career growth and budgeting.



What issues
budget? Wh

THE “GENERAL

It is the heart of

Not a single docu

and expenses relat

ledgers such as Acc

All specific income o

- Auto expense
- Insurance
- Payroll
- Supplies
- Cash sales
- Credit sales

To view the remainder of the course material and to take the quiz for PDH credit, you must purchase the course.

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