

**Summary, outline, or diagram of key concepts:**

GOAL: to earn the largest profit possible

**Budget** (aka profit planning or survival planning): organized plan of operation for a specified period of time that

forecasts and determines overall financial positions; can be top-down or down-up in the organization

-created by zero-based budget (no previous knowledge) or baseline budget (start with a previous budget)

-fixed budget: based on definite level of sales or activity

-budget calendars: help the organization organize the different deadlines of the budget process

-capital budgeting: used to plan major expenditures (returns are expected to extend beyond one year)

-replacing new facilities, expansion, remodeling (proposals are needed)

-economy study: comparative analysis of two different potential investments (comparing dishwashers)

-payback period: the length of time it will take to get your money's worth; the shorter the better!

-anticipated rate of return: comparing savings to the amount expended

- Operating budgets: forecasts sales activity and expense categories
- Cash budget: the inflow and outgo of funds and the money on hand

**Advantages**

- Provide goals for the operation
- Provide controls on the operation
- Allows you to measure results, avoid bankruptcy
- Organize all aspects of the program
- Provide responsibilities
- Plan!
- Solve problems

**Disadvantages**

- Requires time and money
- Based on forecasting, the future is not always certain
- False sense of security
- Requires plans and goals which may not always want to be shared

**Costs**

- Relevant costs
- Sunk costs: costs that cannot be taken back
- Opportunity costs: the costs of the forgone opportunity
- Incremental cost: the difference in cost between two alternatives

-time value of money: earning power of money over time; think of the earning power over time

Controls in the budget: Internal (prep sheets, waste sheets), Beverage (break sheet, recipes), Accounting (daily expense journals), Training controls, Management controls, Labor control, Employment documentation, Purchasing controls

\*Effective cost control cycle:

Knowing what costs are → Knowing what costs should be → Knowing why there is a difference  
→ Doing something about it

**So . . .**

Budgets can be complicated. As a manager, there are so many different areas to address within the budget with little room for error. My favorite piece of advice from these readings as a future manager is to view the budget in the mindset as a control and not necessarily think of it as a continual problem for the organization. In my past experience, I remember my managers complaining about their budget and how (from my knowledge now) it was never managed appropriately. Controls are essential within budgets. If controls are in placed, the budget will run much smoother.

**I'm still not sure about:**

How often would you have to start a budget from scratch? I believe often it would just be your personal preference as a new manager because most companies they would already have a budget established.