

The Importance of Budget Reports

7 min read



Budgeting and budget reporting are integral parts of running a successful business. At face value, budgeting might seem like a mundane, unimportant task, but it's absolutely vital to business operation and strategy..

Key Takeaways

- **What Is a Budgeting Report:** A budget report allows you to identify variances in the money you earned and spent compared to the money you had expected to generate and spend...
- **Make More Than One Version of Your Business Budget:** Since you can't know the future, it's smart to imagine and plan for a few different versions of the future. Typically, when budgeting, you should do a little extra work and take the time to...
- **Professional Outsourced Budgeting Help for SMBs:** Excellent business budgeting practices start with an excellent bookkeeping and accounting system. A robust back office should automate manual processes, organize your data, and facilitate simplified reporting...

What Is a Budget?

At the most basic definition, a business budget is a written estimate of your expected income and expenditure over a set period of time. As a metaphor, a budget is a roadmap to the financial strategy that will support your business goals.

What Is a Budget Deficit?

A budget deficit occurs when expenditure exceeds income over a given period of time.

What Is a Budget Surplus?

A budget surplus occurs when income exceeds expenditure over a given period of time.

What Is a Budgeting Report and Why Is It So Important?

A budgeting report (or budget report) allows you to compare your actual revenue and spending to your planned (i.e. budgeted) revenue and spending over a given period of time. Budget reports are organized in two columns. The first lists planned/budgeted spending and revenue, and the other lists actual spending and revenue.

A budget report allows you to identify variances in the money you earned and spent compared to the money you had expected to generate and spend.

5 Benefits of Budget Reports

1. Measures Performance

A primary component of success is the ability to meet or exceed the expectations you set for your business. A budget basically represents your company's financial strategy for the upcoming period (month, quarter, year, etc.), and your ability to stick with the budget represents how successfully you're sticking to your financial plan.

2. Creates Accountability

Comparing your budget to actuals helps to create accountability by ensuring you're keeping regular track of spending and revenue goals. This can help you prevent unnecessary spending while also helping you stay on top of your revenue goals and projections. As a result, budget reporting should also help to improve cash flow management in your business.

3. Identifies Problems

Budget reporting can help you identify any potential problems with your spending or revenue, such as deficits that would indicate excessive spending or falling short of revenue goals. It can also help you spot budget surpluses that are, perhaps, not being properly leveraged.

Read More: [The Value Of An \(Updated\) Budget: Getting Your Business on Track for Success](#)

4. Facilitates Goal Setting and Prioritization

By comparing your planned spending and revenue to your actual spending and revenue, you can do a better job of setting effective goals for your business. When you identify deficits, surpluses, excessive spending, or revenue shortfalls, you can implement plans to stay on top of your strategy and do your best to correct the variances between your budget and actuals.

5. Keeps Business Planning and Financial Strategy on Track

Your budget represents the financial strategy that you designed to support your [business](#) plan. By closely monitoring your budget vs. actuals with budget reports, you can identify variances and make corrections before minor deviations become major problems.

“My financials used to keep me up at night. I knew what my bank account said, but I didn't know how long that was going to last. GrowthForce helped me understand how to build a budget and worked to teach me how to read and interpret my new reports. I felt the fog lifting as they helped me be a stronger leader and, overall, a better business owner.”- Ryan Jennings, President, Sentinel Builders

[Read the full case study HERE.](#)

Top 3 Budgeting Best Practices for Businesses

Although budgeting seems like a simple process at first, creating a budget, using it, and sticking to it can actually be quite overwhelming once you get started. Your business is complex, and no matter how accurate your projections are, you still can't see the future. Follow these essential budgeting [best practices](#) for businesses to ensure you create a thorough budget that works for your business.

1. Thoughtfully Consider How to Create a Budget

There are countless methods available for budget creation, and the one you choose can affect how you use your budget and how well your budget works for you. Some of the most popularly used business budgeting methods include:

- Zero-Based Budgeting - Excellent if you lack recurring revenue and/or want to scrutinize every expense
- Incremental Budgeting - Works well if your business is expanding at a consistent and predictable rate and you expect to continue doing business as usual.
- Value-Based Budgeting - Perfect for ensuring every cost is justified and every line item earns its place in the budget
- Activity-Based Budgeting - Great if you have new plans, goals, or investments to make in your business

2. Make More Than One Version of Your Business Budget

Since you can't know the future, it's smart to imagine and plan for a few different versions of the future. Typically, when [budgeting](#), you should do a little extra work and take the time to create three budgets: a normal budget, a best-case-scenario budget, and a worst-case-scenario budget.

- Your first budget should be the normal one. Include the revenue you can reasonably expect to earn and the expenses you can reasonably expect to generate.
- Then create an optimistic budget by considering what your revenue and expenses will look like if everything goes your way.
- Finally, create a pessimistic budget by considering what your revenue and expenses will look like if you lose clients, inflation continues to rise, interest rates keep going up, and you incur unexpected, emergency expenses.

It's useful to have thought through each of these scenarios because it'll help you be more flexible and to think on your feet as you encounter budget variances throughout the year.

Read More: [Financial Reports vs. Management Reports: What's the Difference?](#)

3. Stay on Track With Budgeting Reports

Finally, remember that the budget you worked so hard to create won't do you or your business any good if you don't use it, and by "use it" we mean comparing the budget to your actual numbers with budget reports. You should be doing this on a regular basis. How often is necessary depends on your business's structure, but reviewing budget reports monthly is a good place to start.

When reviewing your budget reports, pay close attention to variances. When variances occur (and they will), scrutinize the differences to determine why your expenditures or income are veering off course. Then consider whether the variances indicate the need for any corrections, adjustments, or actions to realign your actual numbers with your budget or your budget with your actual numbers.

Finally, come up with an actionable plan to keep your business's spending and revenue on track to meet your goals.

Cost \$\$\$ Comparison: In-House Vs. Outsourced Accounting Services 📌

Let's get right to it- what's the cost difference between an internal hire vs. and outsourced accounting team?

[Click HERE To Download The Full Infographic \(.pdf\)](#)

Professional Outsourced Budgeting Help for SMBs

Excellent business budgeting practices start with an excellent bookkeeping and accounting system. A robust back office should automate manual processes, organize your data, and facilitate simplified reporting. If your business's back office is underperforming, making budgeting a challenge, or failing to support your financial strategy, then [outsourced accounting services](#) could be the solution.

This affordable option helps your business access a three-person, back-office team along with all of the latest bookkeeping and accounting software and tools. Designed to strengthen your back office and simplify the bookkeeping, accounting, budgeting, and reporting processes, outsourced accounting can help you keep your business on track for success.