Budgeting & Forecasting
Best Practices

Margery L. Piercey, CPA, CGMA
Before we get started…

• Today’s presentation slides can be downloaded at www.wolfandco.com/insights
• The session will last about 50 minutes, and we’ll then have time for Q & A.
• Our audience will be muted during the session.
• Please send your questions in using the “Questions Box” located on the webinar’s control panel.
About Wolf & Company, P.C.

• Established in 1911
• Offer Audit, Tax, and Risk Management services to over 250 financial institutions
• Offices located in:
  – Boston, Massachusetts
  – Springfield, Massachusetts
  – Albany, New York
  – Livingston, NJ
• Nearly 200 professionals

As a leading regional firm founded in 1911, we provide our clients with specialized industry expertise and responsive service.
Meet Today’s Presenter

Margery L. Piercey, CPA, CGMA

Audit Department Leader – Commercial Enterprises
Audit and Advisory Partner

Certified Public Accountant
Chartered Global Management Accountant

Board Member – American Institute of CPAs
Today’s Objectives

• Overview
• Budgeting
• Forecasting
• Illustrations
• Tips
Budgeting & Forecasting Best Practices

• To steer strategy and set business priorities, use
  – Data
  – Analysis
  – Discipline
• Focus on revenue and profitability drivers
  – Apply the 80/20 rule
• Establish a culture of accountability
Accountability

Data and analysis provide the basis for holding people accountable.
Accountability drives behavior!
Laying the Groundwork

Answer these questions:

• Who’s influencing strategic decisions?
• What are the key business metrics?
• What drives profitability?
• What drives revenue?
• What are people accountable for?
• Who needs what data?
Budgeting Best Practices

• Prepare a budget
• Prepare a monthly budget
• Start the budgeting process early
• Discipline your team to finalize the budget before the start of the budget year
Budgeting Dos and Don’ts

• Don’t budget against PY budget
• Budget against historical actuals and CY forecast
• Sanity check budgets against a lengthy history of actuals

Historical numbers, trends, ratios tell a story!
Budgeting Dos and Don’ts

• Don’t let Accounting prepare the budgets
  – Compile
  – Review
  – Analyze
  – Report

• Do have operational folks prepare budgets
  – Accountability
  – Awareness of changes in external forces
Budgeting Dos and Don’ts

• Start early
• Have interim deadlines
  – First pass budget
  – Discussion of variances
  – Update against current forecast
• Monitor progress
• Finalize before the end of the year
The 80/20 Rule

- Revenue
- Profitability
- Expenses

Let the 80/20 rule drive the level of detail behind the budget.
Budgeting Best Practices

• Budget and report to the level of key drivers
  – Average order size
  – Number of customers
  – Training and education per employee
  – Sales commissions per sales employee
Budgeting Revenue

- Known/booked
- In the pipeline
- Unidentified
- What is the historical experience of meeting the pipeline and unidentified portion of the budget?
- Are there adequate levers/contingencies on the expense side?
Monthly budgets done on a straight-line allocation of the annual budgets minimizes the effective of budget versus actual analysis.

“Variance due to timing”
Does the Budget Align with LT Strategy?

Senior management needs to review the budget with this in mind

• What investments need to be made in the current year to contribute to the accomplishment of longer-term objectives?
Test Budget Against Covenant Compliance

- Covenants
- Borrowing limits
Re-Budget?!?!?

• Don’t complicate things with a re-budget
  – That’s what forecasts are for
• Re-budgets undermine the importance of the budgeting process
Forecasting

• Forecasts represents the preparation of YTD actual data plus projected data
• Using budgets for the projected period limits the value of forecasted information
## Forecasting

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<thead>
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<th>YTD</th>
<th>Full Year</th>
<th>Illustration 1</th>
<th>Illustration 2</th>
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<td></td>
<td>Budget</td>
<td>Actual</td>
<td>Fav (Unfav) Variance</td>
<td>Budget</td>
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<tr>
<td>Revenue</td>
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<td>$(10,000)</td>
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<tr>
<td>Expense</td>
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<td>85,000</td>
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<td>170,000</td>
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<tr>
<td>Net Income</td>
<td>$15,000</td>
<td>$5,000</td>
<td>$(10,000)</td>
<td>$30,000</td>
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*Forecast represents YTD actual plus budget for the remaining months of the year.*

*Forecast represents YTD actual plus projected numbers for remaining months of the year.*
What’s most valuable?
• Start at the end: full-year forecast versus budget
• Other discussion and analysis on a reporting period basis
  – Month
  – Quarter
  – Year-to-date
• Discuss cause and forward-looking impacts
### Reporting

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<tr>
<td></td>
<td>15%</td>
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Reporting

• Determine who needs to see the analysis and in what detail
• Try it out on the users of the information to make sure they understand it
• Re-evaluate the reporting package, periodically
  – Are the recipients using it?
  – If not, why not?
• Some folks have trouble “reading” and interpreting financial presentations
  – Be clear
  – Don’t assume
  – Be brief
  – Use graphs and charts
• Make sure it’s understandable
  – Acronyms
  – Abbreviations
Reporting

• In what format is the data most useful
  – Varies by user group
• Be consistent in formatting
  – Placement of comparative info
Forecasting - Reporting

Expenses - Budget
- 44%
- 25%
- 21%
- 7%
- 3%

Expenses - Forecast
- 47%
- 23%
- 6%
- 21%
- 3%

- Payroll and related
- Occupancy
- Sales and marketing
- General and administrative
- Other
Can you provide the components of the gross margin positive forecast versus actual variance?

- Price increases
- Product mix
- Shipping and handling
- Factory overhead
Reporting - Speak to the Impacts

• How does the forecasted actual under budget variance on total sales for the year affect incentive comp?
• How does the forecasted positive variance in profitability impact the timing of the company’s investment in a new sales team member?
• How does the forecasted actual over budget variance in shipping and handling costs impact the renewal of the shipping contract?
Reporting versus PY - Efficiency

• A test of confidence in your budgeting process
  – All the discussion and basis for variances from PY should have occurred during the budgeting process – budget becomes the benchmark

• PY comparisons can contribute to a false sense of success

• Eliminating actual and forecast versus prior year is a time saver
Reporting - Efficiency

When someone requests a new report

- Go through the reporting package and ask if there is anything they are not looking at
- Find out to whom else the new information would be of value
This month we are distributing reports on the basis of requested items only.

– Who requests info?
– What info is requested?

Try this!
• Sometimes reports get distributed and then departments spend time slicing and analyzing the data.
• Root these situations out
• Would the additional analysis be available to all?
The more timely and sophisticated the financial analysis and effective the reporting, the more profitable your Company will be.
Compiling the Data

- Leverage people
- Leverage systems
- Review accuracy
Other Considerations

• Capital budgets
• Cash flow forecasting
  – Rolling forecasts
Questions?

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