

UNDERSTANDING THE DIFFERENCE BETWEEN



FINANCIAL BUDGETING

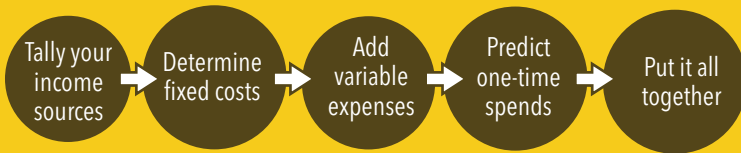


FINANCIAL FORECASTING



Financial budgeting, meanwhile, refers to predicting the income and expenditure of the organization. It is the process of calculating how much an organization expects to earn in a particular period and how such earnings will be spent, keeping in mind the organization's objectives over the budgeted period.

The budgeting process is a little different and can be summarized into five steps;



A financial budget is a statement of expected revenues and expenses over the budgeted period.



A financial budget quantifies the tactical plans that represent what the organization's management wants to achieve during the budgeted period.



Budgets span a shorter period. A typical budget covers a single financial year.



Budgets are more static. Once prepared, a budget is only adjusted where there are changes to initial assumptions.



Budgets are tactical tools used to manage operations over an accounting period. A budget can be used for variance analysis of actual vs. expected results

Financial forecasting is the process of estimating or predicting an organization's financial future based on historical data. The main aim of a forecast is to quantify where the organization is headed over a specified period of time.

Financial forecasting involves three key steps;



A financial forecast is the projection of financial trends and outcomes prepared based on historical data.



A financial forecast quantifies upcoming business activities that express where an organization is headed over a specified period.



Forecasts are typically created for the long-term. Although you'll occasionally find short-term projections spanning, perhaps, a quarter, most forecasts span several years.



Financial forecasts are extremely flexible. They are regularly adjusted to vary the assumptions as well as to reflect changes in the operating environment.



Forecasts are strategic tools that organizations use to plan for their growth over several years. A forecast is only a projection; it doesn't provide any performance metrics that can be used for comparisons.



YOU NEED BOTH