

budget plan

by Dan Dan

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Budget Plan

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In business, one must plan accordingly to be able to attain profitability and keep the business operations in continuity. Providing a primary budget plan for estimates on revenues and expenditure is the framework for achieving this fundamental goal in any investing company. Being able to get positive results in the difference between revenues and expenditure is the basis for profitability otherwise a negative result depicts a loss. Revenues – expenditure = +++ (profit) while – (loss).

In preparing a budget plan for both revenues and expenditure, a manager can speculate revenues by considering the return on capital invested in the business facility. The business will achieve the revenue estimates under ideal conditions but the actual revenues do not deviate significantly from the estimated figure. Expenses fall under five categories with the estimated dollar figure for each category ranging based on the enterprise's line of operation. These categories include direct and indirect labor, direct and indirect expenses, and miscellaneous expenses.

Estimation of the expenses requires analysis of past financial records and but as a new manager without these records, the estimation becomes a challenge but it is still possible. However, in this case, the budgeting will require the manager to refer to historical budgeting benchmarks, which operates under four key performance indicators that include utilization rate, net multiplier, payroll multiplier, and overhead rate. These performance indicators happen to revolve around the same values for players in the business world thus will be crucial in budget formulation.

The average profit for businesses is +/- 10% of the total revenue while the operating expenses are +/-90%. These figures differ slightly among businesses with salaries, bonuses, and

state deductions taking over 60% of the operating expenses. Since these expenses are payable every month, budgeting the amount required will help the business to prepare the source.

In looking at the benchmark values, for the metrics will be used to estimate the expenses, utilization rate should range between 60-65% and it depict the expense for the actual work done on projects that bring revenues with the rate being the ratio of direct against total labor that the business needs. Net multiplier measures the return on direct labor and the benchmark value is 3.0. Payroll multiplier value ranges between 1.8-1.95 and is calculated as utilization rate x net multiplier. Overhead rate depicts the expenses that do not attach to the actual work done on projects with revenues and is calculated as indirect expenses / total labor with the rate being 1.6 dollar for every 1 working dollar. This metrics will thus provide expenditure estimation depending on the level of the business with the final budget draft appearing as shown below.

Components of the budget plan

Revenues	Expenses
	Direct expenses
	Direct labor
	Indirect expenses
	Indirect labor
	Miscellaneous expenses
Revenue total – Expenses total = operating profit / loss	

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