

## Three key steps to good budgeting

If you want to know how an organisation manages its finances, you need to understand how it budgets. Overall, you need to know what is happening in three key areas:

### 1. The budget itself

This is the document approved by the management board which shows what is planned to be received and paid out during the coming financial year.

Ask: does the total amount of annual income at least match the total expenditure? Are all the income figures realistic (that is will the organisation actually receive the income)? Are all the expenditure estimates accurate?

### 2. The budget and actual report comparison (or 'management accounts')

This monthly report compares your estimate in the budget with how much has actually come in and gone out.

Ask: is someone reviewing it regularly and taking action if things are more or less than what was planned? This is the key document for making sure your plans are being realised, if not, use this document to take action to make sure your plans will be met.

### 3. The cash flow forecast

The main reason businesses/organisations fail is because they don't consider their cash flow regularly enough. This forecast shows what will happen to your money and when it will come in and go out over the coming period.

Ask: will there be enough money to pay your invoices for goods, services and salaries as they become due? The cash flow forecast shows you in advance when you might not have enough money, so you can do something to address this.

Good budgeting is crucial to your organisation's financial sustainability and ultimately supports all your activities.

With these three documents – the budget making sure you have enough money overall, the budget and actual report showing whether you are roughly in line with the budget plan, and the cash flow showing whether you have enough money to pay the bills – you'll be in great position to control your finances before they start controlling you.

Based on [Building Financial Management Capacity for NGOs and Community Organizations](#) by John Cammack, Published by [Practical Action Publishing, UK](#)