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» A forecast is a projection modified by what you think will be different. A projection is simply historical information assigned to a future date. It becomes a forecast when you take into consideration any changes or activities you expect, such as implementing a new marketing plan or launching a new product or service. Also take into account outside factors such as economic trends, downturns, etc.

» Create forecasts for both a conservative and an optimistic scenario. Although you do want to make the most realistic assessment possible, it may be useful to develop contingency budgets for a “worst case” and a “best case” scenario.

### Making it all Work for You

Your operating budget is a tool that can tell you whether or not you are on track financially. If you experience unexpected revenue increases or expenses, your budget serves as

an “early warning system” to alert you to those changes. The key is to make the commitment to create a budget and then make it as simple and effective as possible.

There are three primary financial statements that should be used in conjunction with your budget: the income statement (profit and loss or P&L), the balance sheet and — especially with significantly variable revenues — the cash-flow statement. Reviewing and monitoring these statements along with a regular, ongoing operating budget is the key to having a strategic grasp of your businesses financial health, performance and progress.

The bottom line is that regardless of the nature of your businesses revenue, creating and using a budget is not only something that you can do, it is something that you need to do.

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