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BUSINESS PLAN VS BUDGET- WHAT IS THE DIFFERENCE - INFORMATION FOR CLIENTS

Walsh West Certified Chartered Accountants 2021

Is the difference between business planning and working out the budget confusing you?

These two concepts can be tricky to distinguish

Business plan vs budget: what do they have in common?

There are two main similarities between business planning and budgeting:

1. The first one is that they both give an idea as to what the company's future could be.
2. The second is that they both include a financial forecast which has been put together by the management team. Data around both the business planning and budgeting exercises are to be presented to potential financial partners, lenders or investors.

Business plan vs budget: what are the differences?

There are three main differences between business planning and budgeting: the scope, the time frame, and the depth.

Business plan vs. budget: The scope

A budget only includes a financial forecast, whereas a business plan will also detail the commercial opportunity and the market, the company and its organisation and strategy over the next few years. The scope of the business plan is therefore much larger than the budget.

Business plan vs. budget: The time frame

Both documents have very different time frames. A budget is done over a short-term horizon, generally for 12 months, while a business plan is a medium-long term document looking at the next 3 to 5 years.



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Business plan vs. budget: The depth

The level of depth and detail for each document also varies significantly.

A budget will have to be very detailed and will include an itemised list of each planned expense with its exact cost, whereas a business plan will leave room for change, as the main goal will be to get a global view of the business.

This can also be explained by the two document's respective time frames.

Apart from new businesses, it is easy for a company to have an idea of what is going to happen in the next 12 months, which makes it easier for the management team to use last year's accounts as a point of reference by simply adding inflation and marketing costs for the new year to create the budget.

It is much harder to have a clear vision of what will happen to a company over the next 3 or 5 years. Market demand can evolve, regulation can change, competitors can adapt to different market trends, and many other aspects of the business can dramatically change the game, rendering it impossible for the entrepreneur to predict exactly how well the company will be able to perform financially.

Before any entrepreneur can truly claim they know what they are doing when putting a business plan or budget together, it is vital to understand the difference between the two.

Contact us if you have any more questions and would like our help.

For help and advice about Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.