Budgeting Basics:

Accounting 101 Terms

1 Budgeting and Financial Planning Terms

Corporate Budget: a formal financial plan that outlines a company's expected revenues, expenses, and cash flows over a specific future period, usually one fiscal year. It serves as a roadmap to guide resource allocation, set financial targets, and measure business performance.

Operating Budget (OpEx): the financial plan for a company's recurring, day-to-day costs, such as rent, utilities, and salaries, needed to keep the business running.

Capital Budget (CapEx): durable, long-lasting physical machinery and tools, such as factory assembly lines, medical imaging systems, and heavy transport vehicles, used by businesses to produce other goods and provide services. It is defined by three main rules: 1) it lasts more than one year, 2) it has a high cost (often $5,000 or more), and 3) it is kept for business operations rather than immediate sale.

Fiscal Year (FY): a custom 12-month period used by a company for financial planning, budgeting, and tax reporting. Unlike a standard calendar year (January 1 to December 31), it can start on the first day of any month and end 12 months later.

2 Executive and Business Terms

Strategic Alignment: the coordinated effort of getting all parts of a company, such as strategies, teams, resources, and daily tasks, to work together toward the same shared goals. It ensures that no department operates in isolation and that every action supports the company's main mission.

Short-Term vs. Long-Term Planning: short-term planning focuses on immediate operations and daily survival over a span of up to one year, while long-term planning defines the overarching corporate vision and future market position over three to ten years or more. Both approaches complement each other to drive overall business success.

Risk-Based Decision Making: a structured process where leaders identify, analyze, and weigh potential threats and uncertainties against expected rewards to guide choices. It relies on data and clear metrics rather than intuition alone to optimize resource allocation.

Return on Investment (ROI): a simple financial metric used to measure the profitability or efficiency of an investment relative to its cost.

The Formula: ROI = (Net Profit ÷ Cost of Investment) × 100.

Cost Avoidance: a proactive business strategy used to prevent future expenses or stop price increases before they hit a budget. Key examples include preventative maintenance, locking in contract prices, and upgrading equipment.

3 Budget Development and Tracking Terms

Forecasting: the process of using past and current data to predict future trends, sales, and financial conditions. It helps companies make smart choices about money, hiring, and inventory, though it gives educated guesses rather than exact facts.

Budget Assumptions: the core financial, economic, and operational estimates used to build a company's financial plan, specifically revenue growth, cost inflation, and market demand. Budget assumptions act as educated guesses for future conditions that guide expected income and spending.

Actual Costs (Actuals): the real, historical amounts of money spent on producing a good or service, or running a project. These exact expenses include direct materials, direct labor, and actual overhead. They provide a true picture of company spending for financial reporting.

Variance: the difference between a predicted financial outcome and the actual result. The two main types are favorable variances (which improve profit) and adverse or unfavorable variances (which hurt profit). Leaders track these differences to fix operational problems and improve future planning.

Burn Rate: the speed at which a company spends its available cash reserves before it becomes profitable, commonly split into gross burn (all expenses) and net burn (revenue minus costs). It is usually measured on a monthly basis to determine how long a business can survive until additional revenue or funding is needed.

4 Personnel and Labor Cost Terms

Fully Loaded Labor Cost (Fully Burdened Cost): the total actual cost of an employee, beyond base salary, including benefits, payroll taxes, insurance, training, and overhead.

Full-Time Equivalent (FTE): a unit of measurement used to convert the hours worked by part-time, temporary, or seasonal staff into the number of full-time employees needed to equal those total hours. One full-time worker equals 1.0 FTE, while two part-time workers who each work 20 hours in a 40-hour week equal 1.0 FTE combined (0.5 each).

Benefits: refers to either non-wage compensation given to workers (employee benefits) or a positive, measurable outcome gained by a company from an action or decision (business benefits).

Payroll Taxes: specific taxes paid on employee wages and salaries to fund social insurance programs, split between withholdings from employee paychecks and direct contributions paid by the employer. They primarily consist of FICA taxes (Social Security and Medicare) and unemployment taxes.

5 Operating Expenses and Spend Terms

Overhead: expenses required to support operations, such as rent, utilities, insurance, repairs, legal fees, accounting fees, etc. You must pay these baseline costs whether your company makes a profit or not.

Travel & Entertainment (T&E): refers to the money employees spend while on work trips or hosting clients, which the company then reimburses.

Contractor/Third-Party Costs: an expense paid to an outside vendor or subcontractor hired by a primary contractor to help complete a project. Key examples include subcontractor fees, specialized equipment rentals, and external software license.

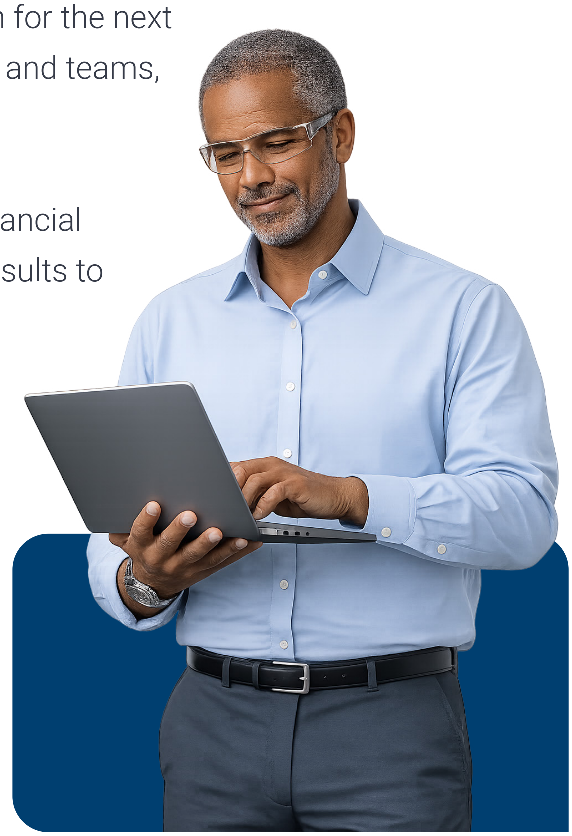
Recurring vs. One-Time Costs: recurring costs are regular, predictable expenses required for daily operations, while one-time costs are isolated, infrequent charges, often from unusual events.

6 Financial Review and Control Terms

Quarterly Business Review (QBR): a strategic meeting held once every three months to evaluate past performance, analyze key metrics, and plan for the next quarter. It can occur internally between company leaders and teams, or externally between a vendor and a strategic client.

Budget Close: the finalization, review, and locking of a financial budget period. It compares planned numbers to actual results to evaluate performance.

Reforecasting: the process of updating an organization's financial and operational projections, driven by actual year-to-date results and changing market conditions. Key components include revising entire budget frameworks rather than isolated line items and adjusting expectations mid-cycle to match current economic realities.



7 Accounting Framework and Structure Terms

Cost Accounting: is a branch of managerial accounting that tracks, analyzes, and manages a company's production and operational expenses. It helps businesses find the true cost of making a product or service, set correct prices, and control internal spending. Unlike financial accounting, it is used only by internal managers and is not shared with the public.

Fund Accounting: prioritizes accountability and compliance over profitability, making it essential for non-profits, charities, and government bodies rather than standard commercial, for-profit businesses.

Cost Center: a department, function, or unit within a business that incurs expenses but does not directly generate revenue or profit. Common examples include human resources, information technology, and research and development.

Chargeback: a forced reversal of a credit or debit card transaction initiated by a customer's bank. It acts as a reduction in recorded revenue, an operating expense for penalty fees, and a potential bad debt write-off.

8 Specific Budget Concept Terms

Compliance-Driven Costs: the direct and indirect expenses a company pays to meet outside laws, industry rules, and safety standards. These costs include paying specialized staff, buying tracking software, and hiring legal experts.

Discretionary Spend: any business spending that is not strictly necessary for that company to operate.

Leading vs. Lagging Cost Indicators: leading indicators predict future performance, while lagging indicators measure past results. Together, they provide a complete picture of business health: leading metrics offer early warning signs to change course, and lagging metrics confirm ultimate outcomes.