

# Estimates vs. actuals: Was your 2018 budget reasonable?

As the year winds down, business owners can be thankful for the gift of perspective (among other things, we hope). Assuming you created a budget for the calendar year, you should now be able to accurately assess that budget by comparing its estimates to actual results. Your objective is to determine whether your budget was reasonable, and, if not, how to adjust it to be more accurate for 2019.

## Identify notable changes

Your estimates, like those of many companies, probably start with historical financial statements. From there, you may simply apply an expected growth rate to annual revenues and let it flow through the remaining income statement and balance sheet items. For some businesses, this simplified approach works well. But future performance can't always be expected to mirror historical results.

For example, suppose you renegotiated a contract with a major supplier during the year. The new contract may have affected direct costs and profit margins. So, what was reasonable at the beginning of the year may be less so now and require adjustments when you draft your 2019 budget.

Often, a business can't maintain its current growth rate indefinitely without investing in additional assets or incurring further fixed costs. As you compare your 2018 estimates to actuals, and look at 2019, consider whether your company is planning to:

- Build a new plant,
- Buy a major piece of equipment,
- Hire more workers, or
- Rent additional space.

External and internal factors — such as regulatory changes, product obsolescence, and in-process research and development — also may require specialized adjustments to your 2019 budget to keep it reasonable.

## Find the best way to track

The most analytical way to gauge reasonableness is to generate year-end financials and then compare the results to what was previously budgeted. Are you on track to meet those estimates? If not, identify the causes and factor them into a revised budget for next year.

If you discover that your actuals are *significantly* different from your estimates — and if this takes you by surprise — you should consider producing interim financials next year. Some businesses feel overwhelmed trying to prepare a complete set of financials every month. So, you might opt for short-term cash reports, which highlight the sources and uses of cash during the period. These cash forecasts can serve as an early warning system for “budget killers,” such as unexpected increases in direct costs or delinquent accounts.

Alternatively, many companies create 12-month rolling budgets — which typically mirror historical financial statements — and update them monthly to reflect the latest market conditions.

## Do it all

The budgeting process is rarely easy, but it's incredibly important. And that process doesn't end when you create the budget; checking it regularly and performing a year-end assessment are key. We can help you not only generate a workable budget, but also identify the best ways to monitor your financials throughout the year.