

How to Prepare a Budget for an Organization: A Step-by-Step Guide

To prepare a budget for an organization, you estimate the money coming in, plan the money going out, and test both against your goals before the fiscal year begins.

That sounds simple, and it is, as long as you follow a clear order. This guide breaks the process into four steps that work for a small business, a nonprofit, a school department, or a growing team, with a few tips for each type along the way.

The 4 Steps at a Glance

Step	What you do	Main output
1. Set the groundwork	Pick goals, assemble a team, build a calendar, gather last year's numbers	Assumptions and a timeline
2. Forecast revenue	Estimate income from every source, with more than one scenario	A revenue forecast you trust
3. Build the expense budget	Plan payroll, fixed costs, variable costs, one-time costs, and a safety cushion	A line-by-line spending plan
4. Review, approve, and track	Get sign-off, then compare budget to actual results on a schedule	A living budget, not a dusty file

Step 1: Set Goals, Assemble a Team, and Gather Your Numbers

A budget is a plan for reaching goals, so start with the goals.

Pick two or three outcomes for the year, such as opening a second location, launching a program, or building three months of cash reserves.

Every dollar you budget later should connect back to one of them.

Build the right team

Budgeting works better as a group effort. The BDO guide to budget development, hosted by the Wallace Foundation, recommends a budgeting team that includes the executive lead,

department or program managers, the lead finance person, HR, and the board treasurer or finance committee.

People who spend the money know what things cost. Finance alone can't guess it.

Set a calendar

Work backward from the date the budget must be approved. The same guide suggests creating a budget calendar with deadlines for each stage, so nobody is writing a department forecast the night before the board meeting.

Smaller organizations can move faster. In his guide on the budgeting process, AccountingTools author Steven Bragg notes that a smaller business can compress the steps and prepare a preliminary budget in a day or two.

Collect your data and write down your assumptions

Pull the last 12 months of actual income and spending, your current-year forecast, major contracts, lease terms, and payroll records.

Then list your assumptions in plain language: expected price changes, planned hires, cost increases from vendors, and anything else that could move your numbers.

AccountingTools lists updating these assumptions, finding your biggest sales bottleneck, and estimating likely funding as the first moves in the process.

Choose a budgeting method

You have two common starting points:

- **Incremental budgeting** starts with last year's budget and adjusts it up or down. It is fast and works well in stable conditions.
- **Zero-based budgeting** starts from zero and asks every department to justify every expense. It takes longer, but it can uncover spending nobody remembers approving.

Many organizations use a mix: zero-based for a big cost area once every few years, and incremental for the rest.

Step 2: Forecast Your Revenue First

Revenue goes first because it sets the ceiling for everything else. AccountingTools makes the same point: the sales forecast is the starting place for department budgets.

If you build expenses first, you end up writing a revenue number that magically matches them. That is called wishful thinking, and it has never paid a single invoice.

Build three scenarios

The BDO guide recommends projecting revenue and planning alternate scenarios. A simple way to do that:

- **Conservative:** you win fewer customers, grants, or donations than expected.
- **Expected:** your best honest estimate.
- **Optimistic:** a strong year.

Build your core budget on the expected case, then decide in advance what you would cut or delay if the conservative case shows up.

Match the method to the income source

Revenue source	How to estimate it	Confidence level
Recurring customers or contracts	Current contracts plus expected renewal rate	High
New sales	Pipeline, past conversion rates, seasonality	Medium
Grants	Signed awards at full value, pending awards at a reduced share	Medium
Donations	Pledges, past giving patterns, donor retention	Medium
One-time events	Prior event results, adjusted for changes	Low to medium

Nonprofits should build revenue from real commitments. In Blue Avocado's guidance on annual operating budgets (published June 27, 2022, and updated November 1, 2023).

Eric Joseph Rubio suggests budgeting pledged gifts at face value, probable gifts at a reduced share, and being cautious with new donors.

He also warns against simply copying your expenses into the revenue column so the budget balances.

Step 3: Build the Expense Budget

With revenue estimated, plan what you will spend. Sort costs into groups so you can see what moves and what doesn't.

- **Payroll and benefits:** usually the biggest line for service-based organizations.
- **Fixed costs:** rent, insurance, software subscriptions, loan payments.

- **Variable costs:** materials, shipping, travel, and anything that rises with activity.
- **Step costs:** expenses that jump at a certain activity level, like hiring another support person when customer volume passes a set point. AccountingTools highlights these as an item many budgets miss.
- **One-time and capital costs:** equipment, renovations, major software projects.
- **Shared overhead:** costs that support everyone.
- Nonprofits often split these into program expenses, shared expenses, and management, general, and fundraising costs, as the BDO guide describes.

Ask the people who spend the money for their estimates. Blue Avocado recommends grouping expenses by the manager responsible, so you can track and adjust spending during the year.

Don't guess on payroll

Payroll deserves extra care because it is large, regular, and hard to reverse. Include salaries, employer taxes, benefits, and the cost of the system that runs your payroll.

If you need time tracking, multi-state payroll, or contractor payments, look at the [Gusto plus plan](#) when you build this line.

Gusto's own pricing page (checked October 15, 2026) lists Plus at \$80 a month plus \$12 per person, with features like time tracking and scheduling, multi-state payroll, and contractor invoice management.

Its cheaper Simple plan lists \$49 a month plus \$6 per person for single-state payroll.

Here is a quick example. For 15 employees, the Plus plan works out to \$80 plus \$180, or \$260 a month, which is \$3,120 a year.

Plug your own headcount into the formula, and confirm the current price before you lock it in.

Add a cushion and a surplus

Two small lines can save a budget:

- **Contingency:** Blue Avocado suggests a small line for unforeseen costs, around 1% of a large operating budget, with a rule that it can't become a general spending account.
- **Surplus:** The same source recommends planning for a modest surplus of roughly 1 to 2% of expenses, starting smaller if your organization has never done it.
- Surpluses build the cash reserves that carry you through slow periods.

Forecast cash flow, too

A budget can balance on paper and still leave you short on the day payroll is due. The BDO guide includes a cash flow forecast as part of building the budget.

when money arrives and when bills are due, month by month, and watch for gaps.

Step 4: Review, Approve, and Track the Budget

A finished spreadsheet is not a finished budget. It becomes a budget once the right people review it and you start checking results against it.

Review and approve

Send the draft to leadership, flag any constraints, and send comments back to the budget owners for revisions.

In nonprofits, the process usually runs from the finance committee to the full board. The BDO guide notes that the board should approve the budget before the new fiscal year begins, with a budget narrative that explains the numbers in plain language.

After approval, brief your managers on both the big picture and their own budgets.

Track budget versus actual

Each month, compare what you planned to what happened. The BDO guide describes monthly reporting for staff, with budget-to-actual reports, a cash flow projection, and a year-end forecast, and quarterly reporting for the full board.

Choose a variance threshold that fits your size, such as asking for an explanation whenever a line runs 5 to 10 percent off plan.

That number is a starting suggestion, so adjust it to your risk tolerance.

If payroll is a large part of your budget, feed actual payroll costs into your monthly review.

Some organizations find that tools with time tracking, like the Gusto plus plan, make it easier to compare planned labor costs with actual hours worked.

Whatever system you use, the point is the same: catch drift in month two, not month eleven.

Reforecast when things change

AccountingTools recommends scenario analysis, sensitivity testing, and contingency reserves to handle uncertainty.

In practice, that means updating your forecast when something big changes, such as a lost contract, a new grant, or a price increase from a key vendor.

A budget that never changes is a history lesson.

Common Budgeting Mistakes to Avoid

- **Padding revenue to make the numbers work.** Fix the expense side instead.
- **Skipping the people who spend the money.** Their estimates are usually more accurate than a top-down guess.
- **Forgetting step costs and one-time costs.** They surprise you in the middle of the year.
- **Ignoring cash timing.** Profit on paper does not pay bills.
- **Setting the budget and forgetting it.** Review it monthly.
- **Having no owner for each line.** If everyone owns a line, nobody does.

Also Read: [4 Steps to Create a Budget for an Organization](#)

Quick Answers

How long does it take to prepare an organizational budget?

It depends on size. A small business can draft one in a day or two, while a larger organization with a board may need several weeks and a formal calendar.

Who should approve the budget?

In a business, senior leadership or the owner. In a nonprofit, the finance committee reviews it and the full board approves it.

How often should I review the budget?

Monthly for staff, and quarterly for a board, based on the reporting rhythm in the BDO guide.

Where can I get free help?

The U.S. Small Business Administration points entrepreneurs to its free Money Smart for Small Business course (including a module on managing cash flow), plus local advisors at SBDCs, SCORE chapters, and Women's Business Centers. See the SBA's financial fitness post, published in 2017 and last modified in 2019, so check for newer resources.

Put Your Budget to Work

Preparing a budget comes down to four moves: set the groundwork, forecast revenue first, build a careful expense plan, and review it on a schedule.

Keep your assumptions written down, give every line an owner, and leave a little room for surprises.

If payroll is your largest cost, compare your options early, and the Gusto plus plan is one worth pricing against your headcount before you finalize the numbers.

Sources

- [BDO USA, "A Five-Step Guide to Budget Development" \(hosted by the Wallace Foundation: page shows a 2023 copyright\)](#)
- [AccountingTools, "What Are the Steps in Preparing a Budget?" by Steven Bragg \(September 5, 2026\)](#)
- [Blue Avocado, "5 Best Practices for Building a Nonprofit Annual Operating Budget" by Eric Joseph Rubio \(June 27, 2022; updated November 1, 2023\)](#)