**Budget Workshop Exercise:**

Company A is a **Pilates/Yoga Studio** run by a team of friends. It currently employs 1 instructor.

It wants to produce an Income and Expenditure budget for 2022, but has only been running for 6 months.

It runs itself from a unit in the city centre and is open 9am – 5pm Monday to Friday.

It runs for 48 weeks in the Year. The maximum number of students it can hold is 30.

In the last 6 months, each class has averaged 18 attendees, and have been popular.

**Key detail.**

1. It runs 2 classes in the day, each 1 and ½ hour long. Each class costs £8.00 to attend and there are no discounts.
2. The cost of the Instructor is £9.00 an hour
3. The cost of the Rental for the studio is £ 12,000 per year.
4. The last 6 months utilities have been:
   1. Water £ 120
   2. Electricity £ 300
   3. Gas £ 150
5. Insurance for the studio is £1200 per year.
6. Equipment is provided for students and regularly needs to be replaced or repaired.

In the past 6 months 25 mats have either been stolen or damaged beyond repair. It is estimated that this will extend to 45 mats

The cost of a mat is £4.00. They buy new mats each year and include a 20% contingency (against max number of students) to ensure they always have enough.

1. Its Budgeting year runs from January to December.

**Budgeting Methodology:**

Identify the items as either Income or Expenditure.

Calculate the incomes for one year based upon the information given – with workings.

Calculate the expenditure for one year based upon the information given – with workings.

Produce the monthly and annual budget for Jan to Dec 2022 for Company A based on the information above within the template.

**How to approach the Exercise:**

* It is important to review all of the detail. Above we have clear points identifying the incomes and expenditures in a list format. When approaching this for yourself, a key and extremely helpful method is to list all of the factors that affect your operation, and the incomes and expenditures separately.
* Before we start the exercise, it is important to identify all the elements and how we will present them.
* Firstly we know that the Budget year runs for 12 months and from Jan to December. There is no mention of a reporting need weekly or otherwise, so as a budget, we can showcase it as a full year with monthly detail, as per the template in the Excel workings.
* From the detail, as also have a list of items. In preparing the budget, we need to know whether the items are **income** or **expenditure**, as below:

1. It runs 2 classes in the day, each 1 and ½ hour long. Each class costs £8.00 to attend and there are no discounts. - **Income**
2. The cost of the Instructor is £9.00 an hour **Expenditure**
3. The cost of the Rental for the studio is £ 12,000 per year. **Expenditure**
4. The last 6 months utilities have been:
   1. Water £ 120 – **Expenditure.**
   2. Electricity £ 300 - **Expenditure.**
   3. Gas £ 150 - **Expenditure.**
5. Insurance for the studio is £1200 per year. - **Expenditure.**
6. Equipment is provided for students and regularly needs to be replaced or repaired.

In the past 6 months 25 mats have either been stolen or damaged beyond repair. It is estimated that this will extend to 45 mats. The cost of a mat is £4.00. They buy new mats each year and include a 20% contingency. -**Expenditure.**

From this, it is possible to run through the workings to help build the budget based upon the detail and their frequency. – See **Workings** tab on the Excel worksheet.

The Workings are then entered onto the Budget Template. The Sums in Excel total the values for the Income and the Expenditure.

**Notes on Income:**

We also have details relating to full capacity sessions of 36 people, and an average number of 18 attendees. You will note that on working 1 in Excel, both have been calculated.

For the purposes of the value included in the budget, the income relating to average attendance has been taken as a more realistic measure of expected income, rather than an inflated one that may not be achieved.

**Important points to remember:**

**One Size does not fit all:**

As mentioned the Budget is used to give an idea of expected outcomes. Various versions of a budget can exist to allow us to see the outcomes in different scenarios. For example, in the working we have, we could use the value for income that we have for the full capacity, or the average capacity attendance.

As mentioned above, the average attendance is a clearer indication of the actual income expected, but we could present a scenario of full capacity, and also below average capacity. They can be used to measure how the costs for the sessions will fare and how overall profit will be affected.

**Approach it like a Science, then review it like an art.**

A Budget does not have to be exact.

A budget aims to get the expectations correct, but it needs to be revisited and revised in order to ensure those expectations are as relevant as possible. When setting the Budget, do not aim to get it correct and covered in one draft. It will need to be reviewed and the measurement of actuals incomes and expenditures is vital to use the budget as the guide it is meant to be.