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## How to Differentiate between Business Forecasting and Budgeting

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As a CFO, I am frequently asked what the differences are between a forecast and a budget. Think of a forecast as what you want to happen in the future, while a budget helps you manage what will happen now. These are two financial planning tools business personnel may use in the decision-making process.

Here are some characteristics of a forecast:

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and business plans. Companies may update their forecasting models perhaps monthly or quarterly.

Here are some characteristics of a budget:

- A budget estimates the amount of revenues and expenses a company may incur over a future period of time. A company's budget is usually updated once per fiscal year.
- The budget is compared to actual results to determine variances from expected performance.
- Budgeting represents a business' financial position, cash flows and goals.
- A budget may trigger changes in performance compensation paid to employees.
- The management team may bring actual results back into line with a budget.

In summary, forecasting is a more useful tool than budgeting. A forecast provides a short-term representation of the actual circumstances and can be used to take immediate action. On the other hand, a budget may contain targets that are not achievable, or market circumstances have changed so much that it is not wise to attempt to achieve.

**Forecasting is one function that business owners and investors can appreciate. Conversely, a budget is not always used by businesses and is not as important.**

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