Annual Budget Preparation Policy & Procedure

1.0 Objective & Intent

This policy establishes a standardized framework for the annual budget preparation process to ensure accurate financial forecasting, effective resource allocation, and alignment with strategic business objectives. The primary objective is to mitigate cash flow volatility, control operational costs, and support capital investment decisions in a capital-intensive cabinet and millwork manufacturing environment. By enforcing rigorous budget preparation, the company aims to enhance profitability, maintain liquidity for raw material procurement, and reduce the risk of financial shortfalls that could disrupt production schedules or delay vendor payments.

2.0 Operational Scope

This policy applies to all departments within the company, including but not limited to: Production, Procurement, Sales & Marketing, Engineering & Design, Project Management, Warehousing & Logistics, and Administration. It covers all revenue streams (custom cabinetry, standard product lines, millwork installations, and service contracts) and all expense categories (direct materials, direct labour, manufacturing overhead, selling & distribution expenses, and general & administrative costs). The policy governs the preparation of the annual master budget, including the sales budget, production budget, direct materials budget, direct labour budget, manufacturing overhead budget, selling & administrative expense budget, cash budget, and capital expenditure budget.

3.0 Compliance & Data Security

All budget data must be handled in strict compliance with Canadian privacy laws, including the Personal Information Protection and Electronic Documents Act (PIPEDA), and any applicable provincial privacy legislation. Financial data must be stored on secure, encrypted company servers with role-based access controls. Only authorized personnel (e.g., department heads, finance team, and senior management) may view or modify budget files. Internal controls require that all budget assumptions and projections be documented and approved by the respective department head and the Chief Financial Officer (CFO). Any changes to the approved budget must follow a formal amendment process with documented justification. Budget records must be retained for a minimum of seven years in accordance with Canada Revenue Agency (CRA) requirements. All budget-related communications must be conducted through secure company email systems, and no sensitive financial data may be transmitted via unencrypted channels.

4.0 Required Software & Administrative Tools

- Sage 300 ERP (or equivalent) for general ledger and financial reporting
- Microsoft Excel (with advanced formulas and pivot tables) for budget modeling
- Microsoft Power BI (or equivalent) for budget visualization and variance analysis
- Ryxen SupplyGrid for real-time material cost tracking and procurement forecasting
- DocuSign (or equivalent) for electronic approval of budget documents

• SharePoint (or equivalent) for centralized budget file storage and version control
• QuickBooks Online (if used for subsidiary accounting) for integration with budget data

5.0 Step-by-Step Administrative Workflow

1. The CFO issues the annual budget preparation timeline and instructions to all department heads by October 1st, including templates and assumptions (e.g., inflation rate, wage increase percentage, material cost escalation).
2. Each department head prepares a detailed budget for their area using the provided templates, including revenue projections (for sales) or expense forecasts (for all other departments), and submits it to the finance team by November 1st.
3. The finance team consolidates all departmental budgets into a master budget draft, performing initial checks for mathematical accuracy and consistency with historical data.
4. The CFO reviews the draft master budget with the CEO and senior leadership team by November 15th, identifying any material variances from strategic targets (e.g., gross margin, net profit, capital expenditure limits).
5. Department heads revise their budgets based on feedback from the senior leadership review and resubmit by November 30th.
6. The finance team prepares the final master budget, including the cash budget and capital expenditure budget, and presents it to the board of directors for approval by December 15th.
7. Upon board approval, the CFO communicates the approved budget to all department heads and uploads the final version to SharePoint by December 20th.
8. Monthly budget variance reports are generated by the finance team within 10 business days after month-end, comparing actual results to budgeted figures, and distributed to department heads for review.
9. Any department head requesting a budget amendment must submit a formal request with justification to the CFO; amendments exceeding $10,000 require CEO approval, and amendments exceeding $50,000 require board approval.
10. The finance team updates the budget system with approved amendments within 5 business days and maintains an audit trail of all changes.

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