

BUDGETING

BUSINESS ADVISORY ACTIONABLE PRINCIPLES



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PURPOSE OF A BUDGET

What is a budget?



Outline of business income, expenses and profit over a period



Educated guess of the business future



Why Should You Develop a Budget?



Allows business owner to plan for the future



Helps business owner ensure that resources are allocated properly



Helps prioritize spending



May be helpful in obtaining financing



Provides scorecard to ensure the business is on the right track

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COMPONENTS OF A BUDGET

Estimate of income

» The money you expect to make during the period

» May also include costs of goods sold

Fixed expenses

» Typically include rents, utilities, salaries, overhead costs

Variable expenses

» Costs that change based on activity or some other variable
» Use meaningful and measurable categories

One-time expenses

» Non-recurring items

Contingency for unexpected items

Net profit

» What is left over



CREATING A BUDGET

Where to start?

- » Historical performance
 - Income statement is a baseline
 - Involve your management team
- » Industry benchmark data

Set realistic goals

- » Things to consider
 - Cash flow
 - Growth expectations
 - External factors



Create a profit and loss statement from the information

- » Divide into time periods track (monthly, quarterly, etc.)
 - Can allow for seasonal income and expense trends



MANAGING YOUR BUDGET

Involve your employees

- » Can provide key insight or ideas
- » Often have control over some of the variables

Monitor periodically

- » Should be at a minimum quarterly
- » Helps you stay within your goals and adjust if necessary

Budget is a living document

- » Every change in income or expense may affect other items in the budget
 - » OK to adjust as circumstances change



FAQS

» What is the best way to start a budget?

» The best way to start is to outline your financial goals to include how much you want to set aside for capital investment, fixed and variable expenses and how much you want to earn in profit.

» How often should I review my budget?

» The frequency of budget reviews should be determined by the nature of the business and the size of the budget. Those with larger budgets or greater needs for budget accuracy should be reviewed monthly or quarterly whereas smaller business budgets may be able to be reviewed less frequently.

» What does the business risk without having a budget?

» Without a budget, a company runs the risk of spending money it doesn't have, not spending enough to compete, or failing to build a solid emergency fund.

» What if I exceed my budget and now project losses?

» Sometimes, even with precise planning, unexpected costs arise. These costs might cause you to exceed your budget. The best solution is to look for external sources of funding until your business stabilizes. If your budget includes a contingency item and the loss is less than the contingency, you may not have to seek external sources.

