



# GUIDE TO BUDGETING

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...to **grow** together

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## Why Use Budgets?

Small business budgets are empowering. They give you the knowledge and insight to eliminate wasteful spending and get to profitability faster. A well-planned small business budget will:

- Show you how many sales you need to cover costs
- Figure out how much money you can reinvest in the business or take for yourself
- Find out when you can afford a spend – e.g. an employee

## Small Business Budgets are Easier to Make Than you Think

Budgeting has a lot of baggage. It sounds tedious, complicated and even daunting. But there's no need to put it off.

Setting a budget is part of becoming financially literate, and it's a vital skill. The better you can 'read' the figures relating to your business, the more successful you'll be. And you don't need to become an accountant to do it.

## The Numbers that Matter When Getting a Budget

When setting a business budget, you need good numbers. Don't guess at what's coming in and what's going out. You could be making assumptions that aren't true. Take the time to look into your accounts and dig out the real figures. It might sound like hard work, but it's worth it.

## Budgeting our Profit and Loss Account

So, which figures are essential for your small business budget? Fortunately, you don't need to consider everything. These groups of figures clearly tell the story of your finances:

### **Income (revenue):**

How much money are you generating from the sales of your products or services? It helps to break these into:

- Recurring income: regular and reliable revenue from client retainers and contract work
- Expected income: predictions of future income. This is a forecast of what your business is likely to earn.

### **Expenses (Fixed costs):**

Expenses that are the same price each month are considered fixed costs. Factoring these numbers is often the easiest part of creating a business budget. On your financial statements, it is easy to spot fixed costs as they are usually the same cost every month.

Examples of fixed costs include:

- Rent
- Utilities
- Salaries
- Legal Services
- Accounting Services
- Internet and telephone
- Bank fees
- Website hosting
- Insurance

**Expenses (Variable Costs):**

Expenses that don't have a fixed price every month are called variable costs. Depending on the state of your business, many of your variable costs will be scaled up or down. Profits per month are determined by the revenue you are left with after paying all your expenses. If your business is doing better than forecasted, than you can use the extra funds to increase variable spending to help your business grow faster.

Here are some examples of variable expenses:

- Raw Materials
- Contractor Wages
- Commissions
- Advertising
- Other Marketing Costs
- Transportation
- Travel & events
- Printing Services

**Forecast one-off costs:**

Creating a business budget allows you to factor in one-time purchases easily. Some expenses might come up unexpectedly, like replacing broken equipment. However, other purchases can be budgeted for months in advance, like a business conference or retreat. Anticipating these costs can protect your business from financial burdens.

Examples of One-Times Spends include:

- Computer
- Software
- Recruitment
- Conferences
- Product launch

**Budgeted Profits and Losses**

We have prepared a spreadsheet which you can use to help with your budgeting. This can be downloaded from the website.

If you have more revenue coming in than costs going out, you're making a profit. If it's the other way around, you're making a loss. A loss is okay in certain situations, but losses aren't sustainable over the long term.

If you make a profit, think carefully about what to do with it. Could you:

- Drive more significant profits by reinvesting in the business?
- Save money by paying down debts quicker?
- Keep cash in reserve to ride out future revenue dips (this is an especially big consideration for seasonal businesses)?
- Withdraw the monies for your return?

Having a budget is like turning on a light in a dark room. You'll be able to see the obstacles to your business and find your way around them.

## Testing Different Scenarios – What If...?

Once you have a basic small business budget, you can start playing with the numbers.

What if sales go up by 10 percent?  
What if you lose your biggest client?  
What if you take on a new employee?

You can try dozens of different variables here. See my spreadsheet by clicking here to download if you haven't already done this.

You can create several versions of the budget to cover many variables. Experiment as much as you like and see what the outcomes look like. I usually do three - "I need", "I would be comfortable" and "I dream".

## An Option for Painless Budgeting

We build our budgets in Excel. Suppose you're looking for a quicker and less error-prone way to build a small business budget, consider accounting software. When set up right, an accounting system will automatically record all your income and expenditure, so you don't have to gather the information manually.

Smart software can also show your income and expenditure on graphs and charts. That makes it much easier to spot trends and see how your business is performing.

## Monitoring Actual vs Budget and Reforecasting

Building a budget and putting in a draw is pointless! Just like that marketing plan, we all have. You need to compare actual income, and expenses spend each month against your budget. When you see this information, you can then review the budget – this is called a reforecast. Budgets can be uploaded in software such as Xero to allow direct actual v budget reporting.

## Don't be Afraid to Ask for Help

Setting a budget isn't complicated, but it can still help to involve an expert. We can double-check the numbers and help you make realistic redictions about business growth, upcoming expenses, and tax exposure. We can also advise you on what to do if the actual numbers deviate from the predicted ones.

**I hope this guide helps you to start the process of managing your budget. Don't forget we are always here to help so if you would like more advice; please do get in touch by calling 0115 928 3228 or email [info@coalesco.co.uk](mailto:info@coalesco.co.uk).**

