

WHAT IS BUDGETING AND WHY DO I NEED TO PREPARE ONE?

Budget. The word itself brings up a feeling of dread when most people hear it. It brings up feelings of guilt since most people don't use a budget, or have put one together and don't use it. Alternatively, it makes people think about politics because the federal budget seems to always be in the news.

So, what is a budget? Basically, a budget is a spending plan. You are drawing up a plan that says how you intend to spend your money. Whether personally or professionally, you have goals you want to accomplish, and the budget and the process of putting one together helps you clarify your goals, and set up a plan to achieve those goals.

So why do you need a budget? Let's look at a few reasons why it is a good reason to have one.

- **HELPS SET A COURSE FOR YOUR BUSINESS**

As mentioned earlier, a budget is a means to determine the money you need to come in and the amounts you need to spend to achieve the goals for your business. The process of setting up the budget will help you clarify your goals, and the means by which you intend to achieve those goals. It helps to sit down with someone to work out what your goals are, and methodically come up with a plan that is realistic and achievable. If you involve other members of your team in the process, they can feel invested in the results, and will work harder to achieve the goals that are set for your company.

- **ALLOWS YOU TO SEE WHERE YOUR MONEY IS GOING**

By having a budget, you not only can see where you want your money to go, but it will be able to compare your actual spending to what you have budgeted. You can then make decision about your future spending needed to achieve the goals you have spent for your business. For instance, if you look at your travel spending, you cannot only see if you are meeting the goal you set, but if you are over budget, you will be aware of the issue. Then you can ask good questions as to why you are over budget, and what can be done in the future.

- **KEEPS YOU TIED TO REALITY**

By setting up a budget, you go through a process to determine where your spending goes. If you do this correctly, you will be asking yourself “is this a realistic view of the money that will be coming in, and the amount of money we need to spend on these categories to keep the business running and bring in the cash we need to achieve our goals?” By asking this question, you can make sure your budget is realistic and achievable.

- **ALLOWS YOU TO PLAN FOR OTHER OPPORTUNITIES AND UNEXPECTED COSTS**

Most budgets are set up so that the business has net income for the year. In addition, in putting the budget together, you can provide some slack to have some space to pay for unexpected expenses that come up, or provide funds to invest in opportunities that could help grow your business. For instance, an unexpected big order comes in. By doing some careful budgeting, you may be able to figure out a way to handle the additional costs that may result, and will have additional cash on hand to buy the supplies you need to take on the additional work.

- **PROVIDES A GREAT WAY TO COMMUNICATE WITH PARTNERS ON HOW YOU ALL ARE DOING**

You may have investors that have given you money to help grow your company in return for stock in the company, or you may have partners that need to be kept in the loop on how your company is doing, be they your bank, vendors or employees. A budget provides a benchmark to show these people how you are doing, and what you are looking to do in the future to keep going, or what you are doing to fix things if they aren't going so well.

- **HELPS YOU SEE WHERE YOU COULD CUT BACK ON UNNECESSARY EXPENSES**

By comparing your actual expenses with what has been budgeted, you can see where you are over budget, and adjust your spending accordingly. In addition, you can also see if a revenue stream is an unexpected cash cow, or you need to stop offering it.

Putting together a budget can be a tough process. We are available to help walk you through the budgeting process, and can provide some assistance in putting one together. We enjoy helping our clients build their businesses, and would love to help you with yours.

Need Help Making This Decision?

Contact Us;

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