DO YOU NEED A BUDGET?

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Does your organization really need to prepare a budget? Yes, it does. Although it seems like a lot of work, a budget is an indispensable tool for converting your plans into a successful reality.

What is a budget? A budget is a forecast of expected income and expenses. It is organized in the same format as a financial statement and most commonly covers a 12-month period.

Why create a budget?

1. Monitor performance—A budget is a yardstick to measure how your organization is performing.
2. Cash management—A budget helps you determine how much cash you will have, how you will use it, and whether you have enough cash to achieve your financial goals.
3. Prevent problems—A budget allows you to forsee problems and alter your plans to prevent those problems. Problems are far less costly to fix on paper than with actual dollars.
4. Revenue forecasting—A budget forces you to think through how you will bring in revenue and what it will cost to generate that revenue.
5. Expense management—A budget requires you to itemize your expenses and understand your real cost of doing business, which helps you make sound choices on expenditures.
6. Securing financing—A budget (and a business plan) will be needed for banks and other lenders to give you a loan.
7. Capital spending—A budget will help you understand whether or not you can afford to invest in new equipment or other assets.

How do I create a budget?

1. Revisit previous budgets—If you have created a budget in the past, use it as a model and adjust the numbers as needed. If your organization is a new venture and has no past financial records, rely on your own experience and knowledge of the industry to estimate revenues and expenses.
2. Review past history—You can export your Profit and Loss statements from QuickBooks to Excel to use as a starting point for the budget.
3. Use a spreadsheet—A spreadsheet (like Excel) is the easiest way to prepare a budget and it can be imported into QuickBooks when it's finished.
4. Budget monthly—You can make a budget using any time intervals (weekly, monthly, quarterly, annual),

but it's usual to create a monthly budget so you can compare the actual results to the budget each month.

5. Revenues—Revenues are the cornerstone of a budget. It's crucial to estimate revenues as accurately as possible, based on past history.
6. Fixed Costs—Some costs, such as rent and loan payments, are fixed (they don't fluctuate regardless of revenue). Find your fixed costs from the pertinent loan, lease or other documents.
7. Variable Costs—Some costs, like utilities and supplies, are variable (they fluctuate with the level of activity). Estimate the variable costs by adjusting past expenses for the forecasted changes in activity.
8. Semi-variable costs—Costs such as salaries, wages and telephone expenses, have both variable and fixed components. For budgeting purposes, you may need to break semi-variable costs into two components. The fixed element represents the minimum cost of supplying your good or service. The variable element is that portion of the cost influenced by changes in activity.
9. Personnel costs—Be sure to match the level of staff to the anticipated changes in revenues.
10. The master budget—For organizations with several departments or work functions, the annual budget may be a master budget comprised of several separate but interconnected budgets.

Tips & Hints

1. Start Early—The budget should be approved at least 1-2 months prior to the start of the new fiscal year. For this to happen, planning will need to start 3-6 months before the new fiscal year.
2. Keep it simple—There is no need to list your expenses in great detail—accounting for supplies and utilities should be sufficient, without breaking it down into paper clips and light bulbs.
3. Set Goals—Everything about the budget should point towards the strategic plan the organization has adopted.
4. Be conservative—To be safe when budgeting, many organizations overestimate expenses and underestimate revenue, which builds in a margin for error.
5. Budget a cash reserve—Consider setting aside a cash reserve. Even though your budget will be tight, you will be glad you did this if there is a sudden economic downturn or a big unexpected expense.
6. Show restraint but not rigidity—Your budget should help restrain you from unnecessary spending. But, if an opportunity arises, don't ignore it because it isn't in your budget. There are times to "bust" your budget to take advantage of valuable opportunities.
7. Review your results every month—Too many organizations make up a budget every year and then stick it in a drawer and forget about it. Budgets only help your organization if you use them. Look over your actual results versus budget every month.
8. Question expenses—Once you have all of your expenses detailed in your budget, reevaluate each one and look for ways to save.
9. Watch your cash flow—Cash flow problems kill many small organizations. Watch your cash flow monthly

to be sure you maintain sufficient cash.