



CREATING A 12-MONTH BUDGET

Get your finances in order for the entire year with these steps for preparing a monthly budget.

By Pam Newman

It's that time of year: have you started your budget for the New Year? A budget is part of your financial roadmap. How do you know where you're going if don't have a destination selected or the road you're going to take mapped out?

Budgeting shouldn't be approached as something to do when you have time; it should be regarded a priority and part of your overall business financial management plan. Breaking your budget into monthly increments will ease the process, making it less overwhelming. Prepare some general goals for your financial budget for the year, then see how you can achieve that goal – one month at a time – through a monthly budget.

Getting started

Budgeting doesn't have to be an overwhelming task. We'll often use the excuse that we don't know how to do a budget because our income and expenses are too hard to predict. Don't you want to have an idea of where you're going? The challenge for the New Year is for you to be more proactive with your business financial picture. Here's how to begin:

1. Analyse your current and prior year's budget.

It's always a good idea to know where your starting point is. Utilise a simple format for your budget based on the profit/loss format:

Income less cost of sale (cost of goods sold) less overhead expenses equals net income (profit)

2. Use the budgeting features in your bookkeeping software to assist you.

QuickBooks has a great budget format ready for you based on your profit/loss format.

3. Assess your budget realistically.

It's always a good idea to have an objective third party review your information. We tend to overestimate our income and underestimate our expenses. Make sure to document how you're coming up with your estimated numbers. For example, if you predict R10 000 in sales, you need to document that it's based on the following equation: the number of sales multiplied by Rand amount per average sale. This will give your predictions substance and allow better variance analysis when your actual figures vary from your budgeted figures.

4. Compare your actual activities to your budgeted activities on a monthly basis.

This comparison is what creates the real value for you. When you use QuickBooks, you'll have pre-formatted reports available that will calculate variance between actual and budgeted income and expense items.

We all have many demands on our time, but managing the financial aspects of our businesses is a responsibility we need to take seriously. If this isn't one of your strengths, find someone to assist you with this process. It's like any other skill – it takes time to understand the various aspects. There's no better time to take control of your business path than today.

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