

PATHWAYS TO PROFIT

Small business budgeting a must for owners



BY LEAH THISS

Does a business owner really need to prepare a budget? It may sound like a daunting task, but a budget is one of the most important business tools for any business. Done right, it can help you manage your business and keep you on track to reach your goals.

A few things to keep in mind as you venture down the budget path: 1) You won't get it right the first time – or maybe ever. A budget is your best guess and that's OK; 2) You will get better at "guessing" over time so don't give up on it too soon; and 3) Your budget is a guideline only. Use it to bring discipline to your spending, but don't let it tie your hands. Go beyond your budget when you need to.

Where to start?

Even though a budget is an estimate or guess, it should be based on as much real data as possible. Pull as much historical data on your revenues and spending as you can. Get estimates for anticipated expenses.

Divide your revenues by products or services and itemize your expenses by meaningful categories: cost of goods sold, salaries, marketing and advertising, rent, facilities maintenance, utilities, office supplies and other overhead expenses.

Be conservative

When putting together your budget, overstate your expenses and underestimate your sales. Plan for the "worst-case scenario."

If your cash flow projection is positive using these conservative estimates, your budget should be fine. If your cash flow is projected to be negative, you need to be prepared to line up a cash infusion or find ways to cut expenses.

Be flexible

In order to live with a budget, you

need to be flexible. If your revenues are down, you may need to find ways to cut your expenses. On the other hand, an opportunity may arise that requires you to make an investment you did not anticipate. Think it through before you veer off your budget, but know there will be times when straying is warranted.

Be vigilant

Review your budget every month. Compare actuals to estimates. Be sure you have the cash flow to cover your upcoming liabilities. If not, make corrections to keep you in the positive. If you find yourself with more cash than you projected, set the funds aside as a contingency or cushion to cover months that may come in short.

If you aren't using an accounting software package already, consider starting now. Most programs will allow you to enter your budget data so the program can automatically track estimates vs. actuals – making reviewing your budget status a snap!

A well-prepared budget can guide your business in the right direction. The act of budget preparation forces you to think through how you will bring in revenue and what it will cost to reach those sales goals. This can lead to more informed decisions about what type of business to pursue.

Budgeting also requires you to itemize your expenses and understand what is really the cost of doing business. This can lead to more sound choices of expenditures you must make and those that can be cut.

So, do you need a budget? Working with a budget will definitely improve your odds for profitability. The answer is – yes!

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