

WHITE PAPER

BUDGETING

The Right Approach to Budgeting

Introduction to Budgeting – Planning for Success

Welcome to the Right Approach to Budgeting. This guide has been prepared to help you understand the importance of the budgeting process in achieving the financial goals in your business. This guide provides you with step by step instructions and the templates needed to prepare a budget for your business.

This guide contains:

Section 1: Some common questions

Section 2: The golden rules of budgeting

Section 3: The budgeting process

Section 4: Budgeting checklist

Section 1: Some Common Questions

The easiest way to commit to achieving your goals is to write them down. The easiest way to avoid achieving your budget is not to prepare one.

Budgeting is a critical part of the business process. Each business, no matter how large or small, should prepare a budget for the financial year and review it regularly. This ensure that you are committed to achieving your goals in a disciplined way.

So what is a budget?

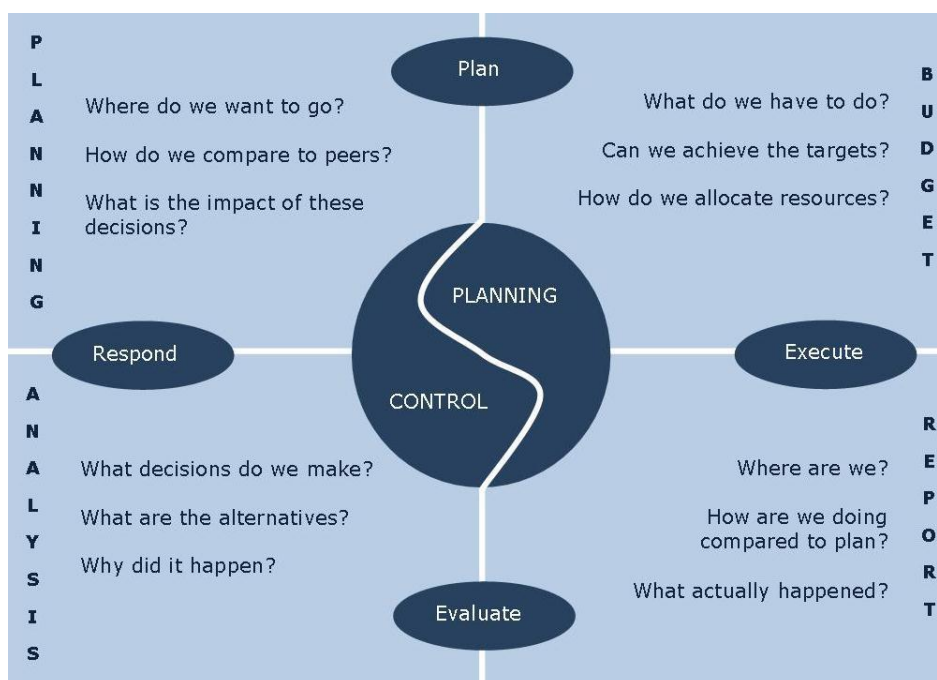
A budget is a forecast of the sources of cash into your business and the cash expenditures you need to make to run your business. It represents the benchmark against which performance is measured and is the spelling out of the business' plan to realise its competitive advantage.

In other words, a budget is a planned goal.

Why do it?

Simply because it is a way for you to increase your likelihood of success by helping you work out your future cash needs and to plan for profits, spending and the inevitable peaks and troughs of cash flow. A budget is an estimate of your most likely future position based on information that we have today.

Successful companies see budgeting as the key to their management planning process. The figure below illustrated how initiatives, plans and budgets are interlinked to deliver results.



Source: Budgeting as a competitive advantage K Jehle 1999

Some Common Misconceptions

This whole planning process is a waste of time.

Think of the opportunity cost of not budgeting or planning or of creating budgets and plans in isolation. How do you know how well you are doing? Are you making the best of your people and resources? Where are you doing well? Poorly?

I know how much my business is doing. It's all mapped out in my head.

Do you really? How successful are you likely to be if you need to talk to your bank about financing?

Consider successful companies. Consider the process they used to succeed. Successful companies have clear goals and directions and carefully plan how they will achieve these goals. Successful companies have a strategic plan, business plan and an annual budget, all of which is regularly monitored and updated to ensure success.

Remember, that unless you know where you are going, how do you know when you have arrived?

If you need help with setting your strategic direction or creating your business plan, preparing your annual budget and more importantly implementing, contact the Maclean Partners team.

Section 2: The “Golden Rules” of Budgeting

There are five “Golden Rules” of budgeting:

1. **Do it.** There is no excuse for not preparing a budget. Set a date each year to prepare your budget, preferably before the start of the coming financial year. Put in on paper.
2. **Link it.** Link your budget to your planning process. A budget does not exist in isolation but must be part of a comprehensive approach to all business activities.
3. **Review it.** It is pointless preparing a budget and then not checking on progress. Check at least monthly and make any changes that are necessary.
4. **Share it.** Don't keep your budget to yourself but share it with your staff members. Experience shows that successful companies are those where staff are involved with and committed to the goals of the company. Link staff performance agreements with practice goals. In a way, everyone is aligned to achieving the business goals.
5. **Celebrate it.** When you achieve your budget and reach your goals, celebrate your success. If you don't meet your budget, don't beat yourself up over it but rather reflect and learn.

Section 3: The Budgeting Process

Step 1: Plan.

Do your planning for the coming year. Consider operations, marketing, IT, client activities, new staff, training and development, premises, etc.

Step 2: Decide how much net profit you want to make.

Be realistic but make sure your goal has a bit of effort in it. Think of your target as 90% achievable and 10% effort.

Alternatively, set a Base Goal and a Stretch Goal. The Base Goal should be achievable. The Stretch goal should require a significant effort to achieve.

Step 3: Work out how much you need to spend during the year.

Remember to include:

- All known increases. If inflation is on the rise, make sure this is factored in.
- Staff employment expenses and taxes (Superannuation is increasing over the next few years)
- Any repairs and maintenance planned
- New staff recruitments costs
- Non-recurring expenses
- Is there any capital expenditure plan?
- Do you have a loan or leases that will finish this year?
- Remember to include owners salary
- Income tax expense

Step 4: Calculate your net profit

Do this for each key item in your product/service range.

Step 5: Calculate your net profit

By deducting operating expenditure from your gross profit.

Step 6: Consider your revenue figure

Look at your financial statements for the past few years and work out profit as a percentage of revenue.

Is there a trend? Do you regularly make 15%? 20%? 30% gross profit on revenue?

Divide your gross profit figure by this percentage. This will give you your budget sales figure. Then divide this by 240 to give the daily sales. This based on 5 working days for 48 weeks (allowing 4 weeks leave).

Step 7: Make any adjustments

Does the sales figure look reasonable? If not, consider expenses and make any adjustments.

Step 8: Consider any cycles in your business.

An adjust revenue and expenses accordingly. Very few, if any businesses, generate exactly the same revenue each month, Prepare for months with poor cash flow.

Step 9: Your budget is complete.

Commit it to paper, share it with staff and schedule a time each month to review it.

Worksheet

Use Maclean Partner's Budgeting worksheet to help you create your budget.

	Pre-startup EST	Jul	Aug	Sept	Oct	Nov
Cash on hand (beginning of month)						
CASH RECEIPTS						
Professional fees						
Financial planning						
Dividends and interest						
Other						
TOTAL RECEIPTS	0	0	0	0	0	0
Total available (before expenses)	0	0	0	0	0	0
CASH PAID OUT						
Advertising						
Bank charges						
Borrowing expenses						
Car lease expenses						
Car running costs						
Commissions						
Computer equipment						
Computer software						
Depreciation						
Electricity						
Entertainment						
Filing & archiving						
Fines						
Insurance – motor vehicle						
Insurance – PI						
Insurance – plant & equipment						
Insurance – buildings						
Hire purchase						
Memberships						
Motor vehicle allowances						
Motor vehicle mileage						
Motor vehicle repairs						
Payroll expenses (taxes, etc)						
Printing						
Professional fees						
Purchases (merchandise)						
Purchases (specify)						
Reference materials						
Repairs & maintenance						
Rent						
Stationery						
Superannuation contributions						
Supplies (office & oper)						
Taxes						
Telephone						
Training						
Travel accommodation						

Contact our team for advice on budgeting tools appropriate to the size of your business

Section 4: The Budgeting Cycle

At the beginning of your financial year, you should already have in place:

- Your business plan
- Your budget
- Key performance indicators for your business and
- Performance agreements for your staff

Suggested timetable

Month	Action	Complete
May	<ul style="list-style-type: none">• Make sure all financial are up to date• Complete business planning• Review year to date profit figures and decide on profit margin• Calculate all expenditures• Review economic forecasts for next 12 months and ensure expenditures take inflation into account	
June	<ul style="list-style-type: none">• Calculate gross and net profits• Decide on weekly/monthly income targets• Make any final adjustments• Document your budget and communicate to staff• Decide on individual targets for staff	
July	<ul style="list-style-type: none">• Complete performance agreements• Ensure monthly reporting captures process to budget and key performance indicators	

Section 5: Budgeting Checklist

Have you forgotten anything?

Staff

- ☐ Salaries & wages
- ☐ Contractors
- ☐ On costs
- ☐ Bonuses & rewards
- ☐ Entertainment, staff function
- ☐ Sick, annual, long service leave
- ☐ Superannuation
- ☐ Spouse salaries/superannuation
- ☐ Gifts
- ☐ Recruitment costs
- ☐ Advertising
- ☐ Training & education
- ☐ Relocation costs

General running expenses

- ☐ Stationery
- ☐ Insurance
- ☐ Taxes
- ☐ Courier
- ☐ Telephones
- ☐ Electricity
- ☐ Rent/rates
- ☐ Water/gas
- ☐ Archiving expenses
- ☐ Legal
- ☐ Repairs & maintenance
- ☐ Professional memberships
- ☐ Postage
- ☐ Car rental
- ☐ Car maintenance
- ☐ Business cards
- ☐ Letterhead
- ☐ Brochures
- ☐ Parking
- ☐ Travel & accommodation
- ☐ Client entertainment
- ☐ Christmas cards, gifts

Products & Service

- ☐ Product development
- ☐ Promotion
- ☐ Distribution
- ☐ Printing
- ☐ Advertising
- ☐ Client functions
- ☐ Function rooms
- ☐ Audio visual hire
- ☐ Promotional gifts
- ☐ Packaging costs

Computer costs

- ☐ Computer lease
- ☐ Computer software purchase
- ☐ Computer software rental
- ☐ Network hosting costs
- ☐ Website maintenance
- ☐ Computer support

Office

- ☐ Artwork rental
- ☐ Coffee, biscuit, milk
- ☐ Cleaning costs
- ☐ Gardening maintenance
- ☐ Fitouts
- ☐ Furniture/equipment

Suppliers

- ☐ Professional services
- ☐ Consultants

Other

- ☐ Tax
- ☐ Loan & lease payments