

# Deaf Enterprise Workshop

Budgeting

# BUDGETING



# Budgeting Definition

- A **budget** is a financial plan for the future concerning the revenues and costs of a **business**.
- However, a **budget** is about much more than just financial numbers.
- Budgetary control is the process by which financial control is exercised within an organisation.

# Where does every penny go?

- **Have you ever evaluated where every pound of your budget goes?**
- To your great horror, you will discover that most of your earnings left over after paying your basic personal and business expenses were being foolishly spent.
- A business budget is the answer.
- Your new budget will give you to room to afford the things you need to grow, while simultaneously earning more profit and working fewer hours each month.

# Five steps to business budgeting

- **Step 1: Tally your income sources**
- **Step 2: Determine Fixed Costs**
- **Step 3: Include Variable Expenses**
- **Step 5: Pull It All Together**
- **Step 4: Predict One-Time Spends**

# Step 1: Tally your income sources

- The first element of a good business budget is figuring out how much money you bring in on a monthly basis.
- Start with your sales figures first (which you can easily get using the software like FreeAgent), and then go further by adding other income sources you use to run your business.
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# Step 2: Determine Fixed Costs

- Fixed costs are expenses that are charged the same price each month.
- As you can imagine, incorporating these is by far the easiest part of creating your business budget.
- Review your past bank statements.
- You'll easily be able to spot your fixed bills and the total amount they cost you each month.

# Step 3: Include Variable Expenses

- Items that don't have a fixed price tag each month are called variable costs.
- Many of these purchases can actually be scaled up or down depending on the state of your business, using your monthly profit. Your profit each month will be determined by the earnings you're left with after paying all your costs.
- So, if your business does better than you forecasted, you can use the extra funds to increase variable spending enabling you to grow faster.

# Step 4: Predict One-Time Spends

- A great perk of creating a budget is now you will be able to factor in one-time purchases better than ever before.
- While some of these items may come up unexpectedly, like the purchase of a laptop to replace the one that crashed, others can be budgeted for months in advance, like that business retreat you've been eyeing, to protect your business from financial burden.

# Step 5: Pull It All Together

- The first four steps of this post detail the elements of a good business budget, so the last step is simply pulling it all together. Take action by using this handy checklist with specific examples so you can create your budget without any hassle:

# Step 5: Pull It All Together

## • **INCOME SOURCES:**

- Hourly Earnings
- Product Sales
- Investment Income
- Loans
- Savings
- Other

## • **FIXED COSTS:**

- Rent/Mortgage
- Utilities
- Salaries
- Internet
- Government and bank fees
- Cell phone
- Website hosting
- Accounting Services
- Legal Services
- Insurance

# Step 5: Pull It All Together

- **VARIABLE EXPENSES:**

- Raw Materials
- Contractor Wages
- Commissions
- Advertising
- Other Marketing Costs
- Transportation
- Travel & events
- Printing Services

- **ONE-TIME SPENDS:**

- Computer
- Furniture
- Software
- Office Supplies
- Gifts

# Business budget necessary?

- Creating a monthly business budget may seem like a hassle
- It's an essential infrastructure project that gives you the ability to make conscientious financial decisions so your business can stay on track and grow

# How much does it cost to start up your own business?

- Get tips on the types of costs a start-up will incur.
- How much does it cost to start your own business?
- The answer depends on your business model and your chosen industry
- However, the Ewing Marion Kauffman Foundation estimated in 2009 that the average cost was just over **30,000**

# Profit and Loss statement

- Also known as the Income Statement, the profit and loss
- The P&L pulls data from your sales forecast and your personnel plan and also includes a list of all your other ongoing expenses associated with running your business
- The P&L also contains the all-important “bottom line” where your expenses are subtracted from your earnings to show if your business is making a profit each month or potentially incurring some losses while you grow

A typical P&L will be a spreadsheet that includes the following:

- **Sales (or income or revenue)**
- **Cost of goods sold (COGS)**
- **Gross margin**
- **Operating expenses**
- **Total operating expenses**
- **Operating income. Interest, taxes, depreciation, and amortization**
- **Total expenses**
- **Net profit**

# Cash flow statement

- The cash flow statement often gets confused with the profit and loss statement. While the P&L calculates your profits and losses, the cash flow statement keeps track of how much cash (money in the bank) that you have at any given point.
- The key to understanding the difference between the two statements is understanding the difference between cash and profits.
- The simplest way to think about it is when you make a sale. If you need to send a bill to your customer and then your customer takes 30 or 60 days to pay the bill, you don't have the cash from the sale right away.

# Cash flow statement

- A typical cash flow statement starts with the amount of cash you have on hand, adds new cash received through cash sales and paid invoices, and then subtracts cash that you have paid out as you pay bills, pay off loans, pay taxes, etc. This will then leave you with your total cash flow (cash in minus cash out) and your ending cash starting cash + cash in – cash out = ending cash).
- Your cash flow statement will show you when you might be low on cash, and when it might be the best time to buy new equipment. Above all, your cash flow statement will help you figure out how much money you might need to raise or borrow to grow your company.
- Since an operating business can't run out of cash without having to close its doors, use your cash flow statement to figure out your low cash and consider options to bring in additional cash.

# Balance sheet

- The last financial statement that most businesses will need to create as part of their business plan is the balance sheet.
- The balance sheet provides an overview of the financial health of your business.
- It lists the assets in your company, the liabilities, and your (the owner's) equity.
- If you subtract the company's liabilities from assets, you can determine the net worth of the company.

# Use of funds

- If you are raising money from investors, you should include a brief section of your business plan that details exactly how you plan on using your investors' cash.
- This section doesn't need to go into excruciating detail about how every last penny will be spent, but instead, show the major areas where the investors' funds will be spent.
- These could include marketing, R&D, sales, or perhaps purchasing inventory.

ANY  
QUESTIONS?

