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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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BUDGETING 101

Well here we are at the end of another financial year and for many businesses, it is also time to prepare a new budget for the incoming financial year. While many business owners have a budget, most don't know how to maximise this resource. Budgets are one of the most important business financial statements. If planned and managed well, a budget allows you, the business owner, to monitor the financial impact of your business decisions and operational plans. If you struggle with instituting a budget or you simply need a quick refresher, these small business budgeting tips can help you get—and stay—on track.

Understand Your Business Goals

Start by understanding your business goals and involve key staff. This ensures your budget is aligned to your goals and is prepared and reviewed by the appropriate people.

Document & Follow A Process

Document and follow a process for preparing an annual budget. Steps could include:

- review the approved business operating plan and note all required activities for the budget period
- separate activities into existing and new for the new budget period
- identify and document all assumptions that have been made for the budget period
- review prior year's profit and loss statements by regular periods (monthly, quarterly etc.)

Overestimate Expenses

Always round up in your business budgeting. It's much easier to account for underspending than overspending. This also lessens the blow to your finances when you overspend.

Analyse All Business Purchases

Many business owners keep a close eye on their large expenditures, but they don't pay much attention to the smaller ones. This could be a costly mistake, since those small expenses quickly add up and turn into a big expense. It's important to pay attention to every invoice that comes through to ensure that you're not spending even a few dollars on frivolous items.

Create Realistic Cash Flow Projections

Most of your budgeting effort will revolve around cash flow projections instead of actual cash flow. It's very important to be realistic with this number. Overestimating your cash flow won't give you anything but false hope and a huge mess to clean up later.

Monitor and Update Your Budget Every Month

This may seem like a no-brainer, but it's a good reminder that you can't make a budget once and then never look at it again. Regular monitoring of the budget against actual results provides information on whether your business is on track to meet the goals you were aiming for when you first prepared your budget.

When the Actual Results Vary From the budget

At the end of each month, compare the actual results from the profit and loss statement with the budgeted results. Note and analyse any variances, with explanations. Categorise all variances as either a 'timing' or 'permanent' variance. A timing variance is where the estimated result did not occur but is still expected to happen at some point in the future; and, a permanent variance is where the expected event is not likely to occur at all. This information will help minimise future variances.

Incentivise Your Employees

Sticking to a budget is a big battle for small businesses, and sometimes tying incentives to meeting your budget—in the form of performance bonuses—is a great way to promote staying on track.

Define and Analyse Your Risks

Every business has a certain degree of risk involved, and all of those risks have the potential for a financial impact on your business. Business owners need to consider their long- and short-term risks to accurately plan for their financial future. Seriously analyse the risks you face if you don't adhere to a solid budget. Include debt-to-profit ratios, not making payments, and missing payroll. Looking at the risks associated with not following your small business budget can sufficiently convince you to stay on track.

Anticipate and Plan for Big Expenses

Any time you know there's a big expense in your future, plan accordingly. Do your best to anticipate these expenses and save for them along the way to minimise their effect on your bottom line.

Identify Essential and Non-Essential Expenses

Things such as payroll, taxes, rent, and mortgage payments are considered your essential expenses. Not paying these bills and you will risk going out of business. Compare these to "commodity" expenses you don't really need to operate a business, such as certain supplies and equipment, free-cake Fridays, and office renovations. It's OK to splurge on commodities once in a while, but when money is tight, know the difference between what you need and what you can live without.

Target Small Business Debt

Debt hangs over your head accumulating interest until you pay it off. When you create your budget, look for any extra money that you can put toward paying off your debt more quickly.

Reserve Some Profits

If you always spend your profits as quickly as they come in, you'll never have enough to pay for unexpected contingencies or losses. You'll also have a hard time growing your business when the timing is right. All of these things take excess capital, and reserving some of your profits in a dedicated savings account is one of the smartest things you can do.

Ultimately, the best advice for small business budgeting is to simply sit down and get started. Every company will have its own techniques for allocating business spending, and good budgeting techniques can help you achieve both the expansion and the comfort you seek in your business structure.

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Our **CONDOLENCES** go to the **Townsend Family** (Bert & Mark) on the passing of their mother, **Ellen Townsend**. *Nell, as she is better known, was 102 years old.....* Birthday greetings go to **Dulcie Webb** and **Karen Huszarek** who celebrate special birthdays this month. **HAPPY BIRTHDAY** to the both of you.....**CONGRATULATIONS** go to the team at **Heartland Hyundai** who were named one of Hyundai's 14 Platinum Dealers for 2016.....and **CONGRATULATIONS** go to **Matt & Jess Kittle** on the birth of their son, James Peter.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without prior approval.