



Business Budgeting

or Where Are You Going in the Next 12 Months?

Federal budget time is a good time to schedule doing your own business' budget. While the Government's probably took months to prepare, most small businesses can get it done in under an hour. Really, it's not the onerous event most owners think and it can provide you with so much value as a benchmarking tool to measure your business' performance and manage expectations. We really don't know how any business manages without one. For us, it would be like starting out on a trek without a destination in mind. It isn't going to end well.

Now the key to speeding up the process is to realise that you don't need to do this exercise line by line. As far as the expenses are concerned, about 80% of the expense lines won't have changed much from last year except for a bit of CPI. We have seen some very complicated spreadsheets that would scare even the most seasoned of us but a similar result can be achieved with a simpler approach.

The key things to pay attention to are the big items; your sales forecast, your wages cost, cost of goods/sales (as applicable) and then any additional investment in growth, like marketing, staff, IT etc.

Once your March quarter accounts are complete, you have all the information you need to do your budget. To get started you can simply export your P & L into an Excel spreadsheet from your accounting software to have a ready-made and perfectly tailored structure to complete your budget.

How to calculate your budget

1. Factor up all operating expenses to the full twelve months (e.g. if using March YTD results, divide YTD total by 9, multiple by 12) then increase by the CPI percentage.
2. Consider if any lines have anomalies that won't carry into the new financial year and extract them from your total before you do this calculation.
3. Wages should be built up by individual staff member on a separate sheet within your budget spreadsheet. Consider any remuneration increases and add those by person. Calculate superannuation and payroll tax if applicable.
4. Cost of goods or services can normally be represented by an averaged percentage and a formula built to calculate this figure based on the sales.
5. Consider what new investments are you planning that will be additional for the new financial year e.g. new staff, vehicles, IT, increased marketing etc.



6. Don't spend a lot of time on working out the monthly split of costs. Just address those lines that have a distinct seasonality e.g. number of wage periods in a month if paid weekly, other expenses that only fall annually, quarterly etc.
7. Lastly, your sales forecast is going to need a separate worksheet and separate set of instructions. This will take most of your budgeting time and how you calculate this is very dependent on the type of business you are operating.

Here are a couple of approaches to generating a sales forecast, but first one thing not to do in sales forecasting: Don't forecast on last year's sales by simply adding a percentage increase. You will fall into one of two traps doing it this way. One is that you will underperform to your capacity or, two, you will not have the capacity to achieve the set sales target.

Options for forecasting sales

1. Calculate what capacity you have to produce revenue first (supply). Calculate what percentage of your capacity was utilised this past year. Then consider what is going to be different this year in demand for your services/product e.g. marketing, more sales staff, growing or declining market etc. From this you can determine your likely utilisation rate or requirement for increased capacity (new staff).
2. Calculate a trend of sales by doing a rolling twelve months' calculation. This will tell you if your sales trend is rising or falling. We have won several bets with clients on the sales outcome for a year by doing this calculation.
3. For some businesses it is possible to work up a base revenue, on a client by client basis, and then forecast both new clients and new business from existing clients.
4. Finally, always have your budgets input into your accounting package on a month by month basis and always review your P & L monthly against the budget.

Contact us if you need help on creating a budget for your business for this coming financial year.