



Budgets Matter to Business

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Business owners striving to make it through the tough economy need to know how cash flows in and out of their business. A good place to start is with a budget – a basic tool used to forecast when cash will be collected and when expenses must be paid.

Many owners of small and midsize businesses don't take the time to create a budget, or they neglect to update the one they have. In this slow economic recovery, every dollar is precious and it's more important than ever to know where money is going. Financial institutions also want to know; banks are beginning to require that borrowers include a budget with their loan requests.

Since a business budget is such a valuable tool, understanding how to create a good one is vital to obtaining successful results and improving a business's chance of survival.

A good business budget has six key components.

Current description of the business and its market. Describe the economic factors affecting the business and its cash flow. Information about how sales are recorded and collected (cash, credit card) and the estimated length of time between billing and collection should be included. The same details should address how bills are normally paid. Even if a budget was prepared several years ago, it needs to be updated. Business activities fluctuate and this section should reflect precisely what the business is doing right now.

Explanation of how the budget supports the company's mission, vision, values, goals and objectives. Budget items should tie into and support the company's overall goals. Items that don't correspond to goals should be questioned. If the company doesn't already have a mission statement, this is a good time to consider and compose one. This step ensures money isn't being spent in ways that don't help the business.

Line-items that describe and account for allocated funds. Typical examples include staff and payroll; real estate, including rents and utilities; equipment needs; and materials needed for production. Don't forget to adjust for costs that fluctuate, such as gasoline expenses. Costs should be split between fixed expenses – those such as rent that continue whether or not sales are made – and variable that change based on production or sales levels. Although it can be tedious to maintain a detailed budget for all company expenditures, the extra work provides essential information to manage cash flow. The budget can track expenses and guide spending decisions that will keep cash flow aligned with the business's goals.

Performance expectations. A budget is useful for analysis only if it is updated regularly to accurately reflect actual spending. Items that may have been under- or over-budgeted, and thus caused cash to deviate from projections, can be analyzed and controlled in the future.

Supporting appendices. These may include historical budgets and their corresponding results analyses. Other items to consider are summary documents broken down by departments, tables and graphs that depict market and cost trends, organizational charts, and a glossary of terms. Supporting documents should provide a record of why certain decisions were made and whether estimates were based on the prior year's expenditures or forecasts based on changing market conditions.

Executive summary. This section condenses all of the information in the budget and is a good way to obtain practical "takeaway" information. More important, the executive summary can make the budget more digestible to lenders and outside investors.

Accounting & Consulting Group, LLP is a full service public accounting firm with six offices throughout New Mexico and an affiliated firm in Lubbock, Texas. R.A. Bobbi Hayes, CPA is the firm's Albuquerque office Partner-in-Charge. For more information on cash flow and how to leverage it to optimize your business fiscal well-being, attend her Cash Flow class, being held September 23, 2011, at the Albuquerque office. For more information, contact Marla Gorena, MBA at mgorena@acgnm.com.

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