

Budgeting for Small Businesses



What is a Budget?

A budget is a projection of future incomes and expenses of a business for a specified period. It equips a business to better plan and measure its progress.

How to analyze a Budget Report?

Here is a snapshot of a simple budget analysis report from the in-built Budget Manager used in Xero accounting software.

Sales/revenue estimates for the specified period are compared with the actual figures.

Cost of Goods Sold (also called **variable cost or direct cost**) depends on the volume of sales. A variance here indicates the level of efficiency/inefficiency of the production process.

Gross Profit is the amount a business makes after deducting the costs of production. A loss here would mean that the primary activity of producing a product/providing a service is itself unprofitable.

Operating Expenses are the costs that a business incurs to run in its day-to-day operational/administrative activities. If an expense exceeds the budget, then it is a red flag for the business.

Net Profit is the overall profitability of running the business.
Total Income - Total Expenses (including depreciation, amortization and taxes)

	Actual	Budget	Var USD	Var %
Income				
Sales	20,905.58	20,000.00	905.58 ▲	4.5% ▲
Total Income	20,905.58	20,000.00	905.58	4.5%
Less Cost of Sales				
Purchases	3,547.34	5,000.00	(1,452.66) ▼	-29.1% ▼
Total Cost of Sales	3,547.34	5,000.00	(1,452.66)	-29.1%
Gross Profit	17,358.24	15,000.00	2,358.24	16.0%
Less Operating Expenses				
Advertising	9,657.05	10,000.00	(342.95) ▼	-3.4% ▼
Bank Fees	30.00	100.00	(70.00) ▼	-70.0% ▼
Cleaning	110.00	100.00	10.00 ▲	10.0% ▲
Consulting & Accounting	58.00	200.00	(142.00) ▼	-71.0% ▼
Entertainment	1,553.60	1,000.00	553.60 ▲	55.4% ▲
General Expenses	46.19	50.00	(3.81) ▼	-7.6% ▼
Light, Power, Heating	235.50	250.00	(14.50) ▼	-5.8% ▼
Motor Vehicle Expenses	274.36	300.00	(25.64) ▼	-8.5% ▼
Office Expenses	705.48	1,000.00	(294.52) ▼	-29.5% ▼
Printing & Stationery	94.41	100.00	(5.59) ▼	-5.6% ▼
Rent	3,273.66	3,270.00	3.66 ▲	0.1% ▲
Repairs and Maintenance	1,896.70	1,500.00	396.70 ▲	26.4% ▲
Telephone & Internet	84.75	100.00	(15.25) ▼	-15.3% ▼
Travel - National	32.24	500.00	(467.76) ▼	-93.6% ▼
Total Operating Expenses	18,051.94	18,470.00	(418.06)	-2.3%
Net Profit	(693.70)	(3,470.00)	2,776.30	80.0%

At the end of the period, the budget and actual figures are compared and analyzed.

The variance is the difference between the company's planned (budget) financial figures and the final (actual) financial figures.

The variance can be expressed in the form numbers and percentages.



How to create a personalized Budget?

Now that you know what a budget analysis report is and how to read it, let's see how to create one. Let's say you want to make a quarterly budget. Below are some key points to help you get started.

Select the **relevant period** for which the budget is to be created (Quarter ending March 2021 in this case)
You can also pull in data of some of the preceding months to use as a starting point.

Sales/Other Revenue estimates are entered here. These must be based on historical performance and projected future growth.

This is where you enter all the **production and distribution** costs for your goods. This would include cost of purchasing raw material, inventory, freight, wages of factory workers etc.

Gross Profit = Total Income – Cost of Goods Sold

Enter your **Operating Expenses** here. These are costs that you incur in the usual course of business apart from production costs. For example, advertising, salaries of office staff, office expenses, repairs and maintenance, utilities, travel, business meals, rent, property taxes and income taxes, etc.

Net Profit = Gross Profit – Total Expenses

A screenshot from Xero's Budget Management Tool

	Jan-21	Feb-21	Mar-21
Income			
Interest Income (270)	0	0	0
Other Revenue (260)	0	0	0
Sales (200)	0	0	0
Total Income	0	0	0
Less Cost of Sales			
Cost of Goods Sold (310)	0	0	0
Purchases (300)	0	0	0
Total Cost of Sales	0	0	0
Gross Profit	0	0	0
Less Operating Expenses			
Advertising (400)	0	0	0
Bank Fees (404)	0	0	0
Bank Revaluations (497)	0	0	0
Cleaning (408)	0	0	0
Consulting & Accounting (412)	0	0	0
Total Operating Expenses	0	0	0
Total Expenses	0	0	0
Net Profit	0	0	0

Note: While entering your budgeted figures (in the blue cells) you have the option to:

1. Enter **fixed amounts** each month, or
2. Enter **variable amounts** each month, or
3. Use a fixed **percentage** to adjust the amounts each month.

Apply Formula

- Apply fixed amount to each month:
- Adjust by amount each month:
- Adjust by percentage each month:

Apply

Cancel