

“Taking Care of Business”



Business Blueprint Education Series –Budgeting

Turnover is vanity, profit is sanity, cash flow is reality. Anonymous

If you are able to keep this statement (and the three key components) top of mind then **Taking Care of Business** is more likely to be achievable.

One of the key drivers of making a business successful is you need to **take care of it**.

Any business usually takes 3 years from the time the owners decide to crank it up, before some financial prosperity starts to kick in, assuming they have the right blueprint in place.

Growing is all about getting the business to a point where it **takes care of itself**, that is **profit with minimal effort**.

During the formative years it requires continual tweaking, testing the market, and learning from your mistakes before you really start to “Take Care of Business”.

So how do business owners get that edge where they are “Taking Care of Business”?

In this e-education series we delve into the 7 key components required to get your “Business Blueprint” right so that your business foundation is set and you can move towards doing just that.

The essential components that make up every Business Blueprint will be covered in a series of short, thought provoking educational articles so that you can understand what it takes to successfully Take Care of Your Business.





The series covers:

- **Budgeting**
- **Reporting**
- **Financing**
- **Business Dashboard**
- **Employee Dashboard**
- **Family Wealth Management & Protection**
- **Bookkeeping**

Budgeting

Does your business just tick along from one year to another without any formal growth plan?

YES

Do you set financial goals for the business every year?

NO

Do you break down the business into components so that each employee knows what they are striving for?

NO

Sounds to us like you have **NO BUDGET IN PLACE!!**

Why is having a budget in place essential to Taking Care of Business?

1. **Everyone needs goals** to strive for - unless they are agreed and communicated then you are just kidding yourself that growth will just happen.
2. **Every business** must have a time when the key decision makers “**put down the tools**”, review what has happened and then forecast what they would like to happen next year. The business owners then understand in greater detail what the business was capable of and what they want to strive for.
3. **Getting everyone involved** – make sure key team members are involved in the preparation of their business unit’s plan as this will lead to more ownership of it.
4. Breaking the budget into business units also allows **individual incentive schemes** to be structured so that those employees that help achieve the growth objectives, get rewarded accordingly.
5. **Success is about achieving your goals – having a blueprint or road map to getting there is a must.**

The key budgets that you must have are:

1. **Profit and loss**
2. **Cash Flow**
3. **Balance Sheet**

Let’s review each of these and their interaction with each other.



1. Profit and Loss Budget

What are the components that make this up?

Well put simply it's the difference between the sales you have made, the direct costs (cost of goods sold) that allowed you to make these sales, and then the other costs that are predominantly fixed that most businesses need to run. The left over amount is

NET PROFIT.

Using a standard template for each business unit will also ensure that consistency is achieved. Making sure that what should be included in each "bucket" is communicated to every business unit manager.

2. Cash Flow Budget

Net profit, as above, is often mistaken for what you should see in the bank. How far from reality is this???

Profit is what is left over and not what is left in the bank. It usually is over a longer period of time (typically monthly) whereas cash flow is a daily issue. That is, what has come in and what has gone out of the bank account. Two very different measures, that have very different time frames and impacts on your business.

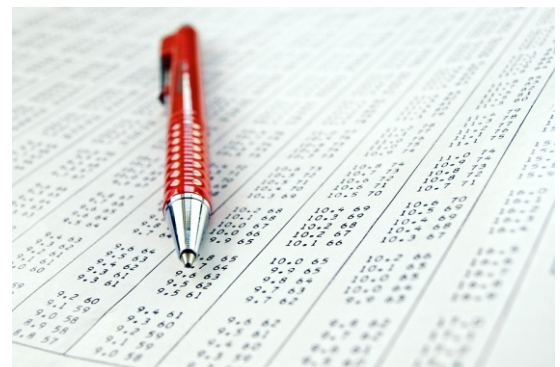
The only way to get some correlation between the two budgets would be to monitor profit and loss of a daily basis but to be realistic, this is very hard to do without averaging fixed costs on a daily basis.

3. The Balance Sheet

The Balance Sheet is a snap shot in time of what Net Assets the business has, that is if the business was to be sold or wound up at that time what would the net assets be worth. Positive Net Assets would mean after all liabilities (loans) are paid out and all assets sold, (assuming the asset values in the accounts are accurate), there is money left to be distributed to the shareholders / owners. Negative Net Assets is the opposite, meaning money is still owed to the bank, another lender, or the owners / shareholders, after all assets have been sold.

It is important to understand this basic principle and what links, from the previous two budgets, flow into the Balance Sheet budget. For a simple service business, the two main links are:

1. *Bank balance - a Current Asset*
2. *Net profit - part of Owners Equity*



These are very simplified explanations of essential budgets. We are able to assist you to determine the key drivers in your business that will help you get the best budgeting tools. We have many business clients across a very broad range of industries so consulting us will allow you to truly tap into industry expertise.

What to do next ?

Our job as your trusted adviser is to help you to;

1. **Minimise Taxation**
2. **Increase your Profits or Earnings**
3. **Reduce your Operating Costs or Expenses**
4. **Create Wealth**

And this is with regards to anything financial so that you can make informed decisions about “**Taking Care of Business**”, so if any of this article triggers more questions then ***click on the link in the email to book a meeting with one of our business experts.*** We look forward to helping your business grow and succeed so that you can enjoy creating wealth for you and your family.



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