

Budgeting essential for SMMEs

No business is too small for the discipline of hammering out a formal budget, which needs to be used daily in the management of a business. Many business owners mistakenly think their operation is too small for a formal budgeting process. The budget (of sorts) that they keep inside their heads is often more like a basic recipe and is usually inadequate to deal with the constant change that every business is subject to.

By [Gerrie van Biljon](#) 5 Mar 2014



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Proper and thorough budgeting is beneficial to a business as it clearly affects its long-term growth prospects. Business owners who compile and use formal budgets know well in advance when cash will run out and can plan for it. They can also plan properly for business expansion and their financial decisions are often based on carefully thought through data. In short, it gives them financial control over their businesses.

Annual exercise

A business owner must ideally budget at least once a year for the 12 months ahead but in order for the exercise to be in any way meaningful, the process must meet a few crucial requirements:

1. The business owner must be involved in setting up the budget. This exercise provokes thought (on the part of the business owner) and it assists in planning once he/she sees the detail. One shouldn't be leaving a budget up to a bookkeeper or accountant.
2. An annual budget that is drawn up only to be kept in the bottom drawer means nothing. The value of a budget comes to the fore only when a business owner constantly reviews it, consults it, adapts it and compares the forecast figures with the actual figures - at least once a month, in order to identify material variances.
3. A budget based on actual figures from previous cycles is a good platform to start with.

A budget for any business should include at least a sales forecast, a cash-flow forecast, and income and expenditure forecast, a capital expenditure forecast and a balance sheet forecast. Of these, the most important working document for any entrepreneur is the cash-flow forecast. Without this, a business is at a high risk of running out of cash at some point.

Many of the common mistakes that business owners make in budgeting has to do with the cash flow forecast. It is very important that the cash budget takes into account the realities of the business's debtor and creditor cycles. Business owners must take into account the cash lag from the date of having to pay suppliers to the date on which payments are received from customers. Often, they neglect to work taxes such as PAYE, VAT and provisional tax payments into their cash-flow forecasts.

Sales forecasting should be accurate

Another crucial part of budgeting is the sales forecast, which needs to be as accurate as possible. One of the greatest strengths of entrepreneurs - their optimism and can-do attitude - can also be a limitation if sales predictions are set too high. Realistic yet challenging sales forecasts should be set.

Despite its obvious benefits, budgeting is still often neglected by business owners, due to factors such as sudden spikes in sales and increased cash flow, or absolute focus on day-to-day operations. It is very easy to drop your guard and take your eye off finances and business owners need to guard against these bad habits.

Entrepreneurs should rope in support from an advisor or reputable accountant who could help with drawing up a budget. The mere step of making an appointment with an accountant helps to enforce the discipline of preparing for the meeting and taking a step back from the operations to reflect on the finances.

Business owners who struggle with budgeting often find that once they grasp the basic principles and become comfortable with using spreadsheets, compiling and reviewing budgets does not take much effort. It is not a complex, nor daunting exercise. All business owners need to do is seek proper advice and support and then dedicate time to draw up a budget.

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