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BUILDING A SIMPLE BUDGET

Plan your money a month and a year ahead, so you can see problems coming and decide where to spend.

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AT A GLANCE

- A **budget** is your plan for money in and money out over the next month or year.
- Build it from **real numbers**: last year's sales and your actual bills. Then adjust for what you expect to change.
- Compare the budget to what actually happened every month. The gaps tell you what to fix.

Why it matters

Without a budget, spending decisions happen one at a time, and it's hard to tell if you can afford a new hire, more inventory or a marketing push. A budget lets you decide ahead of time, spot slow months before they arrive, and show lenders and investors that you plan.

How it works

A small business budget has four parts:

1. **Expected sales**, month by month
2. **Direct costs**, which go up and down with sales
3. **Fixed costs**, like rent, insurance and software
4. **What's left**: profit, your own pay, and savings

Step by step

1. **Start with last year.** Pull monthly sales and costs from your profit and loss statement. If you're new, use your best estimates.
2. **Estimate sales for each month.** Think about seasons, new customers and price changes. Be careful, not hopeful.
3. **Calculate direct costs** as a percentage of sales, using your past margin.
4. **List fixed costs** from your bills and contracts.
5. **Plan your pay and savings.** Include your own pay and a monthly amount for taxes and a cash cushion.
6. **Check the result.** If costs are higher than sales in any month, decide now how you'll handle it.
7. **Review monthly.** Compare budget to actual and write down why they differ.

Example: Grace's meal-prep business, one month

Line	Budget	Actual	Difference
Sales	**$8,000**	**$7,400**	**−$600**
Ingredients and packaging (35% of sales)	$2,800	$2,700	$100 under
Gross profit	**$5,200**	**$4,700**	**−$500**
Kitchen rental	$900	$900	
Delivery driver	$1,000	$1,000	
Marketing	$400	$550	$150 over
Insurance, software, phone	$300	$300	
Total fixed costs	**$2,600**	**$2,750**	**$150 over**
Left before owner pay	**$2,600**	**$1,950**	**−$650**
Owner pay	$2,000	$1,500	
Tax savings	$400	$300	
Cushion savings	**$200**	**$150**	

EXAMPLE

Grace sees that sales came in $600 under budget, and marketing ran $150 over. Her ingredient costs stayed close to plan, at about 36.5% of sales, so her prices are holding up. She checks her marketing and finds a paid ad that brought no orders. She cuts it and moves that money to a referral discount for existing customers.

TIP

Give yourself a **"worst case"** version of the budget too, with sales 20% lower. If the business can survive that, you're on solid ground.

Common mistakes

- **Budgeting with hope.** Plan with realistic, even careful, sales numbers.
- **Forgetting yearly costs**, like insurance renewals, license fees or tax payments. Divide them by 12 and set money aside monthly.
- **Leaving out your own pay.** It's a real cost of running the business.
- **Making a budget and never looking at it again.** The monthly review is where the value is.

Your checklist

☐ Pull last year's monthly sales and costs

- ☐ Estimate sales for each of the next 12 months
- ☐ List every fixed cost, including yearly ones divided by 12
- ☐ Add owner pay, tax savings and cushion savings
- ☐ Build a "sales 20% lower" version
- ☐ Put a monthly budget review on your calendar

Key words, explained

Word	What it means
Budget	A plan for money in and out over a set period.
Budget vs. actual	Comparing what you planned with what happened.
Variance	The difference between budget and actual.

Where to go next

- **M-16 12-Month Cash Flow Forecast**
- **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**
- **M-12 Paying Yourself as a Founder**

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