

# **Budgeting the Key to Financial Control**

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In this article I would like to discuss the profitability of your business and the significance of Budgeting and the necessity for it in the financial control of your businesses.

Running a business without a budget is like sailing a ship without a rudder.

There are numerous reasons for developing and using budgets as a decision-making tool. However the most important aspect is to set your expectations for success. Your financial budget is what you expect to do, not a guess or unrealistic target, but what you really expect your business to achieve in profit over the forecast period (usually the next financial year).

In preparing your budget if the outcome is not to your liking with a forecast result that falls short of your expectations then you can implement strategies to change the respective inputs for the forecast period to achieve a different result. This can be done at the time of the budgeting process but cannot be done at the end of the financial period when you are looking at your actual profit results.

Your budget needs to be developed, but once this is done you are taking financial control and on the path to help improve the profitability of your business.

In developing your budget you need to review and assess every line item in your budget for both income (inputs) and expenditure (outputs) for the coming financial period for which the forecast is being prepared. You should have the forecast broken into monthly partitions and for each line item ask yourself how can I develop a better outcome on this line?

In the Management Rights Industry there are readily available industry benchmarks which you can use to measure your outcomes and whether you are realistic or otherwise. As a minimum you should be aiming to achieve those industry averages as your goal and be endeavouring to improve upon that outcome to achieve better than the industry averages for both income and expenditure.

By preparing a budget you must look to the medium to long term benefits the forecast will provide and identify the areas that need to be addressed to achieve those outcomes. You need to ask the right questions of yourself and your business and be prepared to make decisions that are put into action.

Budgeting is not a simple process and you should seek help from a suitably qualified and experienced professional in helping you prepare the budget for your business. Your accountant would be a good person to talk to in this regard.

You should have your budget for the subsequent financial year finalised by May of the current financial year.

Once your budget is set you can monitor your progress on a monthly basis by comparison of your actual result to the budget and investigate where there are variances. By adopting this practice you can be adjusting and correcting areas that may arise during the forecast period. This will help keep you on track to achieving the financial outcome that you are working towards.

A well constructed, committed and implemented budget is one of the best tools available to you to improve the profitability of your business.