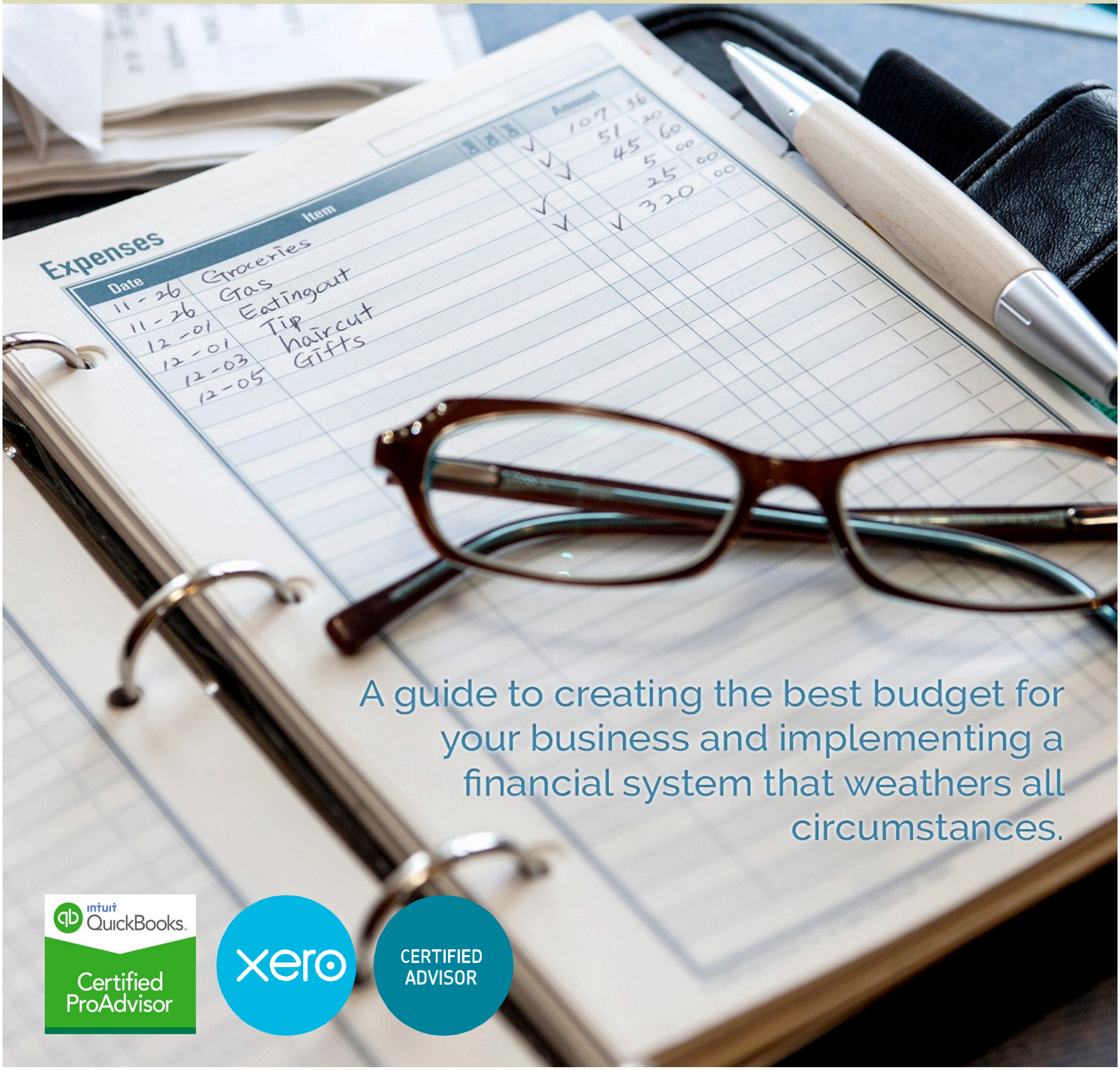
MSMADVISORS

GUIDE TO BETTER BUDGETING

STAY MODERN AND GO MOBILE



A guide to creating the best budget for your business and implementing a financial system that weathers all circumstances.

QuickBooks Certified ProAdvisor

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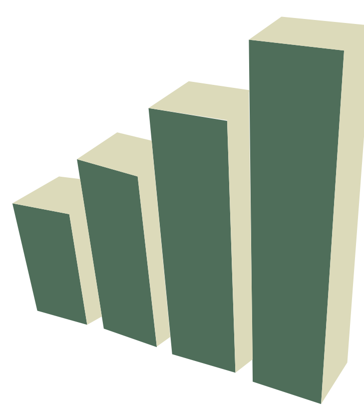
Why Budgeting is Important

The proverb “failing to plan is planning to fail” holds true in small business, especially when it comes to organizing a budget. While sitting down at the beginning of each month to plan your finances seems simple, many business owners neglect to put forth the time and effort that is required to effectively plan, implement, monitor, and adjust a working budget. Passively going with the (cash) flow can leave unsuspecting business owners in debt, apologetically asking investors for additional project funding while surrounded by an unhappy team of unpaid employees.

Avoid these headaches and position your business to operate more purposefully by using a budget.

An effective budget must consider past performance in order to adjust to future needs. The need for adjustment can be seen when business owners compare projected financials to actual unit and dollar amounts to measure the variance between expectations and reality. For example, let’s say your business spent significantly more than expected last month on raw materials. With a budget, you would be able to look at the variable cost section to determine that you must find cheaper materials or raise your selling price in order to compensate for increased cost. Without a budget, you may be unaware of changing variable costs.

Historical Budgeting data helps business owners to monitor performance qualitatively instead of relying on intuition or guesswork. A flexible budget shows you what resources are available to move around and gives you the power to react to unplanned current events affecting your business.

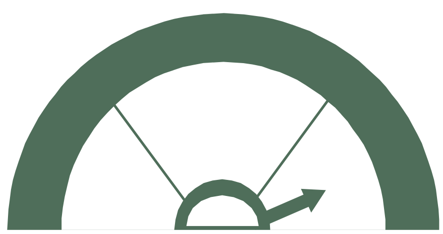


Staying current with financials allows you to benchmark achievement, or compare business processes and performance metrics with other similar companies in an industry. Looking at what competitors are doing right and what they could be doing differently allows businesses to learn the easy way and avoid competitors' missteps.

Company A, which primarily advertises in the newspaper, may realize that a competitor, Company B, is using an aggressive, successful social media ad campaign. Company A realizes they need to follow suit to stay competitive, and with the help of a detailed budget, they can decide exactly how many newspaper advertising dollars can be reallocated to social media advertising.

Without a budget, Company A may indiscriminately increase spending on social media without sufficiently reducing print advertising. This could lead to overspending that forces the owner to draw cash from savings or other areas of the businesses. Instinctively operating without a budget is like storing all of one's cash under a mattress and hoping that the day never comes when it runs out. ***Knowing where every dollar goes is the most accurate way for a company to stay current, competitive, and out of the red.***

By considering the past and understanding the present, your company can set measurable and attainable goals. An effective budget is the road map that directs your business to these goals, the gas tank that displays the amount of resources available to expend, the speedometer that measures speed of progress, and the windshield that protects owners from unexpected changes in the weather.

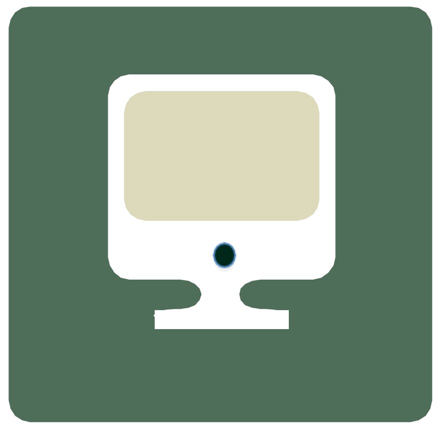


Implementing a Budget

Now that we understand the necessity for financial planning, we can begin to make steps toward implementing a working budget.

1. Collect all financial documents and record all sources of income

The first step in creating a budget is to collect all financial documents. The better you are at record-keeping, the more detailed and useful your budget will be. Once these statements are gathered, the financial planner should record all sources of income, which may include donations, income from sales and services, subscriptions, membership fees, special events, investments, or campaigns. It's not advised to count on year-end bonuses, tax refunds, or investment gains when projecting income as these are considered windfalls, or dollars that you can't be 100% sure that you'll receive.



2. Consider all costs

With a projected amount for income recorded, we can now consider the costs of doing business. Costs can be categorized into fixed, variable, and one-off capital costs. Fixed costs are the same every month and can easily be predicted by a budgeter. Some common fixed costs include rent, salaries, and utilities. Variable costs, on the other hand, are subject to change from month to month. The budgeter must speculate in order to project raw materials, overtime payment, and travel expenses, to name a few variable costs. Capital costs are usually bigger investments that are paid only once at the time of purchase like computer equipment, land, and office buildings.

There are some tricky or unexpected costs which, if forgotten, may skew a budget and lead to financial trouble down the road. Start-ups often underestimate the costs of moving into a new building, recruiting on a large scale, and preparing office spaces for business. Businesses may also fail to plan for the costs associated with establishing a professional reputation through marketing, seeking consultative help in research and development, training employees, and monitoring projects. Capital equipment repairs and replacements make up the largest portion of surprise business expenses. Without a budget plan, unforeseen emergencies like a broken machine may halt production completely. The use of popular accounting software such as Xero is recommended to reduce the inevitable confusion associated with tracking all of these costs.

- Treat last year's financial plan as a guide, but don't copy it year after year. Your budgeting goal should be updated frequently.
- If there is likely to be an increase in costs, you should balance this out by increasing what you charge in fees for services and sales of products.
- "Contingency line items" set aside for unexpected expenses are usually around 10% of the total budget.
- In your budget, it is helpful to include some brief notes. These should explain figures or line items that may puzzle a donor, board member, or any other member of your staff or management team.

3. Balance

With a complete summary of monthly cash flow, a business owner can subtract expenses from income to calculate the monthly bottom line. If this value is consistently positive, the business is operating within its means and can choose to invest in new capital, hire new employees, take on new projects, or contribute more to savings.

On the other hand, a negative bottom line tells the business owner that changes need to be made. While ideally, a business would prefer to offset a negative bottom line by increasing income, the business has more control in cutting operational expenses. Businesses can reduce utility costs by using energy-efficient light bulbs and turning off all electronics at the end of the workday. Travel costs can be cut by using phone calls and video chat instead of traveling for frequent face-to-face meetings. Leasing used equipment instead of owning new equipment is less expensive and allows businesses to more easily acquire newer capital when leases expire.

After several months of planning, monitoring, and adjusting a budget, you'll intuitively become better able to project monthly cash flow, allowing your business to make better decisions, cut expenses, and maximize profit.

Types of Budgets

While the basic steps are similar for creating all budgets, there are different types of budgets that may fit better with different types of businesses. Three main financial planning techniques are the top-down, bottom-up, and zero-based budgeting methods.

1. Top-Down Budgeting

Top-down budgets are created by top management and dispersed downward throughout the hierarchy of a company. Top-down budgets clearly articulate the overarching goals of an organization and help to keep all rowers of the proverbial ship paddling in the same direction. While big picture objectives are important, the finer details of such plans often get overlooked since the lower members of an organization are rarely asked for suggestions on budgeting decisions. However, lower members actually implement the budget on a daily basis and without their input, top tier management may be unaware of shifting circumstances or inefficient spending. Top-down budgeting is only effective if high level decision makers are acutely familiar with a business' operating costs.

2. Bottom-Up Budgeting

The opposite approach to top-down budgeting is fittingly called bottom-up. In this approach, individual employees project the costs of doing their own job and these estimations are added together to form the master budget. This approach improves company morale since employees feel empowered to make decisions that affect their job. However, since people generally expect to receive less funding than they request, employees tend to inflate their cost estimates which leads to inaccurate budgeting, wasteful spending, and even distrust between employees and management. Moreover, it is relatively easy to overlook project steps, which can further skew cost estimates. Despite the possibility of these blunders, bottom- up is considered to be the most accurate approach for estimating project costs due to employees' familiarity with their own roles and the costs associated. Bottom-up would best suit a company that has a large number of employees handling several projects at the same time.

3. Zero-Based Budgeting

This strategy is also called the "blank sheet of paper" approach because companies completely redesign their budget, starting at zero. While this strategy is the most time-consuming of the three, it does force managers to scrutinize all budgeting alternatives, justifying necessary expenses and doing away with any frivolous spending. Managers can set clear strategic goals for activities and resources each time a zero-based budget is created. The zero-based budgeting strategy is useful but the amount of time required to create one doesn't make it a viable monthly option. Instead, companies are advised to perform a zero-based budget every three to five years or when a major change occurs within a company. In between these changes, companies can use a traditional rolling budget, planning at least 12 months ahead and making small adjustments when necessary.

The three budgeting methods have one thing in common: an emphasis on both company-wide communication and a uniform understanding of business goals.

How Mobile Budgeting is Changing Business

Businesses have come a long way from keeping their financial records in filing cabinets and written ledgers. The incorporation of computers has allowed business owners to store more information and access it more quickly. However, these back office hard drives are now becoming antiquated as businesses switch to storing their data in the Cloud. According to Emergent Research, a group that tracks technology use by small firms, around 37% of small businesses are "fully adapted" to cloud-based applications and this number is expected to increase to 78% by 2020. Emergent also reports that 85% of small businesses are planning to increase their spending on software in the next five years. Specifically, cloud-based mobile accounting apps are among the most popular software purchases that are being made by small businesses.

Mobility has become a highly valued trait in technology. Even organizations that primarily operate in stationary buildings can benefit from the ability to do business on- the-go. With mobile accounting and budgeting software, brand representatives can track sales goals from the field, retailers can easily measure inventory in real time, managers can file receipts with the snap of a picture, and the list goes on. Mobile platforms allow businesspeople to answer questions more readily and confidently since their entire organization's financial information is a tap away. Instead of having to be in the office to make decisions, employees and managers can now make efficient use of their time while sitting in traffic, waiting in the airport, or relaxing on the couch. Storing data in the Cloud is not only more convenient than using an old hard drive -- it's safer.

Some people are skeptical about the seemingly imaginary and boundary-less Cloud since it can't be physically seen or touched. While this invisible database may seem easily hackable, the use of firewalls, storage encryption, and access control lists prevent unauthorized viewers from manipulating data. Furthermore, the upside of the Cloud lacking physical tangibility is the impossibility of physical damage being done to the records of a business. A flood or hardware malfunction could destroy all of a small business' data which would include client contact information, financial statements, sales statistics, email correspondence, promotional photographs and videos, and other documents that a business would typically want to protect. By storing data in the Cloud, your essential information is safe even if all of your computers were to be stolen orbroken.

On top of convenience and security, the sharing capability of the Cloud gives employees the ability to collaborate like never before. Mobile budgeting apps like Xero Touch allow multiple people to view and edit budgets at the same time, keeping managers and employees on the same page and saving time that was previously spent faxing, emailing, or hand-delivering important financial documents.

Of the many mobile accounting apps on the market, Xero was named the "Hi-Tech company of 2015" and is trusted by over 400,000 customers across the globe.

How Xero Simplifies Budgeting

Xero possesses an abundance of features that help accelerate your business's overall accounting productivity, but a few in particular will ease your mind when it comes to budgeting.

Invoicing

Xero's invoice feature makes it easier to keep your cash flow moving. Create official invoices that your customers can pay with the click of one button, ensuring that you get paid on time, and that your budget is on track/that you're following your budget.

Quotes

Create professional quotes in Xero, send them to your clients, and ensure that you receive payments on time with the ability to see the status of the invoice.

Mobile

Xero Touch brings Xero to your smartphone or tablet. Manage invoices and track expenses on the go with Xero's photo recognition feature.

Payroll

Employees like to get paid. Pay yours using direct deposit or a paper check with a single click. Also use Xero to make time sheets and keep up with your employees' checking in and out.

Financial Reports

Xero holds the basic reports you need for monthly or yearly reporting. Track these reports over time to compare past budgets with future ones to ensure that your business is on the path you want.

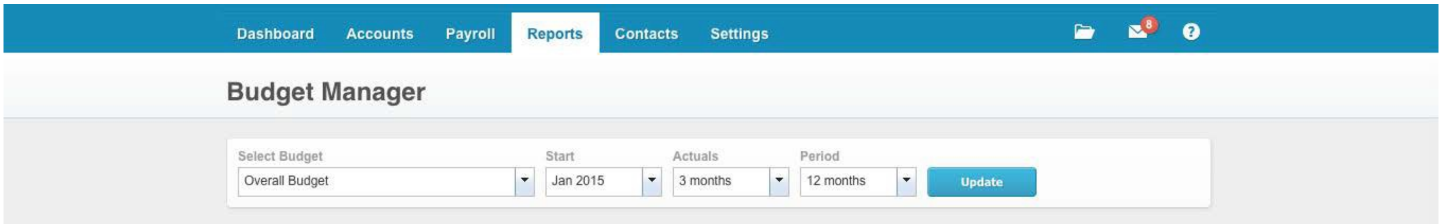
Compatibility With PayPal

With Xero, PayPal is available as a payment add on. It allows you to easily create invoices for customers. With the add on, you'll be able to transfer all your contacts and any transactions from PayPal directly into Xero. And any sales you make in PayPal can be used to create invoices in Xero. With PayPal Here you'll be able to receive payments on the go using your smartphone or tablet.

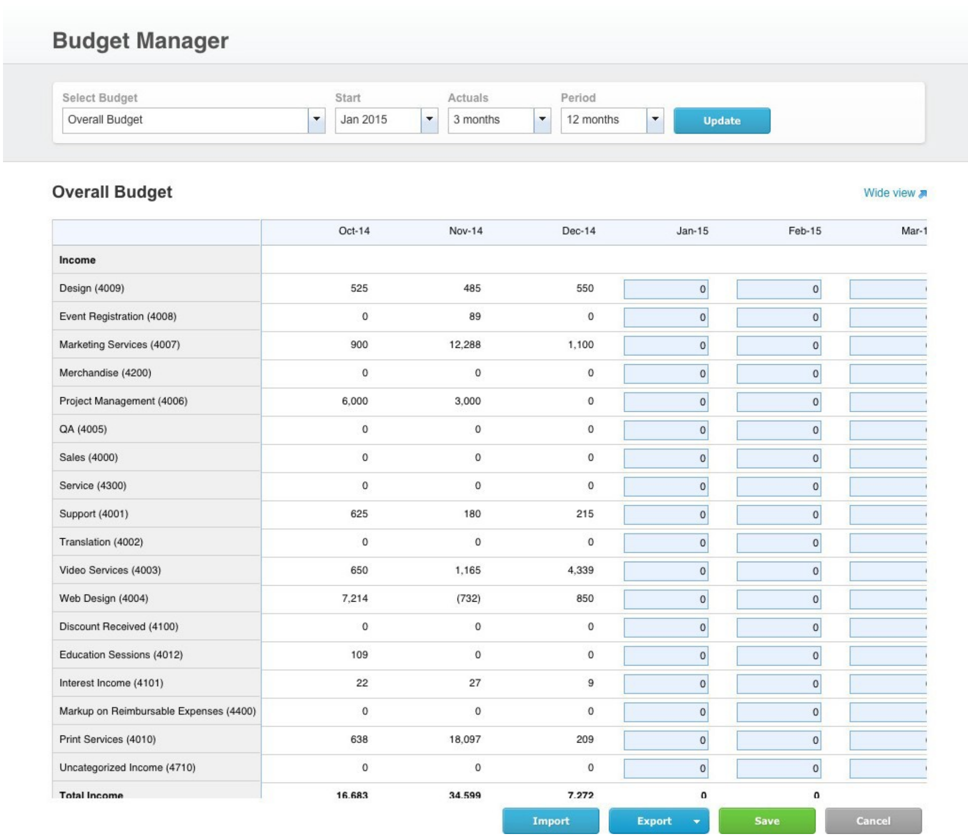
Steps To Creating a Budget in Xero

Cloud accounting can work wonders for your budgeting. An accounting system like Xero provides all of the tools necessary to create and implement your budget.

1. Select budget start date



2. In the 'Actuals' field, you can enter how many months you would like your budget to include from the past to be used for comparison with your present budget. Comparing the past with the present helps to measure progress on budgeting goals.

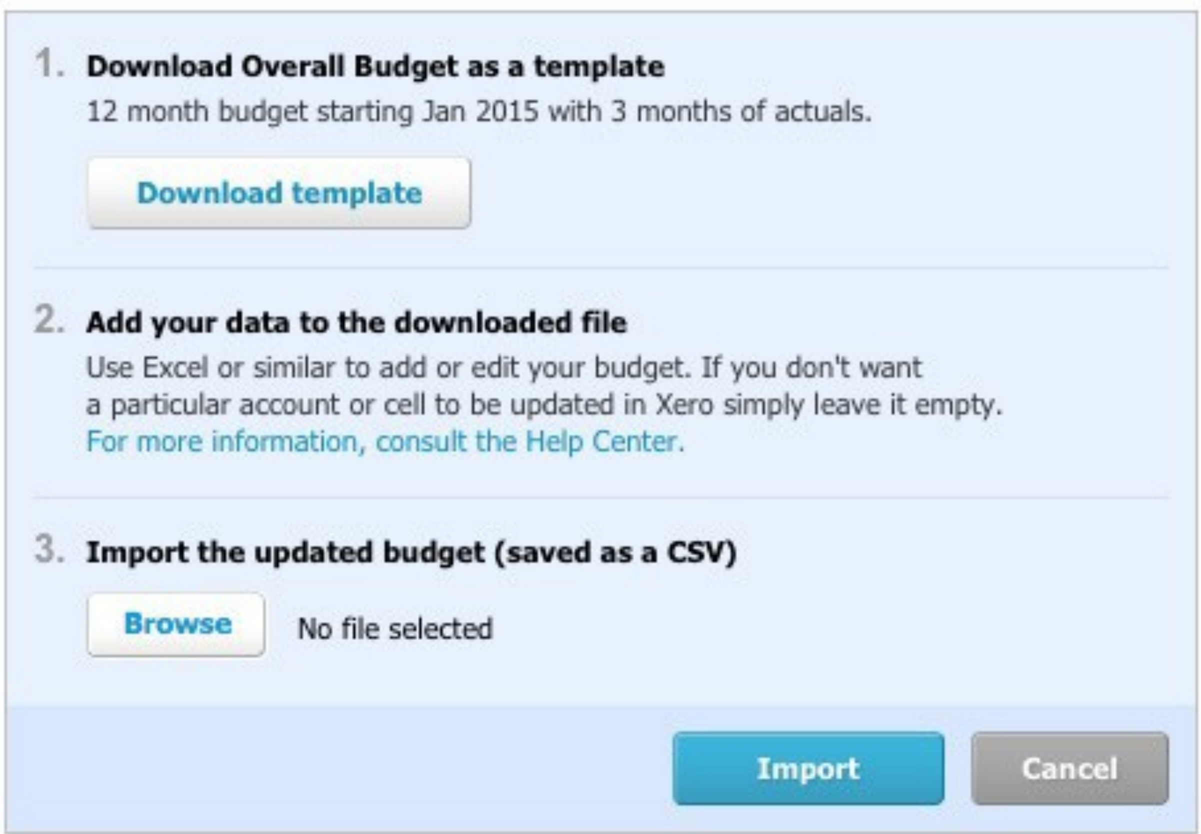


	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-1
Income						
Design (4009)	525	485	550	0	0	
Event Registration (4008)	0	89	0	0	0	
Marketing Services (4007)	900	12,288	1,100	0	0	
Merchandise (4200)	0	0	0	0	0	
Project Management (4006)	6,000	3,000	0	0	0	
QA (4005)	0	0	0	0	0	
Sales (4000)	0	0	0	0	0	
Service (4300)	0	0	0	0	0	
Support (4001)	625	180	215	0	0	
Translation (4002)	0	0	0	0	0	
Video Services (4003)	650	1,165	4,339	0	0	
Web Design (4004)	7,214	(732)	850	0	0	
Discount Received (4100)	0	0	0	0	0	
Education Sessions (4012)	109	0	0	0	0	
Interest Income (4101)	22	27	9	0	0	
Markup on Reimbursable Expenses (4400)	0	0	0	0	0	
Print Services (4010)	638	18,097	209	0	0	
Uncategorized Income (4710)	0	0	0	0	0	
Total Income	16,683	34,599	7,272	0	0	

3. In the'Period'field, you can determine how many months into the future your budgeting plan will extend.

4. Empty fields in the budget can be filled in manually or by using Xero's auto-import function.

5. To auto-import budgeting information from a separate data table, click 'Import' at the bottom of the Budget Manager screen then click 'Download template'.

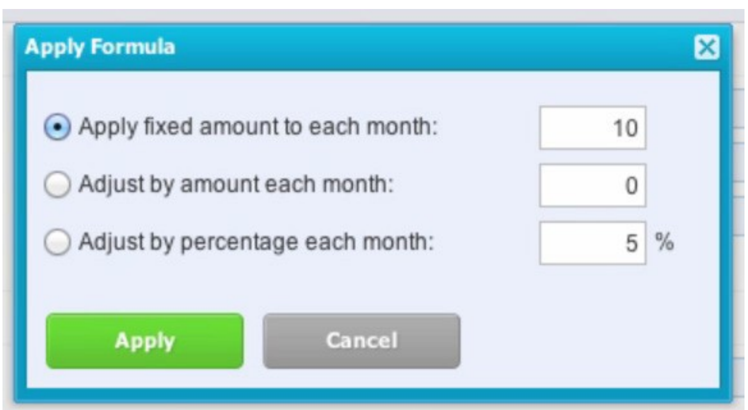


6. Some values change from period to period due to interest. Interest Income can be fixed monthly or be set to change by an incremental amount or percentage every month. Set this by clicking the green arrow next to each databox.

Overall Budget

Wide view

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-1
Income						
Interest Income (470)	10	11	12	13	14	1
Other Revenue (460)	0	0	0	0	0	
Sales (400)	15,000	20,000	30,000	30,000	30,000	40,00
Total Income	15,010	20,011	30,012	30,013	30,014	40,01
Less Cost of Sales						
Cost of Goods Sold (500)	0	0	0	0	0	
Total Cost of Sales	0	0	0	0	0	
Gross Profit	15,010	20,011	30,012	30,013	30,014	40,01



7. Once your budget is completed, you can create copies of it that can be shared with other bookkeepers that may want to edit parts of the budget. Be sure to click 'Save as Copy' if any changes are made to ensure that the original budget remains the same.


Staff Costs March '14 conference | Edit Wide view

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Advertising (600)	1,000	1,200	1,440	1,728	2,074	2,489
Automobile Expenses (648)	0	0	0	0	0	0
Bad Debts (690)	0	0	0	0	0	0
Bank Revaluations (810)	0	0	0	0	0	0
Bank Service Charges (604)	0	0	0	0	0	0
Consulting & Accounting (612)	0	0	0	0	0	0
Contractor costs (444)	5,000	5,000	5,000	5,000	5,000	5,000
Depreciation (700)	0	0	0	0	0	0