**Help Your Clients Set a Budget for the New Financial Year**

The start of the new financial year is a great time to implement a budget for your business and your clients if there isn't already one.

There are many benefits to budgets for businesses of all sizes. Most small businesses do not use budgets as a planning tool. Instead, they are often perceived as being only for large companies or too much work to be helpful.

Budgets are essential to proactive business planning and management for businesses of any size. For businesses that want to grow, they are a fundamental tool to assess performance and inspire action.

Some business owners may be interested in using budgets but are daunted by the task, not knowing enough about the process to get started. Can you help your clients create budgets for different scenarios to add value and meaning to the financial reporting?

When business owners get into the habit of reviewing budgets and financial reports, it motivates them to consider the bigger picture and long-term growth rather than concentrating on managing day-to-day issues. They tend to examine business metrics, ask questions, assess risks realistically, make better business decisions, and manage cash flow fluctuations.

**Benefits of Budgets**

* Forecast sales and expenses taking into account seasonal variations
* Evaluate business performance overall, in conjunction with specific departments
* Obtain useful detail in assessing income streams, direct costs and business expenses, including changes or observable patterns
* Gain awareness and control over all business financial activity – where the money goes and where it comes from
* Prepare for and cope with unexpected costs, for example, accidental damage to business assets
* Forecast cashflow
* Recognise potential problems early and take action
* Analyse relevant data to assist in business decisions
* Clarify targets and goals – focus on the most important

**Creating a Budget**

A basic budget will include known expenses and income and make adjustments for the consumer price index while allowing for planned growth or reduction of costs.

A more sophisticated budget may include allowances for leave entitlements, training and development, marketing campaigns, investment, asset purchases or finance.

Ideally, use your accounting software budgeting tool to automatically populate the budget with actual figures, and you can then manipulate the budget figures as needed. There are advanced budgeting programs that integrate with the accounting software if needed, but for most small businesses, the budget tools and reports within the software are enough to start with. Over time as the business owner sees the value of using a budget, they may wish to upgrade to more sophisticated tools.

It may be worth creating several budgets: worst case, best case and status quo. You can then run financial reports against all budgets to assess business performance.

A budget should be reviewed quarterly or at least annually for small businesses. Assess whether the assumptions and predictions you made about the figures are approximately correct or if significant adjustments need to be made in the budget for unexpected events.

Once you have an active budget, use it as an operational tool to assist business planning and decisions.

Can you offer budgeting to your clients as an advisory service if you don't already? Arranging a budget planning session is a chance to sit with the business owner and ask questions that may prompt reflection by the business owner and further assist their business success.

AAT Cashflow Conversations