

A photograph of two women in an office setting. They are looking at a laptop on a wooden desk. The woman on the left has her hair in a bun, and the woman on the right has long hair. There are cardboard boxes in the background and foreground. A printer is on the left side of the desk, and a payment terminal is on the right. The scene is lit with natural light from a window with blinds.

BUDGETING FOR SMALL BUSINESSES

DENNISON BOOKKEEPING SERVICES

Hey, I'm Chereé!

Most small businesses I work with aren't struggling because they aren't making money... they run into trouble because they don't know *where* their money is going next.

Your budget gives a place to every dollar that comes into your business. It helps you plan for big expenses, smooth out months with inconsistent income, and pay yourself with confidence!

We're done looking at your bank balance and guessing how much you can afford to spend. It's time to build a realistic, flexible (*no, I don't expect you to stick to it 100%*) budget you can actually use in your business.

Disclaimer: *This guide is for educational purposes only and does not constitute tax, legal, or financial advice.*





How To Start Building Your First Budget

The best place to start when you sit down to build a budget is last year's data.

Open up your bookkeeping software and generate your P&L from last year, grouped by month.

Each category on your P&L is going to be a category for your budget (*I've got a few extra categories for you to include, too; more on that later*).

Okay, Chereé, but what if I don't *have* a P&L?! Guess what, you can still make a budget! Instead, I want you to open up your bank statements from last year and start grouping your income and spending into different buckets (sales revenue, marketing, contract labor, etc.) to serve as your budget categories.

What we're shooting for with this budget isn't perfection, but we do need a budget based on the reality of your business. At this point, you're setting your baseline.

Once you've established your categories, we'll start adjusting for all the changes you expect to see in your business this year!

Building Your Budget:

Forecast Revenue

Use last year's monthly average revenue as your starting point, then adjust based on things you already know (*your pipeline, pricing changes, etc*). It's better to be conservative here! If your income is inconsistent, set a "floor" number you feel confident you can hit.

List Fixed Expenses

Write down any expenses that don't change on a monthly basis, like your rent, insurance, and subscriptions.

Estimate Variable Expenses

Look at last year's monthly averages for variable expenses, like your marketing, contractors, and supplies. Make an educated estimate on how much you'll spend for each category this year based on your expected level of business.

Add In Your Extras

There are a few things that don't necessarily show up on your P&L that I think are important to include in your budget. The first is saving for estimated taxes! You need a system in place to set aside a portion of your net income for taxes each month. You also need to be saving a cash buffer for your business. Having extra money in your reserves means you don't have to panic when an unexpected expense that you *didn't* budget for comes up.

Commonly Missed Budget Categories

- + Annual License Renewals
- + Annual Website Hosting Fees
- + Professional Services
- + Merchant Fees
- + Refunds/Chargebacks
- + Equipment Replacement
- + Estimated Taxes
- + Cash Reserves

Okay, but what about the \$\$\$ to pay myself?

The way your business is taxed is going to affect how you budget for your owner's pay.

If you're the owner-employee of an S corporation, you're paid through payroll and distributions. You definitely need to budget for your reasonable salary (and the associated payroll taxes)!

If you're a sole proprietor or a single-member LLC, you'll pay yourself through owner's draws.

We've already talked about how a portion of your profits needs to go towards taxes and cash reserves; now it's up to you to decide how much of your remaining profit goes towards your own pay. If you want a sustainable business, you *must* plan for how to pay yourself.

What's left over can go towards building your cash reserves or investing in a growth opportunity!



Systems for Small Businesses

Weekly

Review your cash balance, upcoming bills, and expected income over the next 7-10 days. You're looking to see whether you have the cash on hand to meet your obligations (bills + expenses) or if cash coming in will help cover those. Managing cash flow weekly helps you identify and address issues before they become a bigger problem.

Monthly

Run your profit & loss statement and compare your budget amounts to your actual spend. For any expenses where you spent much more than expected, make sure you have an explanation for the difference. Did this extra spending lead to an increase in revenue? Consider whether anything in your budget needs to be adjusted for changes in your business.

Annually

Benchmark your performance throughout the year against your goals. What worked and what didn't? What were your highest sources of revenue? What trends did you see in your expense categories? Flag any big one-time expenses to make sure you don't include them again. Then, use these insights to build an even better budget for next year!



How much belongs in my cash reserves?

In less technical terms, this is your business's emergency fund. Traditional advice is to have 3-6 months of operating expenses saved.

But especially when you're just starting your business, this number can feel totally out of reach. To start, set a goal of saving one month of operating expenses.

Using your budget, determine how much you expect to have left over as your profit. Set aside part of your profit (that's not allocated to taxes or paying yourself) in a high-yield savings account for emergencies.

Don't treat these funds like your normal business bank account. This account is designed to help buy you time in an emergency (*instead of rushing big decisions*).



My key budget takeaways for small businesses:

A good budget doesn't have to be perfect! It's a living, breathing document that you shouldn't be scared to change throughout the year as your business changes.

A great budget will fund these four things:

- Your operations
- Your estimated taxes
- Your owner's pay
- Your cash reserves

You don't have to predict everything perfectly, but if you're accounting for all four of those things, you're going to make the ups + downs of being a business owner feel a lot less stressful!

Knowing where your money is going is one of the most powerful tools you use to grow your business.



LET'S CONNECT!

I'm passionate about helping small business owners understand their numbers through monthly bookkeeping, increase profits and streamline business processes, and lower their tax liabilities.

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