

3 Reasons Why You Need A Budget

Written by Vinil Ramdev

Thursday, 03 November 2011 14:03 - Last Updated Thursday, 03 November 2011 14:14



A budget is one of the basic tools for good money management. I see so many first time entrepreneurs and sometimes even experienced entrepreneurs who don't have a budget. Then, one day they wake up and they realize they've run out of money. This is even more important for a start-up because a budget establishes good financial control for a start-up and during the early years of a start-up, money needs to be invested wisely.

I've listed 3 reasons why you need a budget and how it could save your financial life.

Reason #1 To estimate future money needs

If you don't know how much money you will be spending in the coming month then how could you tell whether you will have any money left in your bank account at the end of the month?

If you estimate that you will be spending Rs 50,000 the coming month and you have a bank balance of only Rs 10,000 then your budget is going to tell you that you are going to be short of Rs 40,000 by the end of the month.

Knowing this you may want to cut down your expenditures or sell some old stuff that you don't use to raise the money needed for your estimated expenditures.

Reason #2 To check for leaks in your financial system

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When you create a budget, it gives you a complete blue print of all the expenditures you expect to incur in the future. This gives you a clear picture of all the expenses that are a good return on investment. In your startup years, it is always crucial to cut down on expenditures that are not a good return on investment. Stick to the basics and once you become profitable, you can luxuriate.

Reason #3 Maintain good financial control

Without a budget, it is very easy to lose control over your finances and overspend. Having a budget creates good financial control. Imagine, if you got excited about a particular product or marketing campaign and ended up spending more than you have, this would create additional pressure on your start-up during its early years that may set you back by a few years. So, creating a budget helps you maintain solid financial control over your start-up.

How to create a budget?

Now that you are convinced that you need a budget. Let's identify a process to create an effective budget. Creating a budget is very simple and it should not take you more than 15 minutes. A budget can be weekly, monthly or annual. But what has worked best for me is a monthly budget rather than a weekly budget.

Step 1: Make a list of all the expected cash outflows for the month.

Hint: Usually, most cash outflows are similar to your previous month. So, look at your previous month's cash outflows for what your future expenses might look like.

Step 2: It is a good idea to segregate your budget into categories and sub-categories. It may also be helpful to segregate your budget into regular expenses and irregular expenses.

Step 3: Add up the line items on your budget and your budget is done.

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Find below a budget template you can use for your business.

Monthly Budget: August 2011

Rs

Sales and Marketing Expenses

Sales and Marketing Payroll

0

Marketing program expenses

349,992

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Other Sales and Marketing Expenses

0

Total Sales and Marketing Expenses

349,992

General and Administrative Expenses

General and Administrative Payroll

1,160,000

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Rent

780,000

Printing & Stationary

30,000

Postage

6,000

Payroll Taxes

12,000

Office expenses

6,000

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Outlet maintenance

27,600

Owners association fees

54,000

Telephone

108,000

Electricity

132,000

Professional fees

180,000

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Legal fees

84,000

Travel & conveyance

7,200

Bank charges

91,992

Staff welfare

30,000

Total General and Administrative Expenses

2,708,792

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Other Expenses:

Other Payroll

153,000

Consultants

12,000

Other Expenses

0

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Total Other Expenses

165,000

Total Operating Expenses

3,223,784