

Why Budgeting and Cashflow are important for your Business



Agenda

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Introduction - Why Budgeting Matters

As a sole proprietor, you are your business. Understanding where your money comes from and where it goes isn't just good practice—it's essential for survival. Budgeting and cashflow planning are the foundation of financial health, helping you make informed decisions, avoid cash crunches, and plan for the future.



- **What is a budget?** A plan that estimates your income and expenses over a specific period (monthly, quarterly, annually)
- **What is cashflow?** The movement of money in and out of your business—the actual timing of when cash arrives and when it leaves
- **Key difference:** A budget shows what you plan to earn and spend; cashflow shows when money actually moves
- **Why they matter:** You can be profitable on paper but run out of cash if timing doesn't align



Practical Tips:

- ✓ Start simple with a spreadsheet tracking income and expenses
- ✓ Review your bank statements from the past 3 months to understand your current patterns
- ✓ Set aside 30 minutes weekly to update your numbers



Key Takeaways:

1. Budgets plan what should happen; cashflow tracks what actually happens
2. Both are essential tools, not optional extras
3. You can't manage what you don't measure
4. Weekly check-ins prevent monthly surprises

Budgets - Your First Basic Budget

Budget / Profit and Loss Statement	Income	Expense
Revenue	£ 1,000.00	
Cost of Goods Sold		£ 465.00
Materials		£ 350.00
Direct Labour		£ 100.00
Raw Materials Transport		£ 15.00
Gross Margin		£ 535.00
Gross Margin (%)		54%
Operating Expenses		£ 465.00
Marketing		£ 45.00
Office Rent		£ 120.00
Shipping Costs		£ 50.00
Salaries		£ 250.00
Operating Profit		£ 70.00
Operating Profit (%)		7%
Taxes		£ 32.00
Net Profit		£ 38.00
Net Profit (%)		4%

Total of all income from sale of Product or Services
 Total direct costs to produce each Product or Service

Revenue minus Cost of Goods Sold
 Cost of Goods Sold divided by Revenue x 100

Total of all other expenses to run the business

Staff and proxy for your time

Gross Margin minus Operating Expenses
 Operating Profit divided by Revenue x 100

Operating Profit minus Taxes
 Net Profit divided by Revenue x 100

Budget / Profit and Loss Statement	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Revenue	£ 1,000.00	£ 1,100.00	£ 1,210.00	£ 1,331.00	£ 1,464.10	£ 1,610.51	£ 1,771.56	£ 1,948.72	£ 2,143.59	£ 2,357.95	£ 2,593.74	£ 2,853.12
Cost of Goods Sold	£ 465.00	£ 511.50	£ 562.65	£ 618.92	£ 680.81	£ 748.89	£ 823.78	£ 906.15	£ 996.77	£ 1,096.45	£ 1,206.09	£ 1,326.70
Materials	£ 350.00	£ 385.00	£ 423.50	£ 465.85	£ 512.44	£ 563.68	£ 620.05	£ 682.05	£ 750.26	£ 825.28	£ 907.81	£ 996.59
Direct Labour	£ 100.00	£ 110.00	£ 121.00	£ 133.10	£ 146.41	£ 161.05	£ 177.16	£ 194.87	£ 214.36	£ 235.79	£ 259.37	£ 285.31
Raw Materials Transport	£ 15.00	£ 16.50	£ 18.15	£ 19.97	£ 21.96	£ 24.16	£ 26.57	£ 29.23	£ 32.15	£ 35.37	£ 38.91	£ 42.80
Gross Margin	£ 535.00	£ 588.50	£ 647.35	£ 712.09	£ 783.29	£ 861.62	£ 947.79	£ 1,042.56	£ 1,146.82	£ 1,261.50	£ 1,387.65	£ 1,526.42
Gross Margin (%)	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%	54%
Operating Expenses	£ 465.00	£ 470.00	£ 475.50	£ 481.55	£ 488.21	£ 495.53	£ 503.58	£ 512.44	£ 522.18	£ 532.90	£ 544.69	£ 557.66
Marketing	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00	£ 45.00
Office Rent	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00	£ 120.00
Shipping Costs	£ 50.00	£ 55.00	£ 60.50	£ 66.55	£ 73.21	£ 80.53	£ 88.58	£ 97.44	£ 107.19	£ 117.90	£ 129.69	£ 142.66
Salaries	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00	£ 250.00
Operating Profit	£ 70.00	£ 118.50	£ 171.85	£ 230.54	£ 295.09	£ 366.10	£ 444.21	£ 530.13	£ 624.64	£ 728.60	£ 842.97	£ 968.76
Operating Profit (%)	7%	11%	14%	17%	20%	23%	25%	27%	29%	31%	33%	34%
Taxes	£ 32.00	£ 33.00	£ 34.00	£ 35.00	£ 36.00	£ 37.00	£ 38.00	£ 39.00	£ 40.00	£ 41.00	£ 42.00	£ 43.00
Net Profit	£ 38.00	£ 85.50	£ 137.85	£ 195.54	£ 259.09	£ 329.10	£ 406.21	£ 491.13	£ 584.64	£ 687.60	£ 800.97	£ 925.76
Net Profit (%)	4%	8%	11%	15%	18%	20%	23%	25%	27%	29%	31%	32%

Over 12 months you can start to plan effectively



Now you can start to manage costs

Key Takeaways:

1. Separate fixed from variable expenses for better planning
2. Your personal draw is a business expense, not profit
3. Account for irregular and seasonal variations
4. A simple budget is better than no budget—start basic and refine

Cashflow – Understanding the Basics

Cashflow is the lifeblood of your business. You might have £10,000 in sales this month, but if customers pay in 30 days and your expenses are due now, you have a cashflow problem. Understanding timing is everything.



- **Cash inflow:** When money actually hits your bank account (not when you invoice)
- **Cash outflow:** When money actually leaves your account (not when you receive a bill)
- **The timing gap:** The dangerous period between paying expenses and receiving payment
- **Positive cashflow:** More money coming in than going out in a period
- **Negative cashflow:** More money going out than coming in (danger zone!)



Practical Tips:

- ✓ Track when invoices are actually paid, not when they're sent
- ✓ Know your average payment terms (do clients pay in 7, 30, or 60 days?)
- ✓ Schedule your bills strategically around when cash typically arrives
- ✓ Keep a rolling 30-day view of expected inflows and outflows

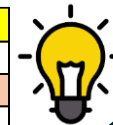


Key Takeaways:

1. Revenue \neq cash in the bank until payment clears
2. Timing gaps can kill a profitable business
3. Track actual payment dates, not invoice dates
4. Always know your cash position for the next 30 days

Cashflow - Creating a Basic Cashflow Forecast

Weekly Cashflow	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Opening Bank Balance	£ 1,500.00							
Cash Received								
Customer 1 Expected Payment		£ 250.00						
Customer 2 Expected Payment				£ 350.00				
Customer 3 Expected Payment					£ 150.00			
Cash Paid Out								
Raw Materials Invoice Payment				£ 350.00				
Shipping Costs	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50
Rent				£ 120.00				£ 120.00
Facebook Marketing		£ 22.50		£ 22.50		£ 22.50		£ 22.50
Total Cash Received	£ 1,500.00	£ 250.00	£ -	£ 350.00	£ 150.00	£ -	£ -	£ -
Total Cash Paid Out	£ 12.50	£ 35.00	£ 12.50	£ 505.00	£ 12.50	£ 35.00	£ 12.50	£ 155.00
Remaining Cash	£ 1,487.50	£ 1,702.50	£ 1,690.00	£ 1,535.00	£ 1,672.50	£ 1,637.50	£ 1,625.00	£ 1,470.00



Your running balance is cash received minus cash paid out plus balance from previous week

- **Start with your opening balance:** How much cash do you have today?
- **Add expected inflows:** What payments are coming and when?
- **Subtract expected outflows:** What bills are due and when?
- **Calculate running balance:** Your projected cash position day by day or week by week
- **Identifying danger points:** When does your balance dip too low?

- Forecast at least 4 weeks ahead, update weekly
- Be pessimistic about income timing, realistic about expenses
- Identify low points before they happen
- Your safety minimum should cover at least 2 weeks of expense

Cashflow - Creating a Basic Cashflow Forecast

Weekly Cashflow	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Opening Bank Balance	£ 250.00							
Cash Received								
Customer 1 Expected Payment			£ 250.00					
Customer 2 Expected Payment							£ 350.00	
Customer 3 Expected Payment								£ 250.00
Cash Paid Out								
Raw Materials Invoice Payment		£ 350.00						
Shipping Costs	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50	£ 12.50
Rent				£ 120.00				£ 120.00
Facebook Marketing		£ 22.50		£ 22.50		£ 22.50		£ 22.50
Total Cash Received	£ 250.00	£ -	£ 250.00	£ -	£ -	£ -	£ 350.00	£ 250.00
Total Cash Paid Out	£ 12.50	£ 385.00	£ 12.50	£ 155.00	£ 12.50	£ 35.00	£ 12.50	£ 155.00
Remaining Cash	£ 237.50	-£ 147.50	£ 90.00	-£ 65.00	-£ 77.50	-£ 112.50	£ 225.00	£ 320.00

This business has a cashflow problem! Let's discuss why and what steps we can take to fix it?

Summary - Budgeting and Cashflow Essentials

What You've Learned:

- Budgets plan your financial future; cashflow tracks your actual money movement
- Building a basic budget requires categorizing income and expenses clearly
- Cashflow timing matters more than revenue alone
- A simple 4-week cashflow forecast prevents cash emergencies

Action for You:

1. Set up a basic budget template with your income and expense categories
2. Review the last 3 months of bank statements to establish baselines
3. Create a simple 4-week cashflow forecast
4. Schedule a recurring weekly calendar reminder for financial review

Things to Know and Remember:

- **Separate business and personal finances completely** - open a business bank account if you haven't already
- **Revenue \neq cash** - until money hits your account, it doesn't exist for cashflow purposes
- **Your personal draw is an expense** - factor it into your budget as a fixed cost
- **Weekly reviews build the habit** - spend 30 minutes every Friday updating your numbers
- **Plan for taxes** - set aside a proportion of profit regularly to avoid year-end shocks
- **Keep a cash buffer** - aim for at least one month of expenses in reserve
- **Conservative estimates win** - underestimate income, overestimate expenses
- **Track everything** - even small expenses add up and distort your picture if ignored





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