

## Common Small Business Budgeting Mistakes

**Q:** What are the most common mistakes business owners make when budgeting?

**A:** First, and foremost, remember that sensible outperforms flashy in the long run every time. Budgeting needs to be done to support the business plan. Tie the expenditures to business goals. The first step in budgeting is to develop a three-year business plan for the business. If you don't have a business plan, there's very little value in going through a budgeting exercise.

1. **No Budgeting.** The biggest budgeting mistake for small businesses is not to do it at all. Bills are coming in, checks are coming - and there's a chronic mode of juggling one against the other with no sense of overall profitability or predictability of the future.
2. **Overstating projections.** Realistic budgets and projections may lengthen your search for funding, but when the money does arrive, it will be honest money, and you should then have a profitable plan to follow for several years to come.
3. **Ignoring your immediate budgetary needs.** If your plan shows that you need \$50,000 to take a product to market, don't ask for only \$30,000.
4. **Assuming that the existence of revenue is indicative of being cash-flow positive.** Many small businesses budget for projected expenses but don't tie that expense budget into their revenue projections. If you only focus on expenses and ignore revenues, you can't project future cash flows. That's a disaster waiting to happen. You can be following your budget to the tee and suddenly find you've got no money in the bank to pay your bills.
5. **Forgetting about Uncle Sam.** End-of-the-day balances can often appear larger than they really are. Sales tax on revenues and employee withholdings may sit in your account temporarily but will ultimately be owed to the government. Your balance sheets should not count these finances as holdings, otherwise you run the risk of budgeting for future projects and costs that you will not be able to afford.

Formulating a vision is the hard part. Crunching the numbers is far more simple, yet it is where many dreams are shattered. Entrepreneurs who treat their budgets with the same meticulous care as their other components are the ones who survive.