

Creating a Monthly Budget

Developing a realistic budget is critical to launching a successful business because it helps you 1) visualize how much money you will need and 2) see whether the business will make any money. At minimum, you will need to create a budget on a monthly basis for at least one year.

Many prospective business owners tell us that developing the projected budget is one of the most challenging aspects of planning for a new business, so we have outlined the steps to help you.

Step 1: Determine Sales and Cost of Sales

Projecting monthly sales can be difficult. One useful method is to consider the average price and cost per unit and estimate the number of units sold per month. The process is as follows:

- Determine the **categories** of products/services. (For example, a restaurant might have dine-in orders, take-out orders, and catering orders.)
- Estimate the average dollar value of **each sale** per category. (In the above restaurant example, the average dollar value/ticket price of a dine-in order is \$25.)
- Estimate the average **cost per unit** of each category. These costs should not include operating expenses like rent or insurance. Instead, they should show the direct costs of the items sold (i.e. food costs for a restaurant).

| <i>EXAMPLE</i> | Avg. Price per Unit | Cost of Sales per Unit |
|------------------------------------|----------------------------|-------------------------------|
| Category 1: Dine-in Orders | \$25 | \$8 |
| Category 2: Take-out Orders | \$35 | \$12 |
| Category 3: Catering Orders | \$300 | \$130 |

To determine projected monthly sales, estimate the number sold (of each category) on a monthly basis, and multiply that number by the average price per unit. Similarly, to determine cost of sales, multiply the number sold per month by the average cost per unit.

For example, if the owner of the above restaurant expects two catering orders in the first month, the sales and costs would be calculated as follows:

$$2 \text{ orders} \times \$300 = \$600 \text{ in Sales}$$

$$2 \text{ orders} \times \$130 = \$260 \text{ in Cost of Sales}$$

Step 2: Determine Ongoing Monthly Expenses

Just like your household, your business will have ongoing expenses. Some expenses will be paid on a monthly basis, while others may be paid quarterly or annually. When projecting expenses, be as accurate as possible. This means that you will have to call or go online to get prices and estimates. Begin by making a list of anticipated expenses, such as rent, utilities, and insurance. Then use your list to start gathering price quotes.

Step 3: Compile the Monthly Budget

Once you have the building blocks of your budget, you can compile your projected monthly income statement. ASBTDC can provide you with a spreadsheet or worksheet to use, if needed.