



# 3 simple steps to creating a cash budget.

Taking time out to create a cash budget is time well spent and, in our view, it's best to track your cash flow and budget on a monthly basis. It will help you plan ahead and take advantage of opportunities. Best of all, it's really not complicated... even if maths isn't your strong suit. Just follow the steps below.

## Step 1.

### Know your cash flow?

Cash flow tracks all of the cash inflows (receipts) and outflows (payments) pumping through your business.

#### In:

This is the grand total of your customer sales, other business income and receipts.

- › Cash sales: Customer purchases where payment is made at time of sale, including credit card purchases.
- › Accounts receivable (debtors): Payments received from invoices.
- › Other business receipts, including:
  - Interest
  - Subsidies
  - Grants

#### Out

This is the total sum of all costs incurred in running your business and payments, such as:

- › Accounts payable (Creditors): Payments to suppliers/creditors.
- › Long-term debt payments: Interest and principal payments, for example.
- › General expenses: Rent, electricity, office supplies, advertising, accounting fees and maintenance.
- › Other expenses: Mostly less-frequent costs such as tax, GST, PAYG, super and insurance.
- › Employee wages and salaries.

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## Step 2.

### Create your cash budget.

Review your cash position at least once a month, and make sure you schedule in time to do this so it doesn't get forgotten. This should ensure you always have an up-to-date sense of your cash flow situation.

1. Determine your starting amount (i.e. how much is already in your bank account).
2. Add income and receipts (incl. GST) you expect to receive that month.  
This will clarify the total cash available for the month's expenses and payments.
3. Repeat for expected expenses and payments (incl. GST), including any infrequent expenses such as tax or insurance.

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## Step 3.

### Calculate your cash position.

Once you know your cash inflows and outflows, you should be able to work out your cash position.  
Ending cash position = Total cash in - Total cash out.

Things you may wish to consider based on the outcome of your cash position:

- › Positive: You may have capacity to spend, save or invest in the business.
- › Neutral: There should be enough cash to fund the business, but your saving and investing options are limited.
- › Negative: You may need to find alternative cash sources to keep the business running, e.g. self-funding, investor equity.

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### Cash is king.

There's no denying that businesses need cash to thrive. Sitting down regularly to produce an up-to-date cash budget should help avoid any nasty surprises and keep you in control of your finances.

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