

THE BASICS OF BUDGETING FOR YOUR BUSINESS AND YOUR LIFE

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Budgeting is crazy important both for your small business and for your personal finances, still, a lot of people don't know how to do it. In this PDF we will going over the basics of how to create a budget for your small business and your personal life. Although the things we talk about in this guide are simple, they really work. You should use this guide to create a budget and a system that is unique for you and your needs, and then commit to stick to it! Before we get into the nitty gritty, here are a few things to think about:

A NUMBER CAN'T TELL YOU ANYTHING

Just knowing how much money is in your checking account doesn't tell you anything about what that money should be doing. For example, you can open your checking account and see that you have \$1,000 (or whatever amount you want) and you can think to yourself "gee, I've got plenty of money to get this new thing that I want." In theory, \$1,000 might seem like plenty of money to get whatever thing you want to buy at the moment, but what you don't realize is that \$500 of that money should be going to rent, \$100 of that should be going to your phone bill, \$50 should be paying for your Internet, \$50 is going towards your car insurance, and your car is almost out of gas which means you'll be paying another \$30-\$60 in the next day or two. Looking at your account, it seems like you have \$1000 to do whatever you want with, but in reality you've only got about \$250. That's not even considering money you need for food, or other expenses that are part of your life. This is why sectioning out your budget is so important. Sectioning out your budget gives you a clear idea of how much money you have, where that money is, and how you can spend it.

YOU ARE NOT YOUR BUSINESS

If you own a small business (no matter how small) you should have a septate bank account for your business. If you worked as a cashier at Target and you wanted to buy something for yourself, you couldn't just reach into the cash register at work and take whatever you wanted to buy things for yourself. It's the same with your business. You are the boss, but you are also your own employee, and as an employee, you shouldn't use the business' money for your own personal wants or needs.

It's important to keep your bank accounts septate and to pay yourself a wage from your business. I pay myself every two weeks just like a regular pay check. Once you pay yourself, then that money is yours and you can do what you want with it. At the same time, you don't need to be using your personal money for business expenses. If you are doing things right, you should have money in your business account to cover business expenses.

HAVING A BUDGET WON'T DO YOU A DARN BIT OF GOOD UNLESS YOU STICK TO IT

Taking the first step to make a budget is super important, but it won't do you any good unless you commit to stick to it. If you've budgeted \$100 for groceries then that's what you get. Period. And if buying ice cream sandwiches is going to put you over budget then you **JUST DON'T BUY ICE CREAM SANDWICHES**. Sticking to a budget takes a certain amount of self-control, but it also teaches you that you are stronger than you think. Stick to your budget and you will be more in control of your money and your life.

BUDGETING FOR YOUR SMALL BUSINESS

TAXES

The very first thing you should do when you get paid for a project is transfer 25% of the money to your business savings account for taxes. 25% should be plenty to cover both federal and state taxes after you deduct your business write-offs. It's better to have a little bit too much for taxes in your savings account than not to have enough. By transferring that 25% to your savings as soon as you get it, you're able to forget about it and you'll be less tempted to spend it. Then when the time comes to pay taxes (either quarterly or annually,) the money is there waiting for you ready to go.

If you are not paying taxes already, **START NOW**. It's the honest thing to do, but also you can be in big trouble if you don't. Register your business and to get a federal tax ID number if you don't already have one.

SECTIONING YOUR ACCOUNT

It's important to section off your account to plan for your various expenses. The sections that you put in will be different depending on what your expenses are and what type of business you have. For my business, my sections are Wages, Education, Supplies, and Other. Here are some descriptions about each one:

WAGES (80%): this is the money that I will pay myself every two weeks. 80% of my income (after taxes) goes to this section.

EDUCATION (5%): I'm a hand lettering artist, illustrator and sign painter, and for me it is important to continually be learning and improving the work I do. I keep an education section in my business account so that if I ever want to buy a new book or attend a workshop or buy an online course (either about art or about business,) I have the money to do it.

SUPPLIES (5%): My supply expenses for my business are pretty low. The only supplies I really need are pens, paint and paper or wood. For me, putting 5% towards supplies is plenty to cover the costs, but depending on what you do for your business, you may have a higher supply cost, or even no supply cost at all.

OTHER (15%): the "other" section of my budget covers things like my adobe creative cloud account, subcontracting, my website and other random expenses.

These are the sections that I use. I also will add sections if I'm saving for something particular. For instance, at one point I was saving up for a desktop computer, so I made a "computer" section and added a certain amount to it everytime I was paid for a project. You should make the sections in your budget applicable to your needs. If you have employees, you should have sections for paying them. If you rent a studio space or an office, you should have a rent section. If you know you have a big business trip coming up, maybe make a temporary section to budget for it.

Divide your income into the different sections by % (ex: \$450 is 75% of \$600.00)

These are both examples of expenses.

GET PAID happens every two weeks when I pay myself! This money gets transferred to my personal account and is now my money. Notice that I didn't pay myself everything in the "wages" section. See the next section titled "paying yourself" for more details.

DATE	TRANSACTION	INCOME	EXPENSE	TOTAL	WAGES (75%)	EDUCATION (5%)	SUPPLIES (5%)	OTHER (15%)
8/15	HAND PAINTED SIGN	\$600.00		\$600.00	\$450.00	\$30.00	\$30.00	\$90.00
8/16	PAINT, LOWES		\$16.00	\$584.00			\$14.00	
8/16	LOGO DESIGN	\$800.00		\$1340.00	\$1050.00	\$70.00	\$54.00	\$210.00
8/18	ADOBE CC		\$50.00	\$1290.00				\$160.00
8/20	GET PAID		\$1000.00	\$290.00				

PAYING YOURSELF

If you do freelance like me, the amount of money you make can vary significantly from week to week. Some projects last months, some projects only take hours. Some clients pay you right away, and others (usually big corporate clients) can take 30 days or more to pay you. Considering this, it is wise to figure out what your average wage for yourself is and to pay yourself that set amount every two weeks. It can be tempting to pay yourself out the total amount in your "wages" section, but that can be a risky mistake. Sometimes I can go two weeks where no project payments come in. That's not a bad thing, but it can be if you haven't planned properly and go to pay yourself and there's no money in your wages section because you paid yourself too much the previous pay period. The amount you should pay yourself every two weeks will be different for every single person and business. Figure out what works for you and be sure to plan for the future.

INCOME AND EXPENSE STATEMENT

It's a good idea to make an income and expense statement for your business at the end of every month. It will show your total income, your total expenses, and ultimately how much your business made that month.

First add up your total income for the month, then add up your total expenses for the month.

Next subtract your expenses from your income and see the total that your business made for the month! If your expenses come out greater than your income, then you have a problem. That is a good indication that you either need to find a way to cut down on your expenses by eliminating unnecessary purchases or that you need to find a way to increase your income.

TRANSACTION	INCOME	EXPENSE
HAND PAINTED SIGN	\$600.00	
PAINT, LOWES		\$16.00
LOGO DESIGN	\$800.00	
ADOBE CC		\$50.00
GET PAID		\$1000.00
TOTAL	\$1,400.00	\$1,066.00

MONTHLY INCOME: \$334.00

EXPENSES CAN BE TAX WRIT-OFFS

Business expenses can be written off on your taxes at the end of the year! This is another reason that tracking your expenses is important (you can't write off expenses if you have no record how much you spent.) To know how much you can save by writing things off on your taxes, take your total income for the year and then subtract your total deductible expenses. The amount you have left is what you will pay taxes on.

BUDGETING PERSONAL SAVINGS

SAVINGS FIRST

Before you put any money in your checking account, you should add to your savings. If you save last, you will never save at all. It's so easy to find ways to spend money, so add to your savings first to make it a priority.

MULTIPLE SAVINGS ACCOUNTS

Most banks allow you to have up to six savings accounts, which is great because having multiple savings accounts can better help you know what you are saving for. For me, I like to add a set amount rather than a percentage to savings each time I am paid, however you can do it by percentage if you like.

ADDING TO SAVINGS

EMERGENCY: your emergency account should contain enough money for you to survive on for 6 months if with no income coming in. Figure out how much money you need to live on for a month and multiply it by 6. That is how much money you should want to have in this account. **DO NOT ADD MONEY TO LESS IMPORTANT ACCOUNTS UNTIL YOU HAVE REACHED YOUR GOAL.** Planning for emergencies is critical to your safety and is the most important thing. Even if you don't have 6 months worth of savings, make a goal to have at least \$5,000 in your emergency account at all times.

SCHOOL: Before I graduated, I was paying for my own college. Because of good budgeting, I was able to pay for school without a scholarship and without getting into any student loan dept. This is a much better way to pay for school than getting a student loan. Here is how to find out how much you should be adding to this account every two weeks: total cost of tuition divided by number of weeks in the semester divided by two (because you are paid every two weeks) equals the total amount you should put into savings. When I was in school, I put \$200 every two weeks into the school account.

CAR: Is it just me or do cars seem to have the most expensive problems? Car troubles happen (and always do happen) so I keep a car account. I use the car account for when a car needs a new part, new tires, an oil change, or even when it's time to register your car. I add \$50 every two weeks to this account, which isn't much, but it comes in handy all the time.

CAR INSURANCE: We have car insurance that we pay every six months. I handle car insurance the same way I handle School. Find the total that you pay every six months, divide it by the number of weeks, then divide that by two (since you get paid every two weeks) and that will give you the total that you should be adding to this account. I add \$50 to the car insurance account every two weeks.

HOUSE: We are saving up to buy a house. This is important to me, so I add \$400 to this account every two weeks. You can save for anything you want or need. Sometimes I make a savings account just to save up for vacations, that's ok! Savings aren't only for the necessities of life, you can save up for fun things too. Make sure that your savings reflect your values and what is important to you, and don't dip into your savings for things that do not matter.

BUDGETING CHECKING

BACK TO BASICS

Our personal checking is going to have basically the same structure of our business checking account. You have the date, the type of transaction, the total and your different budget categories. Pretty simple!

MONTHLY COSTS

The first thing I like to do when doing my personal budget is to establish my monthly costs, things that are a set rate every month. These are things like rent, or a mortgage, Internet, insurance, phone or even something like Netflix or Spotify if you use them (that's right, you can and should, budget for netflix.)

For those monthly costs, you want to calculate the total cost for the month and then divide it by two (since you usually have two pay periods a month.) For instance, if my rent was \$500 as a student living in a tiny apartment I would put \$250 into my budget every two weeks when I got paid so that at the end of the month I would have \$500. Or if my phone bill was \$110, I would put \$55 in every two weeks so that I would have \$110 at the end of the month. Make sense?

Every once in a while you will have a month with three pay periods. Those months are the best! If you've already done your budget based on a two-pay-period-a-month system, then that means you have a bunch of extra money when the third pay period comes which is always fun! You can add that extra money to savings or treat yourself to something fun!

DATE	TRANSACTION	INCOME	EXPENSE	TOTAL	RENT	INTERNET	PHONE	GAS	INSURANCE	TITHING	DATE	PERSONAL

A FEW MORE THINGS

Like I said before, the personal checking account and the business checking account work pretty much the same way. You give yourself set amounts for each category and you stick with it! Here are just a couple notes about some of these categories that I have:

DATE AND PERSONAL: It's totally good to budget for fun money, in fact I recommend it. Giving yourself a set amount of play or personal money is nice so long as it doesn't get out of control. My husband and I have a date fund that we use to go out to eat or to do fun things, and we each have a personal section with money that we can each use however we want (he buys snacks, I saved mine up to get a new rug for the kitchen, you can use it however you want.) Even though fun money is good, it's not a priority. If you have a bad pay period or are short on money for some other reason, you should not be adding money to the fun sections of your budget.

TITHING: Many people donate to charitable causes or give tithing to their church. For me, I give 10% of what I make to my church. Now for you small business owners, this is important: you should only pay tithing on YOUR INCOME. Meaning that you do not pay tithing on what your business makes, you only pay tithing on the money that you get paid from your business. Again, let's use Target as an example. If you were an employee for Target, you wouldn't pay tithing on everything that Target makes, you would only pay tithing on the money that Target pays you. It's the same with your own business, you only pay tithing on your personal income, not the total that your small business makes because you are not your business.

CONCLUSION

Budgeting may seem hard or scary, but it's a lot easier than you may think. And the freedom and peace of mind that come with being financially stable and knowing what your money is doing is a really great feeling. So make a budget that works for you, and stick to it! It will feel amazing.

Thanks so much for reading this, happy budgeting!

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