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Helping You Grow A Profitable Business with QuickBooks® Software

# Plan Now for Difficult Times Ahead

It seems unavoidable that the United States economy is headed toward turbulent times. Even businesses that have rolled along without trouble in the past could be affected by a downturn. Fortunately the QuickBooks Budget feature can help you plan for challenging times. You can then compare your actual results against the plan each month, and know in advance if revenues aren't up to par or if expenses are creeping out of control. Doing so helps you act — instead of react — when confronted by business challenges.

## Budget background

Contrary to popular belief, preparing a budget doesn't necessarily consume a significant amount of time. For instance, QuickBooks lets you use last year's revenue and expenses as a starting point. You can then make these types of changes:

- Increase or decrease amounts by a given percentage
- Zero out certain accounts (perhaps to eliminate one-time expenses)
- Override all twelve months of activity, or just adjust certain months

Conversely, you can opt to start with a blank budget and enter amounts for each account. Doing so is helpful if you're starting a new business, or you want to implement zero-based budgeting. This technique involves building each account's budget from the ground up, rather assuming a percentage increase from the previous year.

Regardless of the starting point you choose, you can choose a level of specificity for your budget:

- *Account level:* This lets you budget revenue or expenses for

each individual account, such as \$250/month for telephone expense. Most businesses will choose this.

- *Customer:Job level:* This enables you to create a budget for one or more customers or jobs. Note that you must budget each customer or job individually — you can't allocate a single amount across to three jobs simultaneously. Instead you'll have to build the budget for each job one at a time.
- *Class level:* This option lets you create a separate budget for each class. As with customers and jobs, you'll enter develop each class budget individually.

**Forecasts:** QuickBooks Premier and Enterprise also allow you to create forecasts. Think of forecasts as an alternate budget. You can generate reports that compare your actual results with either a budget or a forecast — both are very similar in nature.

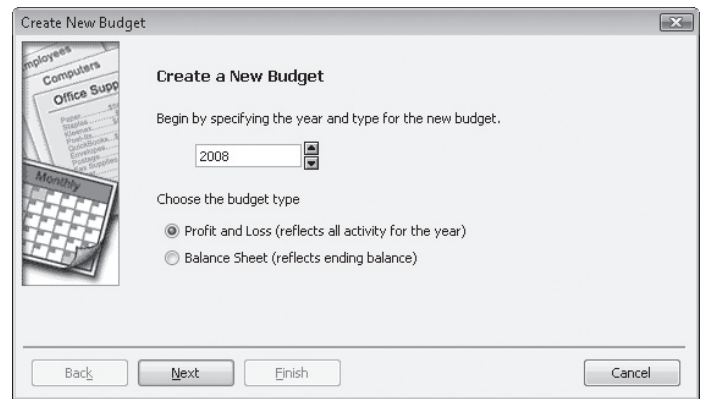


Figure 1: Most businesses choose to budget Profit and Loss.



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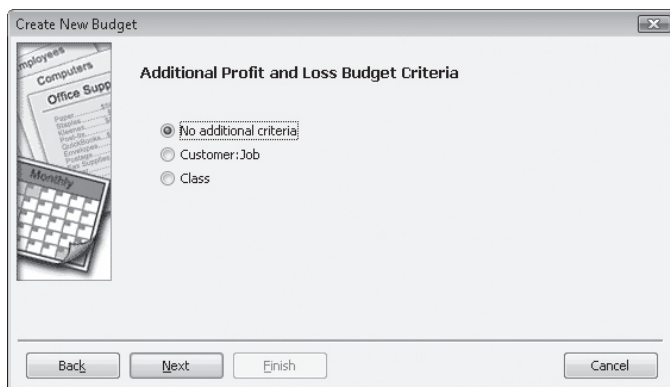
Our clients cross a broad spectrum of industries including manufacturing, distribution, construction, sales, professional services, tax-exempt organizations and service companies. Products supported include QuickBooks, ACCPAC, MAS 90 and 200.

Cannon Wright Blount, PLLC is a 45-person accounting and consulting firm specializing in accounting software for small to middle-market companies. Our

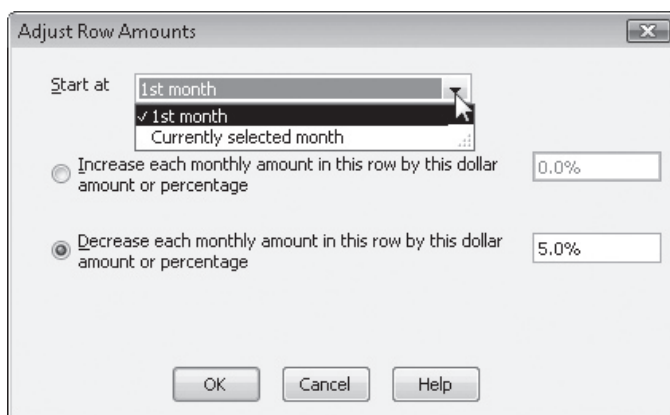
## Create a Budget

With that background in mind, let's explore the QuickBooks budget feature:

1. Choose Company, Planning & Budgeting, and then Set Up Budgets.
2. Click Create New Budget.
3. As shown in **Figure 1** (on previous page), choose a fiscal year and budget type:
  - Profit and Loss – most small businesses will find it helpful to budget their income and expenses.
  - Balance Sheet – this type of budget lets you plan for specific ending balances in your balance sheet accounts. Most businesses don't need to budget their balance sheet.
4. Click Next, and then make a choice:
  - No additional criteria – This corresponds to the account level budget described above.
  - Customer:Job – Choose this when you want to create budgets for individual customers or jobs. As shown in **Figure 2**, you'll be presented with a blank budget sheet for each individual customer or job.
  - Class – This option only appears when you have Class



**Figure 2:** Customers or jobs are budgeted individually.



**Figure 3:** You can increase or decrease amounts by a percentage.

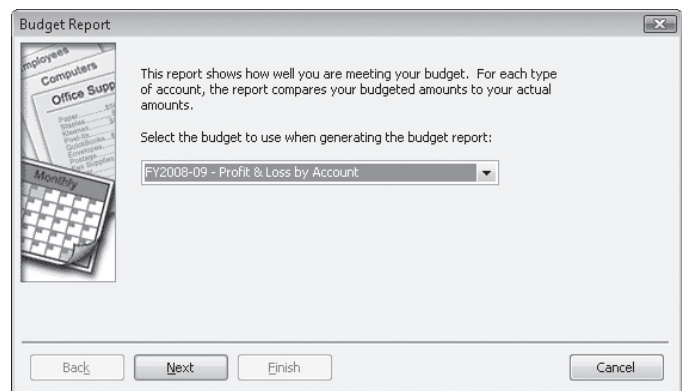
Tracking enabled. See the Accounting with Class sidebar if you're not sure how to do so. Similar to customers, you'll budget each class individually.

5. Click Next, and then make a final choice:
  - Create budget from scratch – Although this is more academically correct, most business owners prefer to work from prior year numbers.
  - Create budget from previous year's actual data – QuickBooks uses your actual results for the previous fiscal year as the starting point for your budget.

At this point you can start entering or adjusting your budget. You can erase or override the amounts for specific months.

- Manually enter a number in all or selected months. (*Enter carefully:* By default, QuickBooks expects you to use the Tab key to move between fields. If you don't change this default setting, then pressing the Enter key when you're on the Budget screen is the same as clicking OK and closing your budget. You can change this default behavior by choosing Edit, Preferences, and then General. Choose Pressing Enter Moves Between Fields on the My Preferences tab.)
- Enter an amount in any month, and then click Copy Across. QuickBooks will copy and paste that number to each of the remaining months of the year.
- Click Adjust Row Amounts to increase or decrease amounts by a given percentage. As shown in **Figure 3**, you can specify whether the change should start as of the first month of your fiscal year or the current month.

**Limitations:** QuickBooks only allows you to create one budget of each type (account, customer:job, or class) for each fiscal year. In addition, you can't rename the budget, so your budgets will be assigned names such as FY2008 – Profit &



**Figure 4:** The Budget vs. Actual lets you choose a budget and compare it to your results.

Loss By Account or FY 2009 – Profit & Loss By Account and Customer:Job.

As you work with your budget, click the Save button from time to time preserve your work. Be careful of the Clear button at the bottom left-side of the screen. Use it only when you want to erase the entire budget and start over. If you need to delete budget in its entirety, select it onscreen, and then choose Edit, and then Delete (or press Ctrl+D).

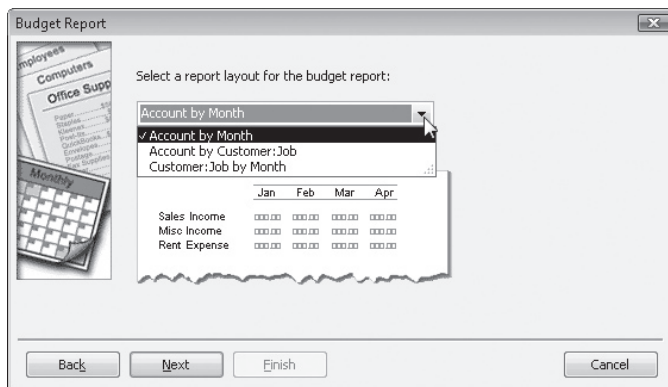
### Budget Versus Actual

Once you establish a budget, you'll want to compare it to your actual results each month:

1. Choose Reports, Budgets & Forecasts, and then Budget vs. Actual.
2. As shown in **Figure 4**, specify which budget you want to compare your actual results with and then click Next.
3. As shown in **Figure 5**, choose a report layout. Your options will vary based on the budget type. Account level budgets will only have one option, while Customer:Job or Class based budgets let you choose alternate layouts. A preview of each layout appears onscreen as you make a selection from the layout list.

By default the report presents all twelve months, but as shown in **Figure 6** you can choose a different timeframe, such as Last Month from the Dates list, or modify the From and To fields to match the desired period.

**Dynamic:** QuickBooks automatically adjusts your budget to match the accounting period you select. For instance, if you choose to run a report for the first 15 days of a month, QuickBooks will automatically divide your budget in half.



**Figure 5:** You may be able to choose from more than one budget type.

### Accounting With Class

You're likely familiar with tracking revenue and expenses by account, but classes let you track numbers by business segment. For instance, a medical practice might establish a class for each doctor. Revenue and expenses specific to each practitioner can be assigned to a class, meaning that you can generate an income statement for the practice as a whole, or for each doctor. Other uses for classes include:

- Tracking revenue and expenses by department or location
- Tracking activity by type, i.e. commercial versus residential
- Managing specific project expenses, such as an office remodel or computer system upgrade

In short, classes allow you to classify transactions in any way that is important to you, separate from the traditional revenue and expense tracking that you already have.

It's easy to enable classes in QuickBooks:

1. Choose Edit, Preferences, and then Accounting.
2. Click Use Class Tracking on the Company Preferences tab.
3. *Optional:* Click Prompt to Assign Classes if you want QuickBooks to remind you to fill in the class field on individual transactions.

Class tracking varies in QuickBooks depending upon transaction type:

- **Estimates, Sales Orders, and Invoices:** You can only assign a class to the entire transaction. Therefore if you have an invoice that involves work by two departments, you'd either have to create two separate invoices, or create a journal entry to shift the revenue between classes.
- **Bills, Checks, and Journal Entries:** You can assign classes to individual line items of these transactions. Therefore a phone bill can easily be split among two or more departments or locations.

Similarly, actuals for given one-week span will compare your actual results to roughly 1/4 of that month's budget.

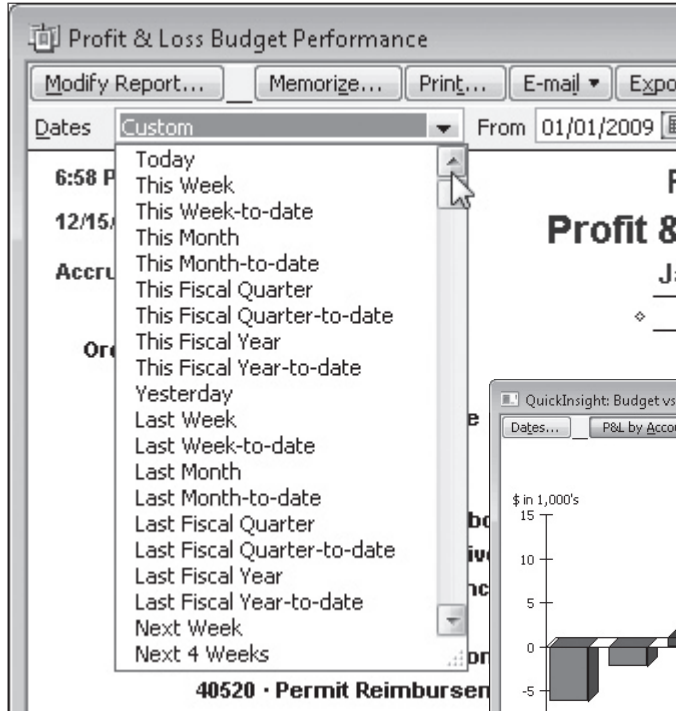
### Instant Graph

The Budget vs. Actual Graph is a great way to convert staid numbers into a visual representation of how your business

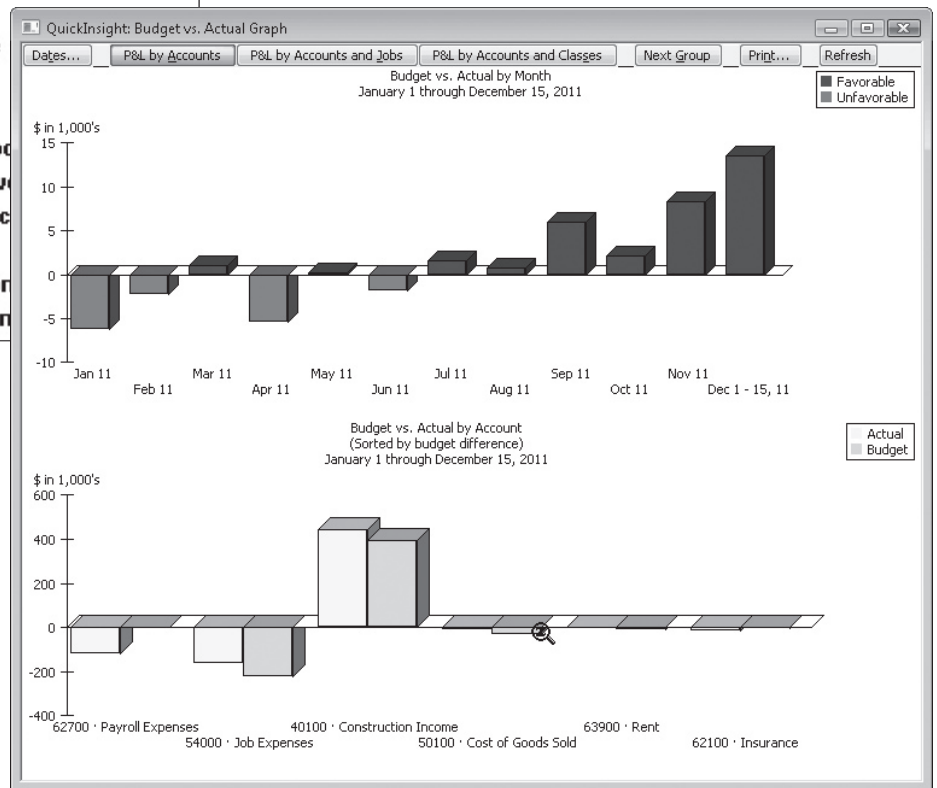
is doing. Simply choose Reports, Budgets and Forecasts, and then Budget Vs. Actual Graph. As shown in **Figure 7**, QuickBooks displays two sets of graphs:

- A summary of how your bottom line each month compares with the budget
- A view of how individual accounts compare to their budget

Double-click on any element of the graph to view another graph with more detail for that month or account. Indeed, you can double-click your way down to transaction reports and into individual transactions. This lets you quickly zero in the source of any unexpected variances.



**Figure 6:** The Budget vs. Actual report can show variances for any date range that you choose.



**Figure 7:** The Budget vs. Actual Graph provides visual insight into variances.

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