

# BUDGETS

‘Healthy habits toolkit’



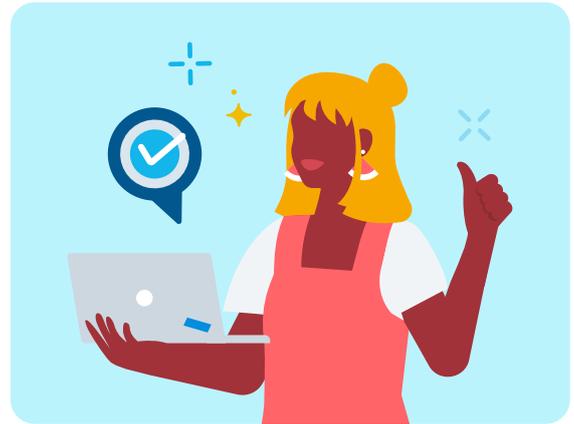
**UNLOCK YOUR  
NUMBERS**

# WELCOME

Welcome to the 'Healthy habits toolkit'. We'll guide you, step by step, through small business finance with bite-sized content that helps you understand YOUR numbers and build financial confidence.

## Using the toolkit

1. Download the toolkit.
2. Use it on any device or print it off if you prefer.
3. Work through the activities to build the financial habits, skills and mindsets that will help your business succeed.



### Look out for...



#### **Habit builder**

Activities that help you track your business's financial health and make informed decisions.



#### **Mindset**

Activities that help you build the mindsets you need to stay focused and tackle challenges head-on.



#### **Tell me more**

Additional resources and real-world examples from other small business owners.

## Reaching out for support

If you need support or advice along the way:

- Talk to an accountant or bookkeeper for financial advice and help with planning your next steps. You can apply for free mentoring through the [Xero For Good Ambassador Programme](#) to help apply general financial insights to your business. If you don't have an accountant or bookkeeper and are seeking specific advice, you can search for one in the [Xero advisor directory](#)
- Explore [resources to keep you and your business healthy](#)
- Access free smart guides from [GOV.UK](#)
- Check out our [frequently asked questions](#)
- Access [services to help if you are experiencing financial difficulties](#)

If you're reading a printed version of this toolkit, you can find the full URLs for all the internet pages listed above in the appendix at the end.



The information provided is for general educational purposes only and should not be considered financial, legal, or tax advice. Please consult with a professional before making financial decisions.



# BUDGETS

In this topic, you'll build the skills, knowledge and mindset you need to create and manage a business budget with confidence.

You'll explore what a budget is and how you can use it to avoid undercharging or unexpected costs, build a buffer for the unknown and plan for growth and change.

**Work your way through the 'Healthy habits toolkit' and take your first steps to financial confidence.**

## **Choose where to start:**

Select any of the six headings below to get started.



Use the interactive buttons and topic menu to move through the toolkit or scroll down to read the pages in order.



# THE VALUE OF A BUDGET

A budget is a financial plan that outlines your expected income and expenses over a set period, usually a year ahead.

And while budget is a small word, creating one has a big impact. A simple, well-planned business budget will help you:

- set financial goals
- allocate resources effectively
- monitor your cash flow

## Busting budget blockers



It's normal to have doubts or barriers about budgeting. Here are some common challenges and what you can do to overcome them.



**I don't have all the numbers... What's the point if I have to guess?** That's OK! Start with what you know. A good estimate is more useful than avoiding the numbers. Check in regularly; you'll improve over time.



**I've left it too long... I don't know what to do next.** It's never too late to check in. If you think things have changed, start afresh. Compare your old budget to see what's different and move forward.



**What if I'm completely off track?** If you took a wrong turn on a road trip, you wouldn't go home. You'd check your map and keep going. Budgeting is the same: pause, reassess, and keep moving.

## Consider your budget blockers

Do you have budget blockers? Try focusing on the benefits and use these to challenge your thinking.



There's no such thing as a perfect budget. Any variations from your plan are a chance to learn and adjust for the future.

# CREATING A BUDGET

You can use these two simple steps to start a basic business budget



## 1. List your income

Estimate all the money you expect to earn over the timeline of your budget. Include sales, services and any other income sources. Use any past data you have or make realistic projections.



## 2. Track your expenses

List all of your regular costs like rent, supplies and salaries or wages. Don't forget the less frequent expenses, like tax and insurance.

## Laying your foundations

- Create a budget using a template or spreadsheet
- List all of your income and expenses
- Over the next two months, add any income or expenses you may have missed
- Subtract your expenses from your income to identify where you need to adjust your budget
- Did you uncover anything unexpected? If so, how has it built your understanding of your business?



Don't want to start from scratch? Xero has a [free budget template](#) available to download.



A budget only works if you use it. Regular check-ins help you spot changes, adjust early and make better decisions. The more you review it, the more useful it becomes.

# BUILDING BETTER ESTIMATES

If you're creating your budget for the first time, or just building on it, it can be tricky to estimate realistic values for how much you'll sell and how much you'll spend.



Here are some activities you might try:

## Estimating income



**Market research:** look at competitors' pricing and sales volume, research industry or similar small business trends, or talk to other business owners for ballpark figures.

**Test sales/pre-sales:** pilot or launch a pre-sale to gather feedback on demand and forecast realistic revenue.



**Customer forecasting:** estimate the number of customers you can realistically reach or manage each month. Multiply this by your average price.

**Scenario planning:** prepare three scenarios, conservative, expected and optimistic, to give you a range to work with rather than just one number.

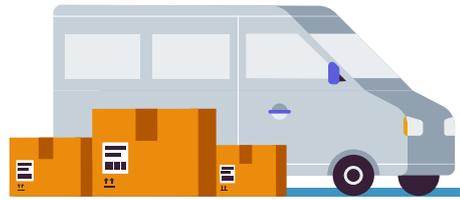
## Estimating expenses



**Fixed costs:** these are the things that won't change month to month, for example, rent, insurance, subscriptions and salaries.



**Professional services:** include costs for advisors or specialist services like accountants or legal advisors.



**Variable costs:** these are the things that change depending on the activity, like materials or stock, shipping and payment processing fees.



**Buffer for the unexpected:** add some contingency for surprises or emergencies you can't predict, for example, legislative or regulatory changes.



If you're registered for VAT, make sure you only include Net of VAT values in your budget.



If you have data available from past income and expenses, you can use these to build future estimates. Your profit & loss (P&L) statement, balance sheet, cash flow statement and cash flow forecast all contain key information to help you get started.

Identified any financial pitfalls in your budget? That's ok – awareness is a good first step to maximising your business success.

[\*\*Find out more about how to manage your finances and cash flow.\*\*](#)



# YOUR PRICING STRATEGY MATTERS

Pricing affects how much money you bring in per sale – it's the foundation of your income estimates in your budget. Setting the right prices means you can better:

- cover your costs
- remain competitive
- generate enough income to sustain and grow your business

## Calculating your break-even point

A key area of focus is your break-even point. This is the point where your total income equals your total costs – meaning your business is neither making a profit nor a loss. You can use it to:

- show how much you need to sell to cover your costs
- build your budget to break even, then plan for profit
- make decisions about costs and pricing to avoid a loss
- avoid under-pricing or overcommitting to expenses too early

### Learn more about pricing

- [How to set the right price](#)
- [How to calculate break-even point](#)



- Check your pricing and break-even point. Does this change anything for you?
- Incorporate this into your budget.



Pricing doesn't have to be permanent. As things change, for example, labour or material costs, and your business progresses, you may increase – or decrease – your prices. Find out more about [how to increase prices](#).

## Incorporate business objectives

Incorporating your business objectives into your budget helps ensure your money is working towards your goals. Start by identifying your short-term and long-term business objectives. For example:



Increase revenue  
by 10%



Launch a new offer in  
six months



Build a cash buffer  
of £10k

These objectives will guide your budgeting decisions and help to create boundaries for your wider budgeting decisions.

**Take time to think about your business goals and which ones are more of a priority for you.**



## Consider the bigger picture

You can include your customers' needs and actions when setting your business objectives.

- Who are your customers? Do you have new or different customer types than expected? How could you better reach them with promotions or advertising?
- What do your customers want? How could this impact your products or services?
- Do you have enough customers for your product or service to break even? If you don't, how can you create more demand?



# Building objectives into your budget

Complete this activity to build business objectives into your current budget.

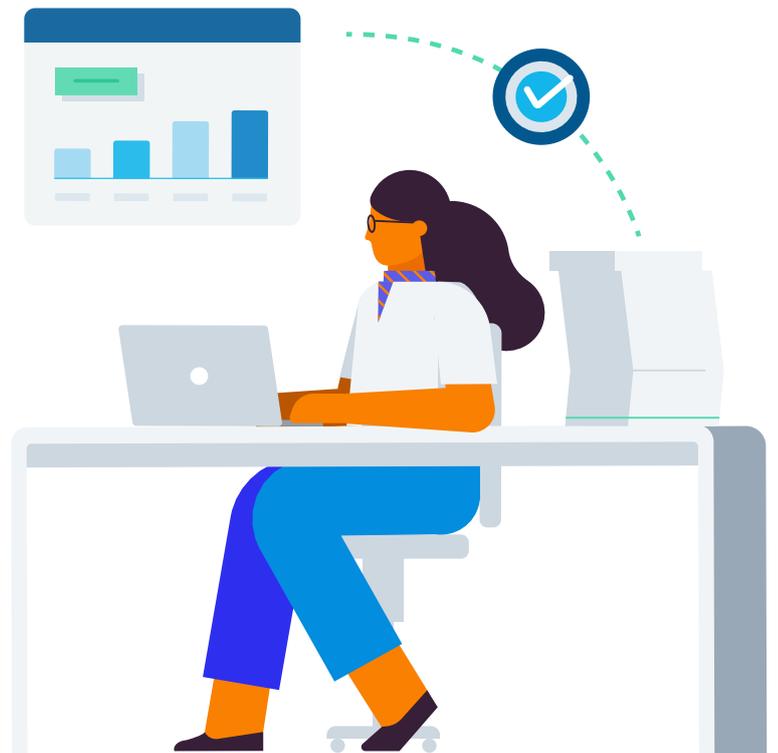


- Pick one business objective (to start)
- Review your budget against your objective
- Build achievement of your objective into your budget. What funds do you need to allocate to it? Where might you reduce spending or set aside savings to achieve it?

Consider how your business objectives changed your budget. How will your budget help you make these goals a reality?

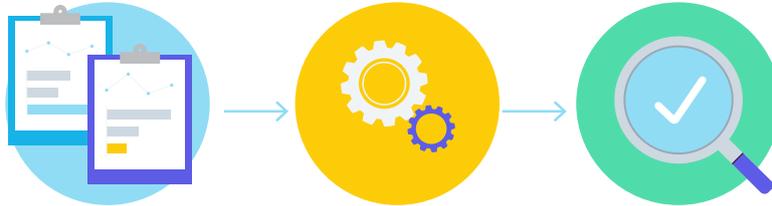


Review where you previously budgeted too much or too little. Use this to help decide where you might already have money to spend.



# COMPARE, ADJUST, REVIEW

Your budget is a living document: it needs to reflect the reality of your business, not just your initial assumptions. Now that you have a budget, regular reviews help you stay in control, make better decisions and avoid financial surprises.



## Tracking variances

A variance is the difference between what you budgeted and what actually happened. Spotting these early allows you to take action before small issues become bigger problems.

Try this activity to track your budget variances.



- Track your actual expenses and income against your estimated expenses and income, and identify any variances
- Investigate why income or expenses were higher or lower than expected, for example, supplier prices, slower sales, special offers, etc.

## Adjust your budget when you find variances



When you notice a variance, here are some steps you can take.

- **Investigate the cause:** make sure you know why it's higher or lower.
- **Adjust future estimates:** update your income or expense projections based on current trends.
- **Shift spending:** move spending from areas that are under budget to areas that need more attention.
- **Lower costs:** postpone or cancel purchases that aren't essential, or try to negotiate a better deal to reduce their impact. Reduce variable costs with more efficient operations or reductions in waste.
- **Review pricing:** increase prices or offer promotions to boost income.
- **Reassess goals:** adjust your business objectives based on new financial data.

It's important to understand the cause of variances in your budget. Higher costs may not always be a problem; for example, they could be directly related to higher sales.

Ask yourself the following:



### Why is your income lower?

Is it because of a new competitor, or has demand dropped?



### Why is your income higher?

Is it because you promoted a special offer, or did you spend heavily on advertising, and achieve an outstanding sales result?



### Why are some costs lower?

Is it because you've negotiated discounts for bulk buying?



### Why are some costs higher?

Is it because of the higher advertising costs, or a key supplier has gone out of business, and you've had to pay more for materials?

# Better decisions with your budget

Your budget can help you make more informed decisions every day. Whether you're setting prices, planning for growth, or adjusting to change, your budget helps you base your decisions on numbers, not guesswork.

When regularly reviewed and updated, it also becomes a reference point. You can weigh up options, spot risks early and feel more confident in where you are going.

## Making good choices



As you build financial confidence, it's normal to second-guess your numbers or worry about making the 'wrong' call. Here are some ways to reframe these common beliefs that might be holding you back.



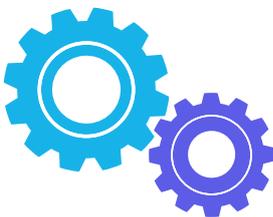
### **“I don't have enough data to decide.”**

Use what you have. Even a rough estimate gives you more clarity than a guess.



### **“I'm worried that the budget will say no.”**

Your budget doesn't say no – it might say not yet. It shows what's possible now and what could change to make it work.



### **“Things change too much – I trust my gut more than the numbers.”**

Your gut instinct is valuable, but the numbers give you evidence. Even in uncertain times, your budget is still a solid starting point.

# TURNING 'WHAT IFS' INTO 'WHY NOTS'

Sometimes an idea feels like it will only ever be an idea. A budget is a great way to test how you can make that idea happen. Create 'what if...?' scenarios and start playing with the numbers! For example:

- What if sales increase by 10%?
- What if I hired someone to help?
- What if my key competitor reduced their prices?

Try this:

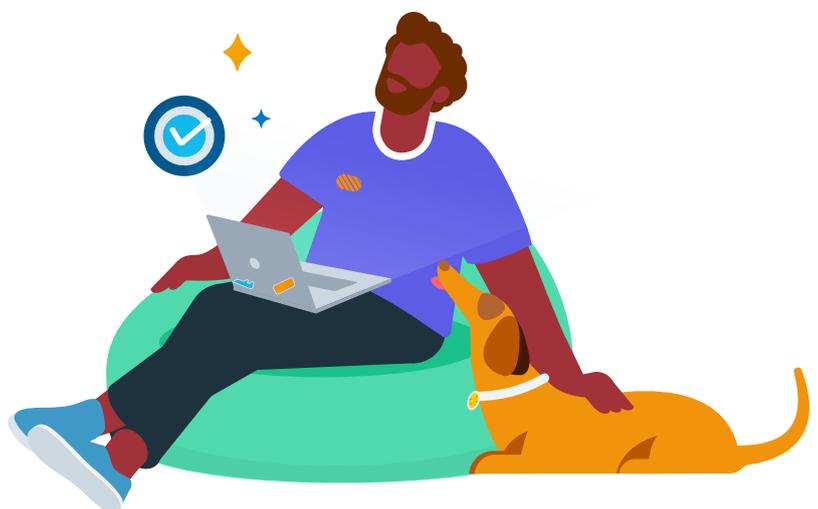
- Think of some 'what ifs' for your business
- Create a copy of your budget and run one of your scenarios into it, for example, add a line for payroll to your costs
- What did you learn? Can you turn this idea into a reality?



Pay attention to those ideas that pop into your head – you know, the ones you tell yourself probably won't work. Take them and run a 'what if?' scenario into your budget – they might be exactly what your business needs!



Think of the whole picture when looking for 'what ifs'. Is a competitor lowering prices? Maybe focus on standing out, not just lowering costs. Is customer behaviour changing? Ask questions to find out what's really important to them.



# APPENDIX

## **Finding finance, business support, and writing a business plan**

[gov.uk/browse/business/finance-support](https://www.gov.uk/browse/business/finance-support)

## **Frequently asked questions**

[unlockyournumbers.xero.com/en-gb/contact](https://unlockyournumbers.xero.com/en-gb/contact)

## **How to calculate break-even point**

<https://www.xero.com/uk/glossary/break-even-point-formula/>

## **How to increase prices**

<https://www.xero.com/uk/guides/how-to-increase-prices/>

## **How to manage your finances and cash flow**

<https://www.xero.com/uk/guides/managing-finances-and-cash-flow/>

## **How to set the right price**

<https://competitionandmarkets.blog.gov.uk/2025/03/25/why-clear-and-accurate-pricing-matters-and-how-businesses-can-get-it-right>

## **Smart business guides from GOV.UK**

<https://www.gov.uk/browse/business>

## **Small business budget template**

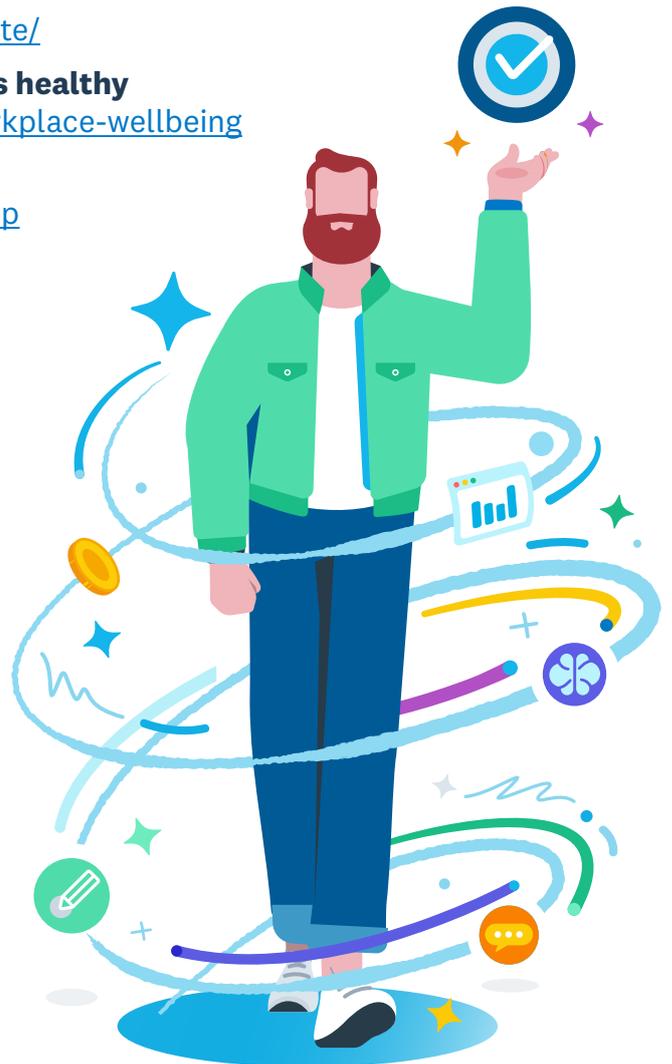
<https://www.xero.com/uk/templates/budget-template/>

## **Well-being support to keep you and your business healthy**

<https://www.fsb.org.uk/resources/content-hubs/workplace-wellbeing>

## **Xero For Good Ambassador Programme**

[unlockyournumbers.xero.com/en-gb/join-mentorloop](https://unlockyournumbers.xero.com/en-gb/join-mentorloop)



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