Tracey FRANCO
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GET YOUR CASH FLOW ON POINT

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Ahhh the freedom of being your own boss, isn't it glorious? Being able to schedule your days as you please, decide when you feel like working and who you want to work with. To some it may seem like a foreign utopia, but for those of us who have been self-employed for quite some time, we've become accustomed to the perks that come along with being our own boss. However, there is one thing that a lot of business owners struggle to become accustomed to, and that's the ongoing merry-go-round of managing your business' finances. Let's just say that it's the less 'glamorous' side of owning a business, the boring paperwork and record keeping that is so easily forgotten. Luckily for you, finances are my jam and I'm here to give you some of my top tips to managing your business's finances and cashflow.

TIP #1: Always invest in a good bookkeeper and accountant.

First off let me address the fact that bookkeepers and accountants are NOT the same, they do not provide the same services and therefore they are not interchangeable.

WHAT DO ACCOUNTANTS DO?

They prepare and lodge tax returns, they advise businesses on legal entity structures and give general business and financial advice.

WHAT DO BOOKKEEPERS DO?

Bookkeepers organise, record and report financial transactions made as part of a business's operation. They also train clients to use accounting software and implement internal processes. Essentially, bookkeepers work closely with small businesses to ensure that their books are up-to-date and in order to make an accountant's job easier.

SO, WHY EXACTLY DO YOU NEED A BOOKKEEPER AND HOW CAN THEY OFFER VALUE TO YOUR BUSINESS?

Once your business reaches a certain size you may find that it can no longer function as a one-man-band and that you actually need people to help you out with certain aspects of your business. Hiring a bookkeeper may be a good place to start because it will free up time to allow you to focus on other aspects of your business.

BOOKKEEPERS WILL ALSO:

Help you implement business strategies.

Bookkeepers come in with a fresh, outside perspective and analyse every aspect of your business' finances so they're better suited to seeing the bigger picture and implementing new business strategies that will increase your profit, elevate productivity and increase customer satisfaction.

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Be an extra set of eyes watching your cash flow.
As a business owner you obviously do not want to suddenly find that you've run out of money, a bookkeeper is someone who will continually look over your accounts and your expenditure to ensure that you are on the right track. They'll give you a heads-up, especially if you're heading in the wrong direction.

Control your financial data.
As a small business chances are you don't have the spare cash to have an in-house accountant tracking your business' every move, but having a bookkeeper in place is the perfect alternative! A bookkeeper will ensure that all of your financial data is in the right place and easily accessible for your accountant, for a fraction of the price.

Speaking of accountants, here's why small business owners should invest in a good accountant…

They'll help you lodge your tax return.
Lodging a tax return as a business owner is different to lodging it as an employee. Rather than trying to figure out how to get it done on your own, you're a lot better off hiring someone to assist you get it in on time and correctly.

They'll help you deal with the government.
If there is one thing that we have all learnt throughout 2020 it's that things never go according to plan and that we always have to be prepared. The last thing you want to have to deal with when you're attempting to do damage control is fill out tonnes and tonnes of government paperwork. Instead, your accountant can do that for you, ensuring that you receive the correct grants and payments in times of need.

They'll help you if you ever get audited.
While it's unlikely that your business will get audited due to the sheer amount of small businesses and lack of government auditors, it's still important that you are prepared (as stated in the previous point).

They'll help you apply for business loans.
Banks don't like to borrow money that they don't think they'll ever get back. By having an accountant prepare your application for you will increase your chances of approval. Your accountant can also refer you to a good Finance Manager to get you organise your finances.

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They'll help you navigate transitions.
Business never stays the same, one minute you're just starting out and the next you're taking on your biggest client. Suddenly you need to take on an employee and everything changes. Luckily for you if you have an accountant, they'll be able to help you navigate through the change to ensure that things are done correctly and efficiently.

TIP #2: Look at your profit & loss quarterly (at least!)

The only way to know if you're on the right track with your business and actually making a profit is to keep track of it in an easily accessible way and actually take the time to analyse it. This will also help you understand where your business' strengths and weaknesses lie.

A PROFIT AND LOSS REPORT SHOULD BE DIVIDED INTO TWO SEPARATE SECTIONS:

- Revenue: financial gains, how your business has made a profit.
- Expenses: Where your business has spent money.

Revenue:

The most important part of your report should be your total sales. Take note of how much the total has changed over time, a pattern of falling revenue shows that your business could be in trouble.

Expenses:

Expenses should be divided up into two separate categories: cost of goods sold and operating expenses. Obviously as a business you want to reduce costs wherever possible. While some increase is inevitable, it's important to keep your eye on rising costs.

By having a profit and loss report in place you'll have the exact figures in front of you so that you can regularly evaluate where your business is at and assess your financial performance.

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TIP # 3:
Know your GST obligations.

Unless you've been living under a rock, I am sure that you are aware of GST aka goods and service tax. A broad-based levy that's charged on a majority of products and services sold by Australian businesses.

As of July 2020 the rate charged is 10 percent and it is applicable to all businesses that have a GST turnover of $75,000 or more within a financial year. Non-profit organisations can earn up to $150,000 before tax applies, however taxi operators must register for GST regardless of their turnover.

Typically, businesses add GST to their goods and services while also claiming credits for the levy included in the goods and services purchased for their own business.

The Australian Taxation Office suggests that people who start a new business should register for GST if they believe their revenues will exceed $75,000 in their first year of business.

Registering for GST:

You can apply for GST through the ATO online or over the phone. All that they will require is your ABN. If you think that your business will exceed the $75,000 turnover threshold, you must register for GST within 21 days. For those starting a new business, you will need to complete your GST registration during the set-up process if you predict your revenues will be over $75,000 a year.

If your business' turnover is less than $75,000 a year then registration is optional. You will however need to include the tax in the prices you charge and will be able to make claims for GST credits on your organisation's purchases.

Regulations for reporting and paying your GST depend on the size of your business. Organisations with an annual turnover of more than $20 million must do so monthly.

Managing your GST obligations:

It is important that you report and pay GST, as well as claim credits through the ATO by lodging your annual GST summary. The best way to do this is by having an accountant submit the application on your behalf.

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TIP #4:
Always pay in cash (if you can).

"Cash is King" - it's the age old saying that's been used to describe why so many businesses and households struggle with their cash flow.

Business analysts believe that poor cash management is the main reason why businesses go bankrupt, makes sense, doesn't it? So it's time to stop paying on the credit card and opt for good old cash.

WHY? - THE REASONS ARE QUITE SIMPLE.

1. Having cash on hand puts you in a more stable position with better buying power.
2. Proof of ongoing and regular cash flow proves that your business is successful and on the right path.
3. Buying things on credit means that you're already affecting your future cash flow without having yet generated the income.
4. Having some cash set aside is crucial for businesses, particularly in times of need, critical decision making and crisis management.

TIP #5:
Not all debt is good debt.

Unfortunately it's not always possible to pay for everything outright and in cash, there are going to be times in your personal and professional life where you will need to take out a loan in order to move forward and purchase a big ticket item, like a home or getting a tertiary education. While these are both justifiable items that will add value to your life, there are some cases where people get into debt recklessly without thinking about their situation and circumstances.

LET'S TAKE A LOOK AT SOME KEY DIFFERENCES BETWEEN GOOD DEBT AND BAD DEBT.

You know that old saying "it takes money to make money" ? Basically that's what good debt is, it's the debt that you take on that will help you to generate income and increase your net worth. It's the positive kind of debt. Here are some examples:

- Home loans
- Student loans
- Business loans

Bad debt on the other hand is when you get into debt to purchase something of depreciating value. For example:

- Cars
- Clothes
- Consumables

Think about all that interest you're paying on that car loan, imagine if you didn't have to pay it. Where would you be spending that money? Maybe you'd be saving it to put towards your next holiday…

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TIP #6: Get financially literate.

"Research has shown that people who are financially literate outperform people who are not"… Well duh! Obviously having a good understanding of the financial lingo and all that comes with it will help you make the right decisions when it comes to your money and therefore help you lead a more successful and financially secure life.

Basically financial literacy is all about understanding the basic principles of finances. Here are the top 3 principles that everyone should know and understand:

1. **Budgeting -** This is the process of understanding how much money you are earning every month and how much you are spending. When you've got a good grasp of this you will be able to properly control your money.
2. **Saving -** This step requires that you consult your budget and set aside a certain amount of money each month or week to save for future expenses.
3. **Investing -** Often the scariest and most misunderstood part of financial literacy. This step involves using your money to make you more money.

SO, YOU'RE PROBABLY WONDERING "HOW CAN I BECOME FINANCIALLY LITERATE?" - ALLOW ME TO ENLIGHTEN YOU.

Track your spending for a month.
If you're brand new to the world of financial literacy then it's important that you take some time to get your head around what your spending habits are. The best way to do this is to take note of what you spend and when you spend it, every day for one month.

Learn the lingo.
I know it can be boring but by familiarising yourself with some of the language will help make things easier.

Speak to a professional.
If you're tired of Googling everything you'll probably find it super beneficial to consult with a professional. You can ask lots of questions and ensure that your understanding is clear.

To be entirely honest, you can never be too financially literate, take the time to educate yourself.

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TIP #7:
Pay yourself a wage and super.

Paying yourself a wage is important for obvious reasons, but it can be tricky to know how much you should be paying yourself and how it will affect your business.

Firstly let's talk about the fact that you should only be paying yourself from your business' profits and not your revenue. Why? Because you need to take into account that even though you're seeing money coming into your business there are still business related costs that you will have to pay for, like overheads, taxes, fixed costs etc.

Secondly, keep in mind that your business might make little to no profit in its first year of operation but that does not mean that you shouldn't pay yourself. Afterall, you're pouring your heart and soul into this business and you deserve to be compensated. Undervaluing your work and time will only lead to resentment and stress which will lead to poor decision making.

Aside from paying yourself a regular wage, you should also be making contributions to your superannuation fund, depending on your business structure, this could be a legal requirement for you.

If you're self-employed, a sole trader or in a partnership, you generally do not have to make super payments to yourself, so any super you pay is up to you, rather than being a legal requirement. However, if you're employed by your business under a traditional PAYG setup, then you may be legally required to pay super. So, why do I think it's important that you pay into your super?

As Australians it is expected that we live in retirement for up to 25 years, that's quite a lengthy period of time so it's important that you're adequately set up for when the time does come. How much you contribute to your super depends on what sort of a retirement you wish to have. Will you be travelling the world? Buying a new car? Or living a simple life? This will help you decide how much to put aside each year in preparedness for the future.

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TIP #8:
Keep your receipts.

As previously discussed, it's important to keep well documented records of all business-related expenses, not only for bookkeeping purposes but in case you are audited in the future.

Here are some of my top tips for small business record keeping:

1. Always keep receipts, bank statements, invoices, payroll records, and any other evidence that supports an item of income, deduction, or credit shown on your tax return.
2. Most supporting documents need to be kept for at least 3 years.
3. Employment tax records must be kept for at least 4 years.
4. If you omit income from your return, you must keep a record for at least 6 years.
5. If you deduct the cost of bad debt, keep records for at least 7 years.
6. Go paperless, store everything electronically as receipts tend to fade over time. Make sure that you regularly back up your electronic files.
7. Even if you don't need a document to lodge your tax return, you might need it for something else. When in doubt, keep it!

TIP #9:
Always keep business and personal affairs separate.

What's one of the most common financial mistakes that small business owners make? - Co-mingling their business and personal finances. It's a huge no,no.

Aside from making it difficult for you to take a glance at your business' bank balance and see how it's ticking along, there are some legal and tax related issues that you need to keep in mind.

- Legal: Is your business a corporation or limited liability company? By mixing your personal and business affairs and not respecting the separate legal status of your entity, creditors have the ability to go after your personal assets to satisfy their claims should the situation arise.
- Tax: When it comes to lodging your tax return you need to be able to separate what was business related and what wasn't. A rookie mistake is thinking you'll remember. You won't and it may cost you your tax return.

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HOW DO YOU KEEP YOUR BUSINESS AND PERSONAL FINANCES SEPARATE? - IT'S RELATIVELY EASY.

1. Have separate accounts.
2. Have different accounting systems in place
3. Make sure you record expenses in the correct accounting system.

All it takes is that you spend a couple of hours setting up the right systems. It's set and forget, all you have to do (if you don't have a bookkeeper), is ensure that you regularly update your books.

TIP #10: Run your business within your means.

Keeping a business alive in our current economic climate certainly comes with its challenges. Part of making sure that it survives the ups and downs is to implement a realistic, well thought out budget. We've already gone over what a budget is in our 'financial literacy' tip, so now let's take a look at the benefits of having a budget when running your own business.

A WELL-STRUCTURED BUDGET:

- Estimates revenue, plans expenditure and restricts spending.
- Makes sure that money is allocated to things that support the business.
- Helps everyone understand the business' priorities.
- Helps you make business decisions.
- Highlights your business' strengths and weaknesses.

SO HOW CAN YOU CREATE A BUDGET FOR YOUR SMALL BUSINESS?

Step 1: Check your income sources.

- Find out how much money your business is bringing in each month and where the money is coming from.

Step 2: Determine your fixed costs.

- These are any expenses that stay the same month to month. This can include things like your phone bill, internet, rent, web hosting, etc.

Step 3: Variable expenses.

- As the name would suggest, variable expenses don't come with a set price tag, they change month to month and can include things like usage based utilities, marketing expenses, shipping costs, etc.

Step 4: Predict one-time spends.

- These are the expenses that don't occur monthly but should be budgeted into your business' budget nonetheless. One-time spends include things like a new computer, a new phone, a business course, etc. Always allocate more than necessary so that you're prepared for the unexpected.

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Step 5: Gather your info.

- It's a good idea to create a spreadsheet or other formatted document that will allow you to see your income, your expenses and overall profit. That way you have something to refer to before making any financial decisions.

Remember, you don't want to be spending more money than you earn! That's a recipe for disaster, and honestly that should apply to your personal finances too.

TIP #11: Have money for a 'rainy-day'.

I've said it before and I will say it again. When you're in business you need to be prepared for the unexpected and that means being able to access emergency funds should the situation arise. Ideally, we'd all have cash on hand but that's not realistic, so let's make sure we have the following systems in place.

- Some savings
- Access to a line of credit
- An overdraft facility
- A credit card

Be warned, rainy days will happen both in business and in life, not being prepared is just downright silly.

TIP #12: Pay your credit card before the bank charges interest.

While I suggest that credit cards are used in emergency situations, some businesses choose to use them more regularly than others, and that's okay, as long as you're paying it off before your bank charges your interest!

The smartest way to avoid paying interest is to pay off your closing balance before your statement is due. Credit cards generally come with an "up to 44/ 55 days" interest free period so the interest doesn't build up until after the statement is due. You might even think about setting up direct debits so that you don't have to worry about making the payment every month. Make sure you ask your bank about this prior to purchasing a credit card, you don't want to get caught out.

While we're on the topic of credit cards, always make sure that you keep your business and personal credit cards separate. You should always only have one of each.

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TIP # 13:
Have split bank accounts to save for GST and tax.

When your business starts making a certain amount of money, paying for GST and tax is unavoidable, so instead of getting caught by surprise at tax time, why not create separate bank accounts and save a portion of your profit each month in preparedness for the inevitable?

"But how much money should I be putting aside for GST?" Well, the answer to that question isn't exactly 'simple' as it changes depending on a variety of things, but as a 'rule of thumb' start by putting away anywhere between 5 - 7% of your net income. As things change for your company you may find that you need to increase or decrease that rate.

"What about tax?" - Your taxable income is the amount of money you make in a financial year (not including GST). Depending on the size of your business you'll want to put away about 10% of your taxable income.

TIP #14:
Split your personal savings into multiple accounts.

While it's great to have separate accounts for your business' tax and GST, it's also a good idea to split up your personal savings into multiple accounts. This will help you to enhance the way you organise your savings and help you reach your goals faster.

Here's how to work with multiple savings accounts.

1. Set up online banking - unless you've been living in the stone age, you probably already have online banking set up, you probably even have an app on your phone - fantastic! By having online banking set up you can easily transfer between your accounts without having to pay fees or visit a branch.
2. Automate as much as you can! - The best thing about online banking is that you're able to set up automatic payments quickly and easily. Why not set weekly or monthly transfers into your separate savings accounts, that way you don't even have to think about it?!
3. Have an account for each category - categorise your accounts to save for specific things. For example maybe you'll have a travel fund, a takeaway fund and a house expense fund.
4. Prioritise your goals - You're not always going to be saving towards the same thing, don't be afraid to switch things up and 'borrow' from potentially lower priority accounts. It's always nice to have options.

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TIP #15:
Check your bank statements!

While it's great that everything is online, it does mean that our personal information and bank accounts can be vulnerable to cyber attacks. If you're not keeping regular tabs on your accounts you might not notice fraudulent activity like payments being made without your authority, and before you know it you could be out-of-pocket hundreds if not thousands of dollars.

Regularly checking your bank statements will also give you an insight into what you're spending and help you analyse how you can reduce costs.

TIP #16:
Check your subscriptions monthly!

Research has shown that on average 71% of adults around the world are subscribed to subscription-based services, things like Netflix, Stan, YouTube Red, Spotify and Apple Music, just to name a few! The thing is sometimes these subscription-based services update their plans and therefore their fees and you miss the memo in your email inbox. By making a point of checking your subscriptions regularly you'll be keeping yourself better informed and up-to-date, so if a change does happen and you no longer want to be a subscriber, you can cancel your membership.

If you're a parent and your child regularly uses your mobile devices, make sure that you've discussed in-app purchases with them so that you can avoid any unwanted, costly fees.

TIP #17:
Get your personal finances sorted before going into business.

If you haven't yet but you are thinking about going into business for yourself, make sure that you take the time to get your finances sorted. Did you know that when you become self-employed some banks will require two years of full financial records and two years of ABN registration, some will also require that you are GST registered if you intend on taking out a loan or getting a credit card.

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TIP #18:
Don't waste money on advertising that won't work.

Listen carefully, you do not want to make the mistake of investing thousands of dollars on ad campaigns that will not positively impact your business.

In our digital world there are lots of ways that you can advertise your business without even having to spend money. For example, social media is a great place to start! Don't know anything about social media? That's okay! You can invest in a social media manager for a small fee, they will take care of it for you for a fraction of the price of traditional advertising mediums like radio, television and print.

If you're not sure about advertising it's always a good idea to talk to a more experienced business owner or your business mentor. These people will be able to give you some insight as they've probably already gone through a similar situation. It always helps if you know your demographic and understand where they're 'hanging out' .

TIP #19:
Don't listen to unqualified people telling you how to manage your business' finances.

Everyone is always going to have their own opinion when it comes to anything related to your business, whether they're friends, family members or simply your clients. Remember that you do not have to listen to them and that they probably have no idea what they're talking about unless they are a) a very experienced business owner or b) a bookkeeper and/or account.

Always make sure that any advice that you get regarding your business' financial situation comes directly from a highly qualified professional, like a good bookkeeper or accountant.

IF YOU NEED HELP SOURCING A PROFESSIONAL THAT YOU CAN TRUST, PLEASE DO NOT HESITATE TO GET IN TOUCH WITH ONE OF PERTH'S LEADING BUSINESS WOMEN, TRACEY FRANCO.

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