”Five key tips to getting your Business finances right”

by Dr Steven Enticott

With 17 years of accounting practice experience (most of which spent heading up our own practice), dealing mostly with small to medium businesses (SME), not to mention being a small business owner myself, I’ve found the biggest mistakes made and the most important to avoid deal with in the SME marketplace, is business cash flow (and the faster the business grows, the worse they become).

So here are the five key tips for the self-employed on getting cash flow and the finances right:

1. The money that comes in the door isn’t all yours
2. Always put aside a percentage of your income for GST, superannuation, Work Cover, tax etc.
3. Fund your business activities properly and ideally via a loan.
4. Stay up-to-date with taxes, and make your payments at least every quarter.
5. Tax planning is done at three-quarter time, not after the final siren (June 30)!

I cannot ram these tips home hard enough for our self-employed clients. They are vital. So let’s look at an example to highlight how these five key tips can be applied to your business.

Peter and Mary have just embarked on a new business venture providing *disaster rescues for garden landscapes* after a builder completes a renovation or building project.

Peter and Mary were astute enough to know that after a builder has left a job site that the lawns and gardens have been decimated and are a real eyesore to a brand new redevelopment.

Peter and Mary also identified that this is a point in time when the owners have the least amount of money to spend, with costs always exceeding hopes and expectations on most building projects. So, instead of offering a top-level landscaping package, they offered a base-level option that simply clears the damage and re-establishes lawns and a basic garden bed with some minor landscaping.

While this strategy proved quite profitable on its own, it also established Peter and Mary as the next port of call for future and even more profitable work. They really had created a great business model to go on and grow well with over the next few years.

Peter and Mary were also astute enough to understand that every dollar that came in was not theirs, and that as their business continued to grow this would be even more so. They really knew that after paying the businesses bills, a part of each dollar needed to be put aside for GST, income tax and employment costs (such as superannuation) for their contractors and employees.

They sat down with their accountant and agreed on a small percentage to deduct from every paid invoice to be placed into a separate bank account so they wouldn’t be caught short, enabling them to pay their liabilities as they arose so they never fell behind in their financial liabilities.

Peter and Mary knew that by putting aside this percentage they would not be able to fund their own wages, small equipment purchases and marketing costs in the start-up stage, so they took out a $35,000 loan to be able to fund the business until it could pay for itself and then eventually pay dividends on their time.

In April each year they would sit with their accountant and review their year-to-date and project this forward till the end of June. This way they could look at their potential tax liabilities and seriously consider any changes well before June 30.

Here you have two, model small-business owners doing very well for themselves. But how you can apply this to your situation? The title of my latest book is Financial Distraction for a reason: it’s all about removing financial distraction from people’s lives. And self-employment gets a chapter all on its own. Why? Because it’s one of the most financially distracting aspects to affect our lives. Peter and Mary have gone a long way towards removing financial distraction from their lives by sorting out their business cash flow, and they will grow a lot faster and with more focus as a direct result. You should do it too.

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