

Starting or Buying A Business

Starting or buying a business necessitates risk, research, passion and planning. Just like a game of chess, to succeed you need to make the right opening moves.

The harsh reality is that enthusiasm, money, talent or a great idea is not enough to guarantee success in business. There is an old saying, 'people don't plan to fail, they just fail to plan.' This is both valuable advice and a warning for people intending to start a business.

The business evaluation and establishment phases can be periods of great anxiety due to a combination of excitement, uncertainty and financial risk. Make no mistake, the risks are real as the latest figures from the Australian Bureau of Statistics suggest that 42% of new businesses won't be around in 3 years time. Even though franchising is considered to be the most successful form of small business, a 2008 study indicates:

- Only 81% of franchisees are profitable
- 58% of franchisees generate a profit of less than \$50,000 per annum
- 3% of franchisees generate a loss of more than \$50,000

The small business journey can be both challenging and rewarding and we are here to guide and support you. Having previously assisted so many clients in your situation we would like you to benefit from our experience and help you make the right opening moves. Too often people starting a business simply end up creating a 'job' that denies them the freedom and flexibility they set out to achieve.

Successful businesses have clear objectives, produce quality products or services, understand their market, manage their money properly and are good employers. They also keep quality records and have a close relationship with their accountant. When establishing your business it's important to seek sound professional advice from qualified accounting and legal sources.

We are not your average accounting firm that just keeps the score. Our clients enjoy a 'business coach' relationship and we work on your business to develop strategies, systems and processes to ensure your marketing generates a better return and repeat business. We use tools and techniques to monitor sales, productivity and make your financials more meaningful.

Your business success is important to us because ***Small Business is Our Passion.***

To help our clients we have produced a booklet that contains valuable information about starting a business. It covers a number of topics including :

- Choice of Business Structure
- Tax and Business Registrations
- Buying a Business or Franchise
- Record Keeping Requirements
- Accounting Software Options
- Business Insurances
- Employer Obligations
- Legal Issues
- Permits & Registrations
- Claiming Motor Vehicle Expenses
- Preparing a Business Plan
- Preparing a Cash Flow Budget
- Vehicle & Equipment Finance Options

Excerpts of the booklet are below and full copies are available from our office.

Accounting Software For Small Business

One of the biggest mistakes small business owners make is that they purchase accounting software beyond their business needs and level of accounting skill. This can lead to considerable frustration and records that amount to nothing more than a 'computerised shoebox'.

With so many software options available it is easy to become confused. They range in functionality and sophistication with a price tag to match. To assist you we provide the following guidelines:

- If you don't understand double entry accounting (i.e. debits, credits and journal entries) then avoid sophisticated accounting software programs. If you need to use such a program then consider a training course at a local TAFE that runs for around 14-20 hours at a cost of around \$350
- Don't buy software beyond your business needs. If you don't need inventory or a fully integrated general ledger system don't buy a 'Mercedes' when you only need a 'Magna'
- Your software should be compatible with our general ledger system to allow easy transfer of electronic data. This can save time, money and assist with meeting the various lodgement deadlines

Let's briefly have a look at one of the simplest and most popular accounting software programs in Australia.

If you simply need a 'cashbook' program to track your receipts, payments and GST we strongly recommend **Cashflow Manager**. It looks and operates like a manual cashbook complete with a spreadsheet or column layout and it requires no understanding of accounting, debits, credits or journal entries. At around \$249 it represents excellent value for money. The program provides business templates that automatically establish columns for certain business types and reconciling your bank account(s) is also very simple.

If you have internet banking you can download your bank statements and import the data to save even more time. You can have multiple bank accounts in a single business and the comprehensive reports explain your business results and make preparation of your BAS very easy. The program includes the debtors side of 'Invoice Manager' that lets you generate Tax Invoices and track your debtors and produce Customer Statements. If you have staff you can add 'Wages Manager' to process pays, print payslips, Annual PAYG Payment Summaries and also track staff entitlements.....

Cashflow Manager

Cashflow Manager is the simple GST bookkeeping solution for small and Micro-business owners.

Simply record your business receipts and payments into columns that are labelled with a 'GST' tax type. The program then automatically calculates the GST and at the click of a button the reports give you and your accountant everything you need to prepare your BAS and tax returns.

Other accounting programs require you to have an understanding of double entry accounting including debits, credits and journal entries. You might also need to understand the distinction between assets, liabilities, income, expenses and equity. This is not the case with Cashflow Manager.

You can expect to be up and running in just minutes and you won't need to undergo lengthy or expensive training courses. The program is so simple that it comes with a full, no questions asked 90 day money back guarantee.....

Managing Your Cash Flow

While the main reason most people prepare a business plan is to raise finance, your business plan should also be a blueprint for your business's future. It should also be a way of checking the viability of your business venture.

An integral part of the financial plan is the cash flow budget and a positive cash flow is an absolute necessity if your business is to succeed. Positive cash flow just doesn't happen - it needs to be planned. That's why we strongly recommend the preparation of a 12 month cash flow budget before you start the business. In fact, any business that fails to accurately forecast its cash flow in the first 12 months is headed for trouble because without realistic cash flow projections, management is unable to identify future cash shortages.

The cash flow budget is based on a number of assumptions regarding the expected future performance of the business. The assumptions must be realistic and supported by research, available data plus known facts such as rentals or forward contracts. The information in your cash flow budget is designed to:

- forecast your likely cash position at the end of each month
- identify any fluctuations that may lead to potential cash shortages
- plan for your taxation payments
- plan for any major capital expenditure, and
- provide prospective lenders with key financial information

Of course, positive cash flow alone is not enough. The business must be returning a profit and the long term trend for both must be positive. You will not only need to make sure your business is profitable, you also need to make sure you have enough cash available at the right time to pay all the bills.....

Employing Staff

You and your employees have certain obligations to each other under common law. You also have obligations under Federal and State Territory laws, industrial awards and agreements, tribunal decisions and employment contracts.

Do You Need to Register For PAYG Withholding?

If you have employees you must register for PAYG Withholding and withhold amounts including:

- Income Tax for employees (including working Directors of a Company)
- Withhold 46.5% from payments to suppliers who cannot quote an ABN

Before you withhold any payments, you need to register for PAYG Withholding. Like your GST registration, this can be completed at the same time and means that you will have either quarterly or monthly reporting requirements. If you are a Sole Trader or Partner, the Tax Office do not regard you as your own employee. You 'draw' money from the business to live on but this is not technically seen as normal 'salary and wages'. As such, there is no need to register for PAYG Withholding and withhold amounts from your drawings unless the above examples apply.

Do You Have to Pay Superannuation for Employees?

The Superannuation Guarantee Scheme, administered by the Taxation Office, requires all employers to

provide a prescribed minimum level of superannuation support for each employee, subject to limited exemptions including:

- You paid a salary or wage of less than \$450 in a month, or
- The employee is Under 18 years of age and worked less than 30 hours a week, or
- The employee is Aged 70 years or over

Employers must make the superannuation contributions on at least a quarterly basis. Payments must be made within 28 days of the end of each quarter.

- 1 Jul - 30 Sep due by 28 Oct
- 1 Oct - 31 Dec due by 28 Jan
- 1 Jan - 31 Mar due by 28 Apr
- 1 Apr - 30 June due by 28 Jul

If you fail to pay the minimum level of support (9%*) by the prescribed deadline you are liable for the Superannuation Guarantee Charge which is equivalent to the amount of the shortfall plus an interest component and an administrative charge.

*For Superannuation Guarantee purposes, the definition of an employee is broad and in some instances you may have to pay superannuation on contractors.....

Insuring Your Business

Insuring your business premises and your assets is a critical part of establishing a business. For new starters, insurance can seem like a costly addition to an already long list of expenses, however, if your business is uninsured you may not recover financially from a disaster, burglary, vandalism, fire or storm. Before you start out in business speak to us about your specific business insurance needs and make sure you are covered for the unexpected. The size and nature of your business will generally determine the type of coverage you need. It is important not to let your coverage fall behind as your business grows or diversifies. A periodic review of your policies is also recommended to ensure your business is adequately insured.

As well as insuring your business premises and assets, some or all of these additional insurances could be required depending on your circumstances:

- Public liability to cover customers, clients and visitors
- Cover for contents, equipment, stock, furnishings and fixtures
- Professional indemnity insurance if your business is in a service industry
- Product insurance if your business is in a manufacturing industry
- Motor vehicle insurance if your vehicle is used for business purposes
- Personal injury and/or income protection, particularly if WorkCover is not applicable to your business (see WorkCover Insurance under the 'Are You Going To Employ Staff' section).

The following is a guide to some of the most common types of business insurance available.

Personal Injury - Income Protection Insurance

Insurance industry statistics tell us that on an average day in Australia:

- 214 people are diagnosed with some form of cancer
- 41 people undergo coronary artery by-pass surgery
- 35 people between the age of 35 and 69 will survive a heart attack

In addition, more than 25% of the population will be disabled for more than three months before turning age 65 and 60% of Australians will be disabled for more than one month during their working life.

Income Protection Insurance provides a replacement income if you are unable to work at full capacity, or at all, due to sickness or injury. Personal Injury and Income Protection Insurance is often appropriate for sole traders and partners and is a vital link in providing you and your family with a regular income stream during times of illness or injury.

You can be insured worldwide, 24 hours a day, seven days a week. There are a number of variables that will impact on the premium you pay:

- **Monthly Benefit** - Is the monthly amount of replacement income you will be paid. The maximum is 75% of your monthly gross income (i.e. before tax)
- **Benefit Period** - Is the length of time your replacement income will be paid for any one uninterrupted claim. Benefit periods can be 2 years, 5 years or to age 65 years. The longer the benefit period the higher the premium.
- **Waiting Period** - Is the length of time you must wait before your replacement income will commence. Choices of waiting period are 2 weeks, one month, two months, three months, six months, one year or two years. The shorter the waiting period the higher the premium.

Other factors affecting the cost of Income Protection Insurance include:

- **Type Of Work** - Manual/Labour work will attract a higher premium than office type work
- **Male Or Female** - There are variances between the male and female premium costs
- **Your Age** - The older you are the higher the premium cost
- **Smoker** - People who smoke attract a higher premium than non smokers
- **Pre Existing Medical Conditions** - If you have a pre-existing medical condition, this may affect the cost of insurance. Depending upon the actual condition and the severity of it, you may be considered at normal premium rates or the Insurance Underwriters may deem you to be a higher medical risk. Therefore they may offer you a loaded (increased) premium or they may offer you cover at ordinary rates but exclude anything connected to your pre-existing condition, or they may decline your application for cover totally.

Employees may be entitled to a limited amount of sick pay from their employer but worker's compensation only covers you for work related injuries - a small percentage of the causes of disability. On the other hand, an income protection policy will pay you up to 75% of your income (salary plus super and any other benefits) allowing you to maintain your lifestyle and keep paying your mortgage and other debts. As soon as you are medically defined as being able to return to work, your Income Protection benefit will cease.....

Legal Issues

There are a number of key areas where a solicitor can assist you such as contracts and agreements, negotiating the lease, insurance claims and representing your interests in dispute resolutions with authorities or other businesses. If you require a solicitor please contact our office for a referral.

Contracts

A contract is a binding legal agreement, which is created when there has been an offer, an acceptance of the offer, consideration (usually the price of goods or services supplied) and an intention by the parties to enter into a legal relationship. There are many types of contracts that will affect your business. Not only will you contract with your customers but you will potentially also enter into agreements concerning contracts:

- For the purchase of a business starting-9.jpg
- for the lease of your business premises
- for the supply of financial services such as an overdraft facility
- with suppliers and customers including the terms of trade
- of employment with your employees
- for the supply of telephone, internet and utility services

With customers, it is important to establish a system that records your terms of agreement or trade so that you avoid disputes later on. It can help with the collection of bad debts and the system could be as simple as providing a quote that the customer accepts by signing. Commonly the terms of agreement are often specified on the back of quotations. Remember, if a contract has not been signed it does not necessarily mean that there is not a legal contract. A binding legal agreement may have been established by other means, such as the conduct of the parties and what was said between them.

Leases

A lease is a special type of contract between the lessor (the owner) and the lessee to use the property. A lease can relate to land and buildings or to personal property such as motor vehicles, photocopiers and telephone systems. Where the lease relates to land and buildings the owner is called the 'landlord' and the lessee is called the 'tenant'.

The terms of the lease are generally negotiated between the landlord and the lessee and the main issues that need to be addressed in the lease include the term of the lease, the amount and frequency of the rent, details of the tenant's responsibility for the property outgoings, permitted uses of the property, the option if applicable and the bond or bank guarantee if applicable. It is advisable to consult with a solicitor to assist you in negotiating the terms of your lease.

Most leases hold the lessee responsible for keeping the premises, fixtures and fittings in good repair. Many leases provide for payment of all or a portion of the rates, insurance, maintenance and so on. Make sure these are clearly stated as they are additional to your base rent. If you vacate the premises before the lease expires you may still be liable for payment of rent and ongoing costs if a new tenant cannot be found.

Before signing the lease the lessor must provide the lessee with a signed copy of the lease. If the lease is for a retail shop, the lessor is also required to provide a Disclosure Statement to the lessee at least seven days before the lease is entered into. Both parties should make sure that they speak to their solicitor, accountant, the local council (to be sure there is approval for the use) before they sign the lease.....

Do You Need A Will?

Making a Will is something we all know we should do, but like exercising daily and eating a balanced diet, it's something many of us never get around to until it's too late. It is one of the most important documents you will ever sign because you are 'giving away' almost everything you own. It is therefore important to ensure it reflects your current wishes and distributes your estate in the most beneficial and tax effective way. You must be 18 years of age and be of sound mind, memory and understanding to make a Will.

A Will is the foundation of good estate planning. It's critical to obtain competent legal help in drafting your Will because a poorly drafted Will can be the cause of endless trouble for your surviving family and beneficiaries. Dying without a Will can be costly and creates added stress for your family at a time that is already difficult. In addition, you risk your estate being distributed according to strict government requirements rather than your wishes. This makes your estate difficult to administer and it will take longer to be finalised, resulting in increased costs. You may also lose the choice of who benefits from your estate.

What do you need to consider?

- Do you have an effective, current Will?
- Do you believe you may require the creation of more complex trusts within this Will?
- Do you have beneficiaries with special needs?
- Are you concerned there won't be enough money to satisfy your family's needs in the future?
- Do you need to consider any tax or other implications of your estate planning arrangements?
- Who is to benefit from your Life Insurance and Superannuation?
- Do you have property held as tenants in common?
- Does anyone but you know where your tax records and supporting tax documents are located?
- Does anyone know who your Accountant is? Your Lawyer? Your Broker?