

# A guide for small business owners



Important financial considerations

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Running a small business presents many opportunities and the freedom to be your own boss, however it also comes with its own challenges and financial risks.

This guide examines some of the key financial considerations for small business owners, as well as helpful tips.

# Understand the financial implications of your business structure

The most common business structures in Australia are sole trader, partnership, company and trust.

## Sole trader is the simplest business structure

One person owns the business and makes the decisions. It's straightforward to set up and there are fewer compliance and legal obligations than for other structures.

## A partnership is two or more people who do business together

They own the business and make decisions together. Partnerships are more complex to set up than sole trader businesses but simpler than companies.

## A company is a separate legal entity from the people who own and run it

This means it has the same rights as an individual. For example, it can incur debt, sue and be sued. The liability of a company is limited.

Companies are complex to set up but this structure has benefits for some people.

Companies are owned by members (shareholders) and have officeholders who make key decisions.

## A trust holds property or assets for the benefit of others (known as beneficiaries)

When a business is operated through a trust, the trustee is responsible for all aspects of its operation. The trustee can be a person or a company.

Trusts can be complex and expensive to set up, requiring expert knowledge and skills.

## Choose the structure that best suits your business needs

Consider each option carefully, as there are key factors and rules to consider for each structure. Your business structure can determine the licenses you require, how much tax you pay, whether you're considered an employee or the owner of the business, your potential personal liability, how much control you have over the business, ongoing costs and the volume of paper work for your business.

You can change your business structure throughout the life of your business. As your business grows and expands, you may decide to move to a different type of business structure.



# Cash flow management

Cash flow refers to the flow of money through your business so you always have enough to pay your expenses, debts and yourself.

Follow these steps to manage the way money moves through your business. The better you manage your cash flow, the more your business can thrive.

## 1. Plan your cash flow

Plan your business so it brings in more money than it spends.

### Develop your business plan

Your business plan sets the approach for managing your cash flow. It helps you:

- set clear goals for your business and money
- work out how you'll reach your goals, spot problems early and fix them to get funding from banks and other investors.

#### Checklist

- Prepare your financial information.
- Create or update your business plan.
- Ensure your business plan will help you manage money coming in and out.

## Fund your business

Getting the right funding helps you start or grow your business. It can also help you manage your cash flow when other money isn't coming in. You can:

- use your own savings
- get a bank loan
- find investors
- borrow from family or friends
- apply for a government grant.

Each option has its own costs and risks, so compare what's available and choose what suits your business.

#### Checklist

- Work out how much you need.
- Compare funding options.
- Check the repayment costs and risks.
- Prepare your documents, such as your business plan or financial statements.
- Get professional advice if you're not sure which funding is right for you.

## 2. Set up your finances

Use financial tools and reports to keep an eye on your cash flow and make better decisions about money.

### Keep good records

Keeping good financial records helps you understand your business's money habits and spot cash flow issues early. This supports better decision making and helps you plan with confidence.

Having good records also makes it easier to get funding and meet your tax and legal obligations.

#### Checklist

- Keep records of all sales and costs, such as receipts, invoices and bank statements.
- Use a record keeping system that works for you (paper or digital).
- Keep financial records for at least 5 years.

### Use digital accounting tools

Digital accounting tools are software or online systems that help you run your business. Most tools:

- let you see your cash flow in real time
- can compile reports to give you valuable insights
- offer extra features like mobile access, so you can manage your finances from anywhere.

If you have employees, make sure your accounting tool supports Single Touch Payroll (STP).

#### Checklist

- Choose a digital accounting tool that suits your business.
- Set up your tool to track sales and costs.
- Know how to protect your business from cyber threats.
- Keep your digital tools updated so you have the latest features, security enhancements and bug fixes.
- Get help from a professional (if you need it).

## Set up a cash flow statement

A cash flow statement shows all the money coming in and going out of your business. This helps you see if you can pay your bills on time and plan for other future costs.

Remember to update your statement regularly to spot seasonal trends and cycles. This can help you prepare for busy times, plan for quiet periods and keep your cash flow steady.

### Checklist

- Get the details of your income and costs.
- Create your cash flow statement.
- Review and update your statement regularly.

## Create your budget

A budget helps you plan for future costs and direct your money to where you need it most.

Use a budget to track your income and spending. It can help you manage your cash flow and make better financial decisions.

### Checklist

- Choose a budgeting tool.
- Set up your budget.
- Review and update your budget regularly to stay on track.

## 3. Put money aside for ongoing costs

Plan for regular costs, such as taxes and employee super. Put money aside in a separate bank account to help you pay what you owe on time.

### Get your tax right

Plan when and how you'll pay your tax obligations to better manage cash flow and avoid penalties.

Set aside money regularly so you have funds ready when tax payments are due. Taxes you might need to pay include goods and services tax (GST) and pay as you go (PAYG) withholding.

### Checklist

- Check which taxes apply to your business.
- Find out when you need to pay.
- Update your cash flow statement to plan for them.

## Plan for employee costs

Paying employee costs is an important part of running your business that affects your cash flow.

Include these costs in your budget and cash flow statement to ensure you always have enough money for wages or salary, superannuation (super) contributions and allowances.

Keeping good records and planning will help you meet your obligations and avoid unexpected costs.

### Checklist

- Work out your regular costs for wages, super and allowances.
- Update your budget and cash flow statement.
- Pay entitlements correctly and on time.
- Stay up to date with any changes to awards, pay and super rates.

## Keep on top of due dates

Knowing when you have to pay money helps you avoid cash flow stress and possible fines.

For example, you may need to pay payroll tax, business activity statements (BAS), licence renewals, supplier invoices, rent and loan repayments.

### Checklist

- Find out which payments your business needs to make.
- Check each due date.
- Set reminders in your calendar or schedule payments in advance.
- Review your due dates regularly to make sure you don't miss anything.

## 4. Keep your cash flow healthy

You can increase your cash in and reduce your cash out by making some practical changes to how you run your business.

### Improve your cash flow

Bringing in money faster and spending less helps your business stay on track. Small changes in how you run your business can help you avoid cash shortages and keep your business running smoothly.

To keep your cash flow healthy, set the right prices for your products or services, collect payments quickly, control your costs and manage your stock and assets well.

#### Checklist

- Review your cash flow statement regularly.
- Follow up with customers who haven't paid.
- Review your costs for savings opportunities.
- Keep track of stock levels and reorder only when needed.
- Look for ways to use your equipment or assets more efficiently.

### Review your prices

Review your prices regularly to keep your business competitive, check you're covering your costs and make sure you comply with relevant laws. Price reviews help you respond to changes in the market, meet your business goals and keep your cash flow healthy.

#### Checklist

- Compare your prices with similar businesses.
- Adjust your pricing if your costs or market changes.
- Make sure your prices meet legal requirements.
- Ask your customers for feedback on your prices.

### Invoice the right way

Send your customers clear and correct invoices. This helps you get paid on time and keep your cash flow steady. It also helps you keep good records and follow tax rules. There are laws covering which type of invoice you need to use. If you're registered for goods and services tax (GST) you must use a tax invoice. Use a regular (non tax) invoice if you're not registered for GST.

#### Checklist

- Know which type of invoice your business needs to use.
- Send an invoice as soon as you make a sale.
- Keep copies of invoices for your records.
- Follow up quickly on unpaid invoices.

### Choose your payment terms

Payment terms are the rules you set for how and when customers pay for your goods or services. They form part of a sales contract under contract law. Setting clear payment terms can help you get paid on time, which helps you manage your cash flow.

#### Checklist

- Decide when you want customers to pay, e.g. up front or in 30 days.
- Choose which payment methods you accept.
- Decide how you'll collect overdue payments and debts.
- Add your payment terms to your invoices and contracts.
- Review your payment terms regularly to make sure they still suit your business.

### Manage your inventory

Doing regular stocktakes and managing your inventory well can free up cash for other parts of your business. Keep track of the items you have and what you need to buy. This helps you know what's selling well, avoid running out of stock, reduce costs from over ordering and make better decisions about buying and selling.

#### Checklist

- Check your inventory levels regularly and record any changes.
- Look at your sales trends to see what's popular and what's not.
- Review your latest stocktake to spot items that aren't selling.
- Decide which items to reorder or stop selling.

### Negotiate with your suppliers

Talk with your suppliers to negotiate payment terms and pricing that suits your business. This helps you control outgoing payments and manage your cash flow. For example, you could ask for a 60 day payment term instead of 30 days. This lets you hold onto cash longer. Or you could commit to regular orders to get a bulk discount and reduce your overall costs.

#### Checklist

- Compare suppliers to find the best fit for your needs.
- Ask about discounts and payment options.
- Review contracts before you sign to understand the financial impact.

## 5. Check if you're on track

It's important to check how you're performing against your plans to see if you need to improve your cash flow.

### Track your performance

Regularly check how your business is performing so you can spot cash flow issues early and make better decisions about your money. Compare your estimated and actual income and costs to quickly identify shortfalls. Then you can reduce costs, follow up on overdue invoice payments and revise your budget.

#### Checklist

- Regularly review your main financial documents, such as your profit and loss statement.
- Identify areas to save money or increase sales.
- Update your cash flow statement and budget regularly.

### Stay on top of your yearly tasks

The end of financial year (EOFY) is a good time to reflect on your business's finances and performance. Completing your business tax return and other EOFY tasks gives you a clear picture of your cash flow and helps you spot cash flow risks, find ways to improve your cash flow and plan for the new financial year.

#### Checklist

- Review your finances and measure your results against the goals you set at the start of the financial year.
- Review your business plan and marketing plan and assess if your current strategies are working.
- Set new goals and priorities for the next financial year and add them to your plans.

### Know the signs of financial trouble

If you're struggling to pay bills, relying on credit or delaying supplier payments, it could mean your cash flow is under pressure. Learn the warning signs of financial trouble so you can spot problems early and fix them.

#### Checklist

- Understand your cash flow patterns.
- Keep an eye on profitability and cost trends.
- Monitor changes in customer behaviour.
- Act early and get advice before issues escalate.

### Get help with your finances

Managing your business finances can be challenging but there's professional help available to get your accounts in order, manage your cash flow and make the right financial decisions. Choose an adviser who understands your needs.

#### Checklist

- Decide what kind of help you need.
- Use the Government's [adviser finder](#) to search for help.
- Prepare your questions before you meet.



# Keep your business and personal finances separate

If you're operating a business through a partnership, company or a trust, you must have a separate bank account for that business.

If you are operating as a sole trader, you don't have to open a business bank account but it's better if you do. That way you can easily separate your business transactions from your personal ones, including any cash taken from money your business receives (often referred to as 'drawings').

With a business account, you'll find it easier to:

- track and control your business expenses and income
- clearly show your business finances separate from your personal finances
- get the information you need for your accountant or to meet your tax and reporting obligations.

Keeping your private and business transactions recorded separately can also save you time and money when it comes to preparing financial documents, activity statements and tax returns.

What you will need to set up a business bank account will vary depending on the bank and your business type. Documents and information you will need to provide may include business name, primary business address, Australian Business Number (ABN), industry type and identification for all owners or partners.

If you use a single account for both your personal and business banking, you must clearly identify any personal payments or expenses in your cash book.

Internet banking is now the preferred way to pay invoices. Banks use extensive security measures to protect your funds.

With internet banking you can:

- make payments at any time
- see all your transactions, making it easy to account for your debits and credits
- set up direct debits and automatic payments for regular bills, reducing the risk of errors.

## Set aside money for tax

The Australian Tax Office (ATO) recommends setting aside GST, pay as you go (PAYG) withholding and super from your cash flow, so you have the funds available when it's time to lodge and pay.

Visit the ATO website for tax information for businesses and organisations.



# Protecting your business

Insurance is an important way to reduce your business risks. It helps protect your customers, earnings, employees and business assets (such as equipment, premises and stock).

By law, you may need some insurances to run your business. These depend on the type of business but the most common are:

- public liability insurance, which some states and territories need for certain occupations
- workers compensation insurance, if you have employees
- third party personal injury insurance, if your business uses motor vehicles. This is often part of your vehicle registration fee.

Employers must get workers compensation insurance from an authorised insurer. This covers you and your employees against financial hardship if they become injured or sick because of work. The laws vary in each state and territory.

There are also many types of business and personal insurance for losses to your income.

- Income protection covers part of your income if you're unable to work because of sickness or an accident.
- Life insurance pays you (or your beneficiaries) a lump sum or series of payments if you become terminally ill or die.
- Total and permanent disability insurance pays you a lump sum if you become permanently disabled before you retire.
- Trauma insurance pays you a lump sum for a specified life threatening illness.
- Business interruption insurance pays your ongoing business costs if an insured event interrupts your business, such as a fire damaging your business property.
- Employee dishonesty insurance covers your business for losses from employee theft or fraud.
- Stock, products and asset insurance products include things such as building and contents insurance; burglary insurance; deterioration of stock insurance; farm insurance; goods in transit insurance; and machinery breakdown insurance.
- Liability insurance can minimise the impact on your business if you're liable for damages or injuries to another person or property.

- Management liability insurance covers directors, officers and managers for claims against their management practices. It also protects your assets if these practices cause losses to people or businesses.
- You may need product liability insurance if you make, sell or supply goods, even in the form of a repair or service. This covers you if your product causes injury, death or property damage to another business or person.
- Professional indemnity insurance helps cover the cost of legal action from claims against your professional advice or services. It covers mistakes, neglect or breaches of contract that result in a loss for your client and is mandatory for some professions.
- Public liability insurance covers you if someone dies, gets injured or has their property damaged because of your negligence.
- Electronic equipment insurance covers your electronic items from breakdown, loss or damage while they're at a specific location. It doesn't cover theft.
- Portable equipment insurance covers you for accidental loss, damage or theft. It's for tools and electrical equipment you take on a job with you.
- Cyber insurance helps protect your business from the costs of cybercrime. It can cover costs to do with cyber extortion or ransomware; interruptions to your business because of a cyber event; network security and data breaches, including data recovery costs; and inadvertent loss or release of customer personal information.

You can find an authorised general insurer on the [Australian Prudential Regulation Authority's register](#) and check an insurance broker's license on the [Australian Securities and Investments Commission's professional register](#).

Ask insurers if they offer insurance packages tailored for your business type – these can be cheaper than taking out separate insurance policies.

# Succession planning

When you decide to leave your business, your succession planning will help you successfully transfer your business to your successor.

Developing a good succession plan ensures you are prepared for change, can make the transition out of your business easier and helps your successor prepare for their present and future work responsibilities.

There are four main steps.

## 1. Choose a successor

You need to identify who you would like to take over your business. Your successor could be a family member, an employee, a business partner or an outside buyer.

Make sure you consider what's best for your business and ensure your successor has the right skills and that they want to take over your business.

## 2. Value your business

You should value your business early and often. Your business's value will help you understand how much your business is currently worth. The valuation of your business may change substantially before you plan to leave but a good valuation will assist with your succession planning.

## 3. Keep it current

Review your plan regularly. As time passes your circumstances may change and an up to date succession plan will ensure you're always ready in the event you need to leave earlier than anticipated.



## 4. Final handover

If you have made the proper preparations, when the time comes to leave you should simply be able to hand over your business and step aside. By having a clear and current succession plan, you can enable a smooth transition with less chance of disruption to the business's operations.

For further information, including legal obligations and the financial requirements for selling your business, visit [business.gov.au](http://business.gov.au) or speak to your financial adviser.

# Protecting your legacy

Estate planning may be considered as part of your overall succession plan for your business.

Estate planning involves developing a strategy to deal with your assets after you die – the legal instruments and structures, such as a Will, you put in place to transfer your assets in the event of death.

Tax is a major consideration in estate planning and strong governance relating to the tax aspects of estate administration can help manage the risks.

Ensure you or your staff have sufficient knowledge and skills to meet your responsibilities and be prepared to seek assistance from external advisers on more complex tax issues.

Sources: Australian Securities & Investments Commission (ASIC), [business.gov.au](http://business.gov.au) and ATO

## Disclaimer

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# Get in touch with us, we're here to help.

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