



MODULE 1 – GETTING READY

Here's a breakdown of the differences between a hobby, a side hustle, self-employment and a business, as well as how the Australian Tax Office (ATO) views hobbies:

1. Hobby:

- ✦ Engaged in for personal enjoyment or recreation
- ✦ Usually not intended to generate a profit
- ✦ Income earned from a hobby is generally not taxed
- ✦ Expenses incurred in pursuing a hobby are not usually deductible for tax purposes

Example: John enjoys painting as a hobby. He occasionally sells his paintings at local markets but does not rely on this income to make a living.

2. Side-Hustle:

- ✦ Additional income stream pursued alongside a primary job or other activities
- ✦ Generally, the goal is to earn extra money or explore entrepreneurial interests
- ✦ May involve freelancing, selling products online, or providing services
- ✦ Income earned from a side hustle is taxable and expenses related to the side hustle may be deductible

Example: Sarah works full-time as a graphic designer but also designs and sells custom-made jewellery on Etsy in her spare time.

3. Self-Employed:

- ✦ Individuals who work for themselves and are not employees of another business
- ✦ Have control over their work and business decisions
- ✦ Responsible for managing all aspects of their business, including finances, marketing and operations
- ✦ Income earned as a self-employed individual is taxable and business expenses are generally deductible

Example: David runs his own landscaping business, providing gardening and lawn care services to residential clients in his local area.





4. Business:

- ✦ Organised entity established with the primary purpose of making a profit
- ✦ May operate as a sole proprietorship, partnership, company, or trust
- ✦ Involves systematic and ongoing commercial activities
- ✦ Subject to various legal and regulatory requirements, including registration and taxation
- ✦ Income earned by a business is taxable and business expenses are typically deductible

Example: Emily and Michael open a café together, serving speciality coffee and pastries to customers. They register their café as a company and manage all aspects of the business to generate profit.

The ATO considers whether an activity is conducted with a profit motive when determining whether it is a business or a hobby. If the activity is not considered to be carried on for profit, it will be treated as a hobby and any income earned may not be subject to taxation, while related expenses are generally not deductible. It's essential to keep records and demonstrate a genuine intention to make a profit if the activity is considered a business for tax purposes.

GROSS PROFIT

Gross Profit is the money a company makes from selling its products or services after subtracting the direct costs associated with producing or providing those goods or services. It's a measure of how efficiently a business is producing and selling its products before considering other expenses like rent, utilities, or salaries.

Calculation:
 $\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold (COGS)}$

Example:

Let's say you own a small coffee shop. You sell coffee for \$3 per cup and your total revenue for a month is \$3,000 from selling 1,000 cups of coffee. To make those coffees, you spend \$1,000 on coffee beans, milk, and other ingredients (COGS).

Now, let's calculate the gross profit:

Revenue = \$3,000

COGS = \$1,000

Gross Profit = Revenue - COGS

Gross Profit = \$3,000 - \$1,000

Gross Profit = \$2,000

So, the gross profit for your coffee shop for that month is **\$2,000**. This means that after covering the direct costs of producing the coffee, you have \$2,000 left to cover other expenses like rent, wages and utilities and hopefully, to make a profit.





BREAK-EVEN

Break-even is the point at which a business's total revenue equals its total costs, resulting in neither profit nor loss. In other words, it's the point where the business covers all its expenses but hasn't made any profit yet. For a small business, knowing the break-even point is crucial as it helps in setting pricing strategies, making investment decisions and understanding the minimum level of sales needed to stay afloat.

Calculation:

Break-even Point = Fixed Costs / (Selling Price per Unit - Variable Cost per Unit)

Example:

Let's continue with the example of your coffee shop. Suppose your fixed costs, including rent, utilities and salaries, amount to \$2,000 per month. Each cup of coffee sells for \$3 and the variable costs associated with producing one cup of coffee, such as coffee beans, milk and cups, amount to \$1.

Now, let's calculate the break-even point:

Fixed Costs = \$2,000

Selling price per cup of coffee = \$3


Variable cost per cup of coffee = \$1

Break-even Point = \$2,000 / (\$3 - \$1)

Break-even Point = \$2,000 / \$2

Break-even Point = 1,000 cups of coffee

This means that your coffee shop needs to sell 1,000 cups of coffee per month to cover all your fixed and variable costs without making a profit or incurring a loss. Any sales beyond this point will contribute to profit. Understanding the break-even point helps you set sales targets and pricing strategies to ensure your business remains financially viable.





BENCHMARKING

Benchmarking in business is like comparing your performance and practices against those of others in your industry to identify areas for improvement and set goals. It's like looking at what other successful businesses are doing and figuring out how you can do it too, or even better.

Example:

Imagine you own a coffee shop and want to see how well you're doing compared to other coffee shops in your area. You might look at things like how fast you serve customers, the quality of your coffee and how much you spend on ingredients.

Benchmarking would involve looking at other coffee shops nearby to see how they're doing in these areas. Maybe you find out that a competitor serves customers 20% faster, or another coffee shop has won awards for their coffee quality. These are your benchmarks.

Once you know what the industry standards or benchmarks are, you can set goals to improve your own coffee shop. You might aim to serve customers 10% faster or source higher-quality coffee beans to match the standards set by your competitors.

In short, benchmarking helps you see where you stand in your industry and gives you targets to aim for in order to improve your business and stay competitive.

NOTES SECTION

