# MODULE 2– SETTING UP YOUR FINANCES

## UNDERSTANDING BUSINESS STRUCTURES IN AUSTRALIA

Choosing the right business structure is crucial for any entrepreneur or business owner in Australia. It affects your taxes, liability and how your business is managed. This workbook aims to simplify the various business structures in Australia, outlining their key features, advantages, and examples

### 1. Sole Trader:

**A sole trader is a business owned and operated by one person. It is the simplest form of business structure in Australia.**

* The owner has full control and responsibility over the business
* Taxed at the individual tax rate
* Personal liability for business debts

**Example:** John Smith runs a small consulting business under his own name.

### 2. Partnership:

**A partnership involves two or more people carrying on a business together with a view to making a profit.**

* Partners share profits, losses, and management responsibilities
* Each partner is personally liable for the partnership's debts
* Partnerships can be either general or limited

**Example:** Jane and David start a catering business together and share profits and responsibilities equally.

### 3. Company:

**A company is a separate legal entity from its owners (shareholders). It can enter contracts, sue and be sued.**

* Limited liability for shareholders, meaning their personal assets are generally protected
* Managed by directors who may or may not be shareholders
* Taxed at the corporate tax rate

**Example:** ABC Pty Ltd is a company owned by multiple shareholders. It operates a chain of retail stores.

### 4. Trust:

### A trust involves a trustee holding assets on behalf of beneficiaries. It is a popular structure for investment and asset protection.

- Trust assets are owned and managed by the trustee for the benefit of the beneficiaries
- Beneficiaries receive income or capital distributions according to the trust deed
- Can provide tax advantages and asset protection

**Example:** The Smith Family Trust owns a portfolio of properties, with John Smith as the trustee managing the assets for the benefit of his family members.

### 5. Co-operative:

### A co-operative is owned and controlled by its members, who may be customers, employees, or producers.

- Members share profits and have a say in the business's decision-making process
- Limited liability for members
- Operates based on co-operative principles such as democratic control and concern for the community

**Example:** The Farmer's Co-operative purchases agricultural inputs in bulk for its member farmers and markets their produce collectively.

### Conclusion:

Choosing the right business structure is essential for the success and sustainability of your business in Australia. Each structure has its own advantages and considerations, so it's important to seek professional advice to determine which one best suits your needs and goals.

## NOTES SECTION

# OVERVIEW: WHAT IS BOOKKEEPING FOR A SMALL BUSINESS?

Bookkeeping is the process of recording, organising and managing financial transactions for a business. It provides a clear and accurate picture of a company's financial health, allowing business owners to make informed decisions, comply with tax obligations and track growth over time.

# WHAT BOOKKEEPERS DO

## 1. Recording Transactions:

Bookkeepers record all financial transactions, including sales, purchases, expenses and payments, into the accounting system. This involves categorising transactions correctly to maintain accurate financial records.

## 2. Reconciling Accounts:

Bookkeepers ensure that the company's financial records match the transactions reflected in bank statements, invoices and other financial documents. This process helps identify discrepancies and errors that need to be corrected.

## 3. Managing Accounts Receivable and Payable:

Bookkeepers track money owed to the business by customers (accounts receivable) and money owed by the business to suppliers and vendors (accounts payable). They send invoices, follow up on late payments and ensure bills are paid on time.

## 4. Maintaining Financial Records:

Bookkeepers keep detailed records of all financial activities, including receipts, invoices, bank statements and tax documents. These records serve as evidence for financial transactions and are crucial for audits and compliance.

## 5. Generating Financial Reports:

Bookkeepers prepare financial reports such as balance sheets, income statements and cash flow statements. These reports provide insights into the company's financial performance, profitability and liquidity.

## 6. Assisting with Tax Compliance:

Bookkeepers help businesses stay compliant with tax regulations by organising financial data, calculating taxes owed and preparing necessary tax forms and filings. They may also liaise with accountants or tax professionals for tax planning and advice.

## 7. Providing Financial Insights:

Bookkeepers analyse financial data to identify trends, patterns and areas for improvement. They may offer recommendations to help business owners optimise their finances, reduce costs, and increase profitability.

Overall, bookkeeping plays a vital role in the day-to-day operations and long-term success of a small business. By maintaining accurate financial records and providing valuable insights, bookkeepers help business owners make informed decisions and achieve their financial goals.

# STEPS FOR CREATING A BUDGET FOR A SMALL BUSINESS:

## 1. Set Clear Goals and Objectives:

Define the financial goals and objectives you want to achieve with your budget. This could include increasing revenue, reducing costs, expanding operations, or improving cash flow.

## 2. Estimate Revenue:

Forecast your expected sales revenue based on historical data, market trends, sales projections and any other relevant factors. Consider different scenarios and assumptions to create realistic revenue estimates.

## 3. Identify Fixed and Variable Costs:

Determine your fixed costs (e.g., rent, utilities, salaries) and variable costs (e.g., raw materials, marketing expenses) associated with running your business. Categorise expenses to understand where your money is being spent.

## 4. Allocate Funds for Contingencies:

Set aside a portion of your budget for unexpected expenses or emergencies. Having a contingency fund helps mitigate financial risks and ensures you're prepared for unforeseen circumstances.

## 5. Create a Cash Flow Forecast:

Project your expected cash inflows and outflows over a specific period (e.g., monthly, quarterly) to assess your business's liquidity. A cash flow forecast helps you anticipate cash shortages or surpluses and manage your finances more effectively.

## 6. Review and Adjust Regularly:

Regularly review your budget and compare actual financial performance against your projections. Identify any variances or discrepancies and adjust your budget accordingly. This ongoing monitoring allows you to stay on track and make informed decisions.

# WHY IT'S IMPORTANT TO HAVE A BUDGET FOR BUSINESS:

## 1. Financial Planning:

A budget serves as a roadmap for your business's financial activities, helping you plan and allocate resources effectively to achieve your goals. It provides clarity and direction for decision-making.

## 2. Resource Allocation:

By budgeting for income and expenses, you can allocate resources (e.g., funds, manpower, time) strategically to prioritise key initiatives and areas of investment. This ensures optimal use of resources and maximises efficiency. Some expenses to consider are insurance, rent, electricity/gas, wages, internet & program subscriptions.

## 3. Performance Evaluation:

Comparing actual financial results against your budget allows you to evaluate your business's performance and identify areas of strength and weakness. It helps you assess whether you're meeting your financial targets and take corrective actions as needed.

## 4. Risk Management:

Budgeting helps identify potential financial risks and uncertainties, allowing you to proactively plan and mitigate them. It enables you to anticipate cash flow issues, manage debt, and maintain financial stability, especially during challenging times.

## 5. Stakeholder Communication:

A well-defined budget can be used to communicate your business's financial plans and priorities to stakeholders such as investors, lenders, and employees. It instills confidence and transparency, fostering trust and accountability within the organisation.

In summary, having a budget is essential for small businesses to plan, allocate resources, evaluate performance, manage risks and communicate effectively with stakeholders. It provides a roadmap for financial success and helps ensure the long-term sustainability and growth of your business.

## NOTES SECTION