



Step 7:

Finances



Small Business



Jane Smith & Co

Jane Smith

j.smith@business.au

0412 345 678

123 2nd Ave



Government of **Western Australia**
Department of **Communities**

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How to use this document



WA's Individualised Services (WAiS) wrote this information. When you see the words 'we' or 'us', it means WAiS.



We have written this information in an easy to read way.

We use pictures to explain some ideas.



There are words you need to know and understand when you start a business.

Some words are written in **bold**.

We explain what these words mean.

There is a list of these words on page 30.



You can ask for help to read this information.

A friend, family member or support person may be able to help you.

Finances



It is important to know about your business money. This is called finances.



Understanding your finances will help you:

- Manage your money



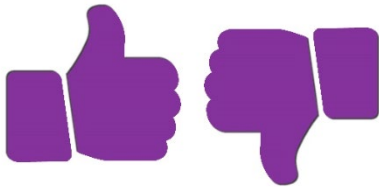
- Plan for the future of your business



- Meet legal responsibilities



- Make more **profit**



- Understand the strengths and weaknesses of your business



Doing a **business plan** will help you understand your finances.

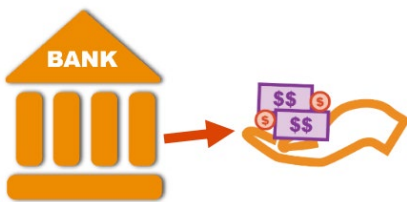
Borrowing money



Borrowing money



If you need to borrow money for your business, this is called getting a loan.



A lender is who you borrow money from.

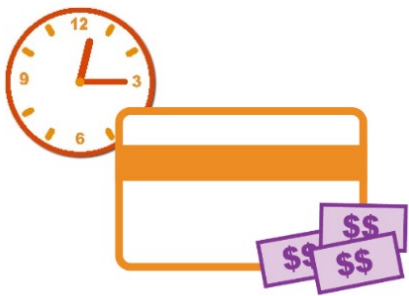
Lenders will decide if they will let you borrow money by looking at:



- How well your business is doing



- Your skills



- How you have paid back money that you borrowed in the past. This is called your credit history.



- If your business has enough cash to pay the borrowed money back.



- If you have something that is worth a lot of money, the lender can take it and sell it for payment if you can't pay them back.

This is called security.



You will need to provide the lender with your business plan.

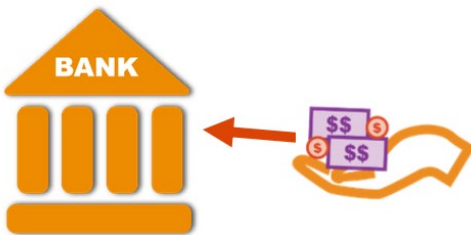


You need to think about these questions:

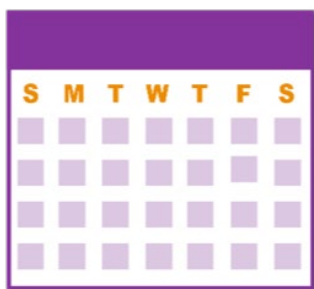
- How much money will you need?



- What do you need the money for?



- Can you pay the money back?



- How long do you need the money for?



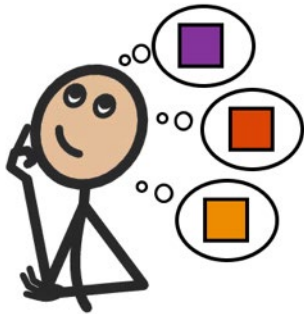
- Do you have any security for the money you borrow?



The money should be what you need to pay for running your business and your personal costs.

This is for the first 6 or 12 months after starting your business.

Where to get money from



It is a good idea to look at different places you can borrow money from.

The types of places are:

Banks

You can also go to credit unions and building societies.

These places might charge you interest rates, application fees and other costs.

You can go to www.canstar.com.au to help you compare places.



Finance Companies

These companies must be registered with the Australian Securities and Investments Commission (ASIC).



Peer to Peer Lenders

This is when people who have money to lend are matched with people who need a loan.

You will usually be charged interest rates.

Family and Friends

If you are getting money from family or friends, it is important to know from the beginning about:

- if it is a gift
- if it is a loan.

If it is a loan, it is good to know what the details are and to have a written agreement.



Grants

There might be government grants you can apply for.

You can go to www.business.gov.au to find them.

Banking



Business banking

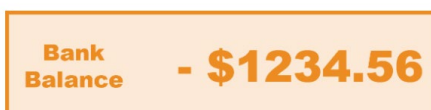


It is a good idea to have a business bank account that is different to your personal bank account.

When you open a business bank account, think about these questions:

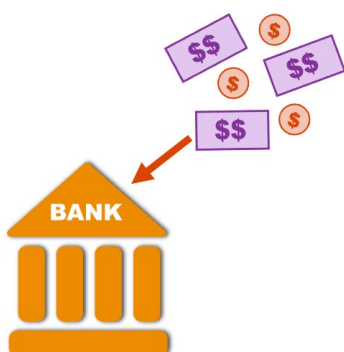


- Do you want people to be able to pay you online, or by credit or debit card?



- Do you need a way to borrow more money than you have in your bank account?

This is called an **overdraft**.

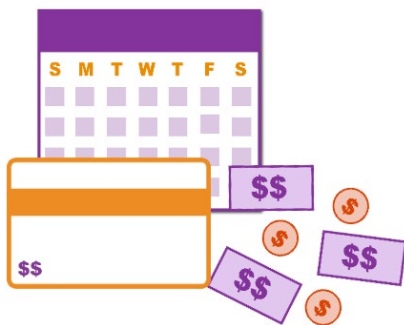
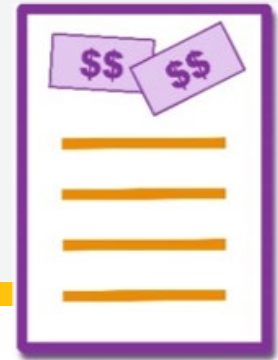


- Do you need to add cash to the account?

Payments



Payment terms



Payment terms are when a payment should be made and how to pay.



It is good to agree on payment terms with the people you buy things from (your suppliers) and people you sell things to (your customers).



It will help to make sure you have enough money for when you need it.



With your customers

The payment terms must be on all invoices you give to a customer.

An invoice is a list of what was sold and how much it cost.



Have a short payment term.

For example, straight away or within 7 to 14 days.



Give details of what ways customers can pay you.

For example, **electronic funds transfer (EFT)**



With your suppliers

Have a long payment term.

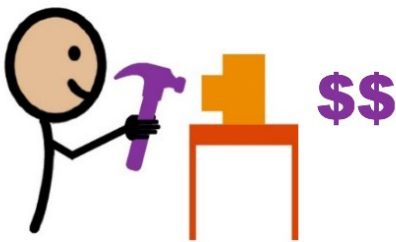
For example 30 days.

Price



It is important to choose the right price for your product or services.

You need to think about:



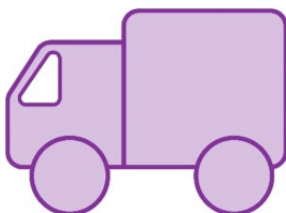
Cost of Goods Sold (COGS)

COGS is the cost of making your product or service.



It can include:

- The cost of the **supplies** needed to make your product
- The cost of transport
- Workers needed to make your product.



Fixed Expenses



Fixed expenses are all the costs of having your business.

This can include marketing, bank fees, insurance, electricity, rent, accountant fees.



Profit

Decide how much profit you want to make.



Competition

Compare the price of your produce or service with other businesses.



Understand why they have these prices.

Records



Keep records



Remember to keep good records.



This can include:

- Invoices for goods or services you have paid for. For example, electricity bills



- Invoices for products or services you have sold



- Bank account and credit card statements



- Tax return information



Businesses normally have different documents that give information about their finances.

The documents help you to understand how the business is doing.

These documents are:

- Profit and loss statements
- Balance sheet
- Cash flow statements

Employee records



- Employee payslips



- Employee superannuation records



- Employee tax file numbers (TFN)

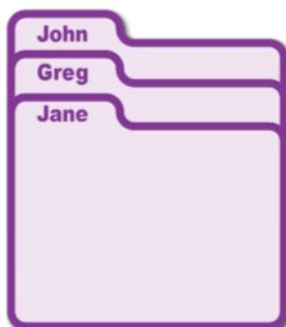


Australian Government
Australian Taxation Office

There are records that you need to keep for the ATO for five years.



For more information about which records you need to keep, you can go to [ato.gov.au](https://www.ato.gov.au).



There are employee records that you need to keep for seven years.



For more information, you can go to

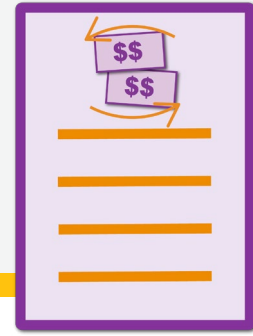
<https://www.fairwork.gov.au/pay/pay-slips-and-record-keeping/record-keeping>



Government of **Western Australia**
Department of Mines, Industry Regulation
and Safety

<https://www.commerce.wa.gov.au/labour-relations/employment-records-employer-obligations>

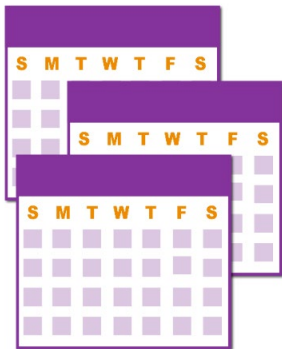
Finance statements



Profit and Loss Statement



A Profit and Loss statement shows how much money your business is making or losing.



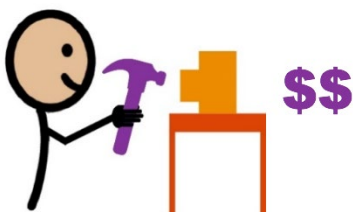
This is over a length of time that you choose.

For example, 3 months or 6 months.



It includes:

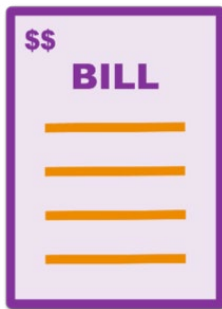
- **Sales** – the total money made from selling your product or service.



- **COGS** – the cost of making your product or service.



- **Gross profit** – the amount left after you take away the COGS from the sales.



- **Expenses** – the costs of running your business.



- **Net profit** – the amount left when you take away the expenses from the gross profit.



SALES

–



COGS

=



GROSS PROFIT



–



=



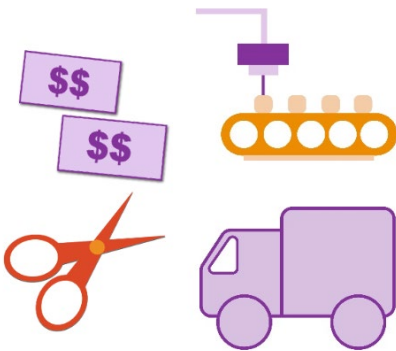
GROSS PROFIT – EXPENSES = NET PROFIT

Balance Sheet

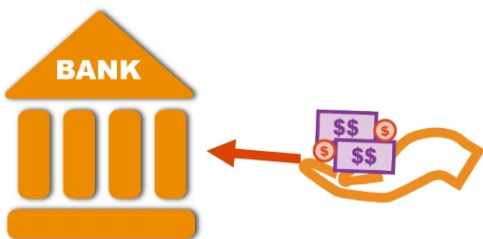


A balance sheet shows how much your business has left after it pays everything it owes.

It lists what your business owns (assets) and what it owes (liabilities).



Assets can be cash, products ready to sell and equipment.



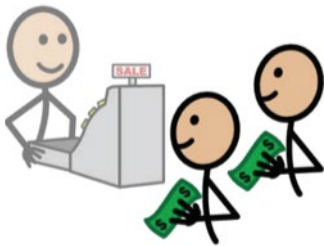
Liabilities can be loans that you have to pay back.

Cash flow statement



A Cash flow statement shows if your business has enough cash to pay for things it needs.

It lists cash coming in (receipts) and going out (payments) of your business.



Receipts can be what customers pay you for your products or services.



Payments can be what you pay

- for any expenses,
- to employees,





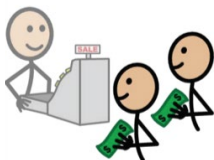
- to suppliers,



- for loans, tax or credit cards.



The Net Cash Position is the money left after taking away payments from receipts.



RECEIPTS

—



PAYMENTS

=



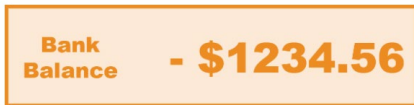
NET CASH POSITION

Word List



Electronic Funds Transfer (EFT)

Transferring money from one bank account to another bank account electronically.



Overdraft

A type of credit from a bank that allows you to borrow more money than you have in your bank account.



Profit

The amount left when you take the cost of making the product or service from the sales.



Supplies

Supplies are things you need to have a product or service.

Notes

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Contact us



(08) 9481 0101



admin@waindividualisedservices.org.au



183 Carr Place

Leederville

WA 6007



waindividualisedservices.org.au/contact