

10 MUST DO STEPS FOR A FINANCIALLY SECURE FUTURE

BY RA ADVISORY | CHARTERED ACCOUNTANTS



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ACCOUNTANTS



INTRODUCTION

The COVID-19 outbreak was an eye-opener for business owners across Australia.

For those who weren't in business or weren't badly affected by the GFC in 2008, this has been their first experience of a downturn... and it certainly hit with sudden force.

Even if your business noticed an upswing during the shutdown period, what happened was a reminder that financial circumstances can change very suddenly. This is why an essential part of your role as a business owner is to prepare for a worst-case scenario.

The following guide lays out ten steps to get your business in great financial shape, giving you a firm foundation to create a solid future regardless of setbacks.

There may be some steps which you have already taken care of. However, most business owners find at least a few areas where change can be implemented when they read this guide.

Take a look to find out which elements of your business finances need the most attention. Once you have finished reading, if you have any questions, you can always reach out to info@raadvisory.com.au.



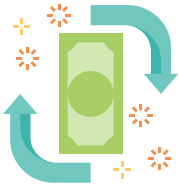
Robin Aggarwal, Director

10 ESSENTIAL STEPS FOR A FINANCIALLY SECURE FUTURE



#1 GET ORGANISED

#2 DIVERSIFY YOUR REVENUE STREAMS



#3 SET YOUR PRICE FOR PROFITS

#4 GET PAID ON TIME



#5 PROTECT YOUR CASH FLOW

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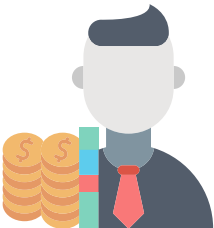
**#6 LEARN THE
LINGO**

#7 STOP SPENDING



**#8 PLAN YOUR
RETIREMENT**

**#9 HAVE AN
EMERGENCY FUND
AND PLAN**



**#10 GET
PROFESSIONAL
HELP**

#1 GET ORGANISED

The first rule of business: Know your numbers

Many businesses grow organically over a period of a few years. As a result, there is no real system put in place for financial management. Money comes in and goes out every month but it's hard to know exactly where you stand.

These are the most basic steps to get organised when it comes to the money in your business.



SETUP A BUSINESS BANK ACCOUNT

Don't mix business with the rest of your life. Every cent your business earns should go into an account that is separate from your living expenses. You may even wish to have another account where you set aside tax payments and one for work-related expenses.

If your business operates as a partnership company or trust, you must have a separate business bank account for tax purposes. If you're a sole trader, it makes sense to have it set up this way so you have a clear picture of your income.

MOVE TO THE CLOUD

The days of managing your money on paper are over.

Now, you can connect your bank accounts to online bookkeeping products like Xero and MYOB, which give you daily updates of where your business is at. Having a clear dashboard makes it easier to predict cash flow shortages and know exactly how much money you're owed at any given time.

These systems also make sorting out your BAS, GST and end of financial year tax a lot easier for everyone involved (including your accountant!)





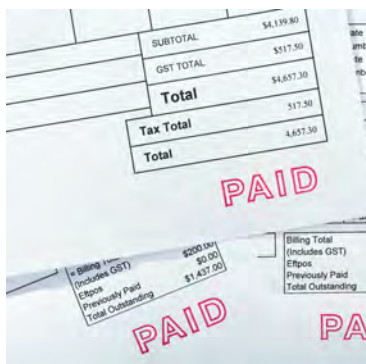
PREPARE A BUDGET

Even if things are going well, you need to keep track of your spending. Many major companies have collapsed because they control how much the money was going out the door.

Create your budget and review it regularly to check if you're paying for things you don't need.

ITEMISE YOUR INVOICES

To stay on top of your cash flow, it's good to know what products or services are making you money and which ones are not worth the effort. By setting up your invoicing system so each sale is itemised, you'll be able to conduct a quarterly review with just a few mouse clicks.



NEED TO GET ORGANIZED?

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#2 DIVERSIFY YOUR REVENUE STREAMS

Don't put all your eggs in one basket!

If you want financial security, investigate how you can create more than one source of income, either by creating new services or adding products you can sell on your website.

Many businesses relied on diversifying their income during COVID-19. Real estate agencies focused on their property management, rather than property sales. Gyms began teaching the world through online fitness classes. Even high end restaurants became home delivery services.

When diversifying, start small to test the market. If something works well, keep going and build on it. If the product or service is a flop, you can quickly move on to the next thing.

Your accountant may be able to give you some good advice about how to diversify based on what they have witnessed other clients achieve.

A quick note on this; you don't have to be all things to all people from the get-go. The same way Amazon started out selling books, nail a product or client niche first then build on it from there.





#3 SET YOUR PRICE FOR PROFITS

Know what to charge

Many businesses are actually undercharging for what they provide. This is because they fail to take into account the many overheads of their day-to-day operations.

Your prices don't have to be set in stone and you can review them regularly. When doing so, take the following into account:

- The purchase price of your goods
- The cost of packaging
- The cost of taking payments (e.g. EFTPOS, PayPal or Stripe fees)
- The cost of storing your products
- The cost of equipment and running an office
- The cost of upskilling so you can provide a better service
- The cost of sales and marketing
- The cost of your staff

Those can add up quickly. If you're not clear on how much it costs to run your business you can easily end up charging too little.

When you set your prices, first get to know your break-even point. This is how much it costs to run your business and pay yourself a salary, before you make a profit. Then ask your accountant to help you calculate how much you need to charge for your products or services so your business makes a profit.

Once you're making a profit, you don't have to spend it all! Pay yourself and put some money away for a rainy day.

Before COVID-19, many businesses were simply breaking even. As a result, they had no safety net and had to immediately start cutting expenses. Mostly this meant letting go of staff, which can be a heartbreaking experience.

#4 GET PAID ON TIME

Show me the money!

It's a universal problem that even the very nicest clients sometimes take their time making payments. While you don't want to end up breathing down people's necks, if you have too many unpaid accounts you will end up in the red.

Here are some ways to make sure you're paid on time:



SET PAYMENT TERMS

If you don't have a business model which allows you to charge upfront, be clear on your payment terms. Ask clients to sign contracts or agree to terms and conditions if you can.



CHARGE LATE FEES

Let your clients know before you start work on their behalf that late payments will result in an additional fee.



SETUP RECURRING PAYMENTS

If you're working with your clients regularly, bill them at the start of each month and don't start work until the money has come in. You can also set up a direct debit so they pay each month without having to log into their bank account..



REWARD EARLY PAYMENT

You could offer a small discount for those who pay before their due date.



WORK WITH A DEBT COLLECTOR

When customers fail to pay after being reminded several times, you can hire someone to ensure payment is made. This does incur a cost so is only practical for larger bills.



CALL A LAWYER

Sometimes a sternly worded legal letter can help get your payment over the line. If this falls through, your legal professional can help you progress the matter to court.

You deserve to be paid for your work so keep your business owner hat on when chasing money. The future of your company is at stake and it's not good business practice to let overdue payments go.



#5 PROTECT YOUR CASH FLOW

Cash is oxygen for business

No business can survive for the long term without cash coming in.

Always focus on your income and keep an eye on it so there is a consistent flow of cash. You can encourage this flow through:

- Being clear on your expenses
- Being careful not to sell at a loss
- Bundling products and services as a way of 'upselling'
- Creating ongoing memberships or contract agreements
- Encouraging repeat business through loyalty programs
- Pre-selling products or services if this works for your business model

#6 LEARN THE LINGO

It's time to talk numbers

Your accountant needs to work with you, not just for you.

Even if you hate talking money, if you're running your own business you need at least a basic understanding of what your accountant is talking about.

Here are a handful of key terms and their explanations:



REVENUE

The total amount of money your business makes.



EXPENSES

What is costs to operate your business.



PROFIT

The amount of money left over from your revenue after paying your expenses.



PROFIT MARGIN

The metric used to demonstrate how much profit you make from every dollar you earn.



COGS

Cost of goods sold (how much each product costs you before you sell it).



WORKING CAPITAL

The amount of money your business has access to, today.



ASSETS

Items in your business which are worth money
e.g. vehicles or equipment



LIABILITIES

Items in your business which cost you money
e.g. Staff or loans

It also makes sense to work with your accountant so you understand the numbers on your balance sheet or financial dashboard. They can share these with you and help you figure out how to stay on track and get in the best financial shape.

#7 STOP SPENDING

Save it for a rainy day

It is common human behaviour to spend within our means. When we don't have a lot of money, we forgo luxuries. When we're doing well, we splurge on that holiday or vehicle.

However, COVID-19 reminded us that not all money should be spent. So for a financially sound business, it helps to have some money or assets put away.

Here are some quick steps to reduce spending so you can afford to put money aside:



ANALYSE YOUR COSTS

Conduct a review of all expenses. Which ones can be eliminated or reduced? Perhaps there is another supplier who can give you a better deal, or you can pay in advance in return for a better deal. You may have subscribed to a software program which nobody in your business uses anymore.

HAVE A SAVINGS PLAN

Make sure your budget includes money you don't spend. Ideally, your business would be able to survive for three months with zero income. While that's not always a reality, it is something to strive for and as demonstrated this year, having emergency funds can save a lot of stress.



REFINANCE YOUR DEBTS

If your business model requires you to borrow money, consider how you can refinance. Getting a lower interest rate will shorten the life of the loan or drop the repayment amount.





INVEST EXTRA MONEY

Instead of finding ways to spend excess profits, get savvy with them. Speak to a financial advisor and accountant about the most strategic way to put money aside in a way that minimises tax and helps grow your financial stability



#8 PLAN YOUR RETIREMENT

There's no time like right now.

Even if retiring feels like the distant future for you, the earlier you begin planning for it, the more comfortable you will be.

There's no harm in having a few simple discussions with your accountant about what you want your retirement to look like. They can suggest options and ideas which you may not have been aware of.

Talk about superannuation, investments and exit strategies. With a plan in place, you'll be far more likely to achieve your goals so you can retire debt-free, have a decent income and enjoy your time away from work.

If you're not paying yourself superannuation, review your monthly budget so you can afford to, and set up a system so the money comes out without you missing it.



#9 HAVE AN EMERGENCY FUND & PLAN

Prepare for the worst

Leading business owners take the time to ask 'What if?'

Those who have been around for a while know bad times are inevitable, even for the very best of businesses.

While few people forecast COVID-19, in 2019 there was talk of an inevitable recession. Savvy businesses began planning and getting organised. They put money aside, figured out what they would do in the event of an economic downturn and included risk management as part of their regular discussions with managers and their financial team.

As already stated in this guide, cash is key. Think about what would happen if it suddenly stopped coming into your business and sit down with your accountant to come up with a plan. It may be as simple as putting your tax return to one side this year or pretending you have an extra person on staff and allocating their salary into an emergency account. You could also apply for overdrafts and lines of credit but not tap into them unless there is a true emergency. It is harder to get credit when you're struggling so doing it when you have money in the bank can be a good strategy.

Another tactic can be to avoid having as many permanent staff members on your team and instead outsource to freelancers or contractors. These professionals aren't a liability to your business and it is much easier to cancel their services at short notice.

It can be frustrating to put money aside when you could be treating yourself to a home upgrade or business class travel but you will never regret having extra money to access when you really need it.

#10 GET PROFESSIONAL HELP

Skip the DIY approach

The same way you wouldn't try to fix a hole in your tooth, you shouldn't try to control your finances on your own.

There are a number of reasons for this. Firstly, financial management takes time you could be using to focus on your business. Second, you don't know what you don't know. It is all too easy to make an error which could give you an unclear picture of your finances or land you in hot water with the tax office.

Working with a professional accountant and bookkeeper makes sense on so many levels. These experts can:

- Take care of invoicing on your behalf
- Help prepare your BAS
- Set up cloud-based accounting for greater efficiency
- Remind you when bills are overdue
- Show you how to minimise tax
- Help you set up a budget
- Conduct regular expense reviews
- Keep you accountable for your spending
- Create forecasts for the future
- Talk to you about risk management
- Work with you on a retirement plan
- Help you achieve your personal and business financial goals





IN SUMMARY

The above advice is general and doesn't take your specific circumstances into account. However, it is an excellent reminder that if you're a business owner a big part of your role is to take responsibility for your financial situation.

Burying your head in the sand when it comes to money and taxes or trying to do all your financial management yourself are two ways to end up in financial strife. While every business is different, there are very few which don't benefit from careful money management and the support of a qualified accountant and bookkeeper.

To get clear on your finances and get your business in good financial shape, check your money status regularly. Make sure you know what's going on and work closely with your accountant to build a more secure future.



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ABOUT RA ADVISORY

We bring big business financial strategies to small businesses, helping you take control of your profits, stay compliant and plan for a better future.

With our help, you'll be free from the stress of managing your day to day finances. This gives you the space to focus on doing what you do best.

It is our goal to act as an extension of your business, providing the financial support you need to turn your business vision into a reality.

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