

A Complete Guide to Managing Small Business Finances

B y : M a r k A d a m

Abstract

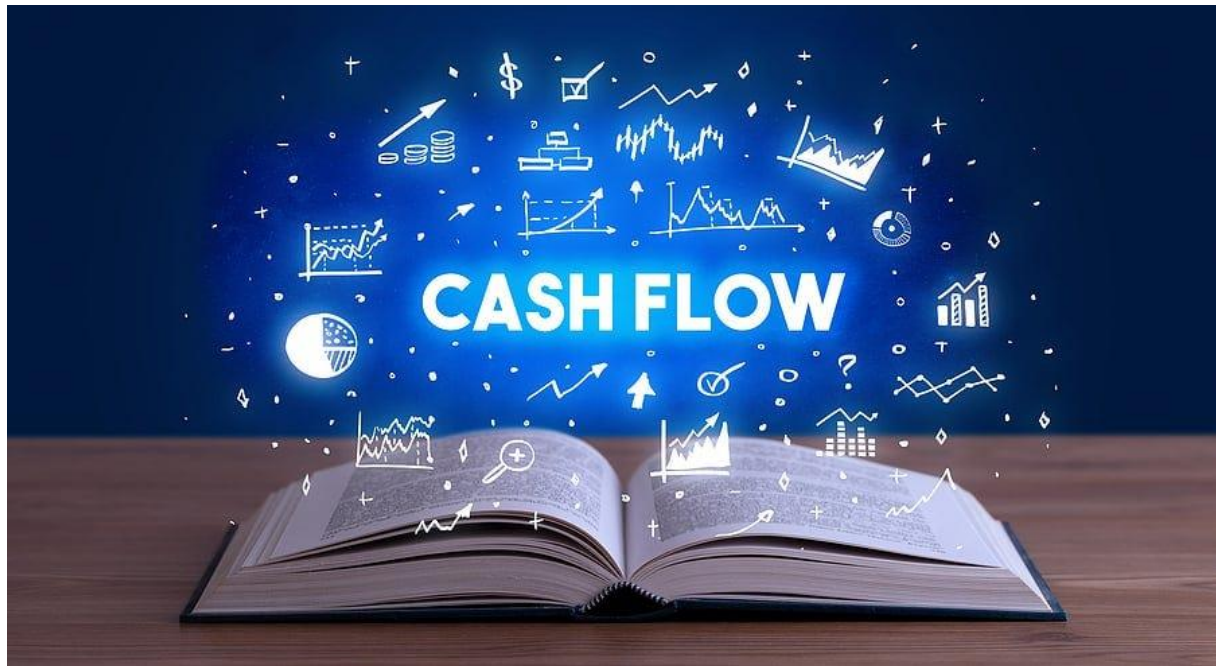
Managing small business finances effectively is crucial for long-term success. It begins with creating a comprehensive business plan that outlines your goals and financial projections. Setting up a separate business bank account helps maintain clarity between personal and business finances. Tracking income and expenses meticulously, budgeting wisely, and controlling costs are essential practices to ensure financial stability. Regularly monitoring cash flow, staying on top of taxes, and building emergency funds are vital for navigating financial challenges. Seeking professional advice and staying informed about industry trends and regulatory changes can provide valuable insights to make informed decisions. With careful planning and diligent management, small businesses can build a solid financial foundation for growth and sustainability.



1. Introduction

Effective management of small business finances requires continuous attention and strategic decision-making. By maintaining accurate records, monitoring cash flow, and controlling costs, businesses can optimize their financial performance. Additionally, staying proactive in tax compliance, budgeting, and planning for growth ensures long-term success. With a commitment to financial discipline and the guidance of professionals when needed, small businesses can navigate challenges and capitalize on opportunities to achieve their goals.

2. Manage Cash Flow In Your Small Business



Your cash flow is the money you have coming in from revenue and going out for expenses.

Even profitable businesses can fail if cash flow is not managed properly. If you don't have enough money to pay your lenders or suppliers, banks may foreclose and suppliers may end contracts.

Learn how you can avoid this by managing your cash flow, controlling your expenses and increasing your profit.

Offering credit

Offering credit as a payment option allows your customers to purchase products or services without paying upfront. This can be risky, so ensure you have good policies in place to minimise the risk to your cash flow.

Offering credit can also be beneficial to your cash flow as it:

encourages customers to fast-track or increase spending

gives you a competitive advantage in your market.

You must weigh up the potential for increased sales with the risk of reduced cash flow.

Create a policy around credit management that clearly outlines the procedures to follow when offering credit to customers

Risks in offering credit

Reduced cash flow—delayed customer payments reduce your ability to purchase from suppliers. You could access debtor finance to reduce this risk.

Reduced profit margin—funding credit sales reduces your profit margin and is shown on your profit and loss statement. Keep this in mind when pricing your products and services.

Large debts—unpaid debts can pose a business risk in Brisbane, especially if these debts are large, single transactions.

Credit assessments



A credit assessment can help protect your business when you want to offer credit to customers. The assessment involves reviewing the customer's financial history to ensure they have a good record of making timely payments.

Before offering credit, ask your customer to complete and sign a credit application form. The terms and conditions of the application form will give you the right to conduct an assessment.

Decide whether to offer credit

Base your final decision to offer credit on the data you have collected, in particular:

the trade credit references

credit report results

for businesses, the length of time they have been operating and financial position

credit terms agreement and director's guarantees signed in full.

Provide a prompt, written response to your customer approving or declining the credit, or requesting further information.

The response should specify:

the amount of credit

credit terms

guarantors (including guarantee forms)

penalty and default terms

any other terms and conditions.

If you decide to offer credit, your customer should be required to formally authorise and inform you about their payment policies (e.g. who from their business in Brisbane can use credit on their behalf).

Managing debtors

How you manage your debtors has an impact on your cash flow.

Use a good filing system to keep track of customers who owe you money. This will help you follow up overdue payments and control your cash flow.

Debtor finance

If outstanding debtors are impacting your cash flow, consider using debtor finance to free up the cash.

Debtor finance involves a financial institution purchasing your debts, taking a fee and providing you with the cash amount, then collecting the debt on your behalf.

While this will deliver cash and buy you time to focus on other aspects of your business, it will reduce your profit margins.

Benefits of debtor finance

Debtor finance can provide steady cash flow, with access to up to 90% of the value of outstanding invoices. This allows you to:

pay suppliers on time and receive quantity discounts

increase sales by offering extended payment terms to customers

boost stock levels for increased demand

match cash flow to business performance and growth

upgrade equipment and produce and sell more goods or services

avoid tying up personal assets, as debtor finance only relies on business assets.

Confidential invoice discounting

Confidential invoice discounting provides businesses with instant cash funding for most of the amount owed, without customers knowing.

Invoice discounting involves businesses making short-term loans by using unpaid debts as security. Your business remains in control of dealing with customers and collecting payments.

Factoring

Factoring is similar to invoice discounting, however the unpaid debts are sold to a factoring company. Customers are made aware that the factoring company has responsibility for debt collection. Make sure you use a reputable company that will not damage your reputation

Some debtors will pay a factoring company earlier if they believe their credit rating may be impacted.

3. Accounting Tips For Small Businesses



Accounting is an instrumental part of running a small business in Brisbane. Implementing systems and best practices for keeping track of expenditures and revenues is key to managing cash flow. Without these systems in place, it's all too easy to lose track of funds or create the financial records necessary to file taxes and apply for small business financing, if necessary.

Proper accounting for small businesses encompasses a number of important tasks.

Opening a Small Business Bank Account

Opening a business bank account allows you to separate business and personal spending, which can be helpful when it's time to file taxes if you plan to deduct eligible expenses. To open a bank account for a small business, you'll generally need to have the following:

Employer Identification Number (EIN) or a Social Security number if you operate as a sole proprietor

Business formation documents

Ownership agreements

Business license, if your state requires one to do business

You'll also need a minimum opening deposit if the bank requires one. Minimum deposit requirements can depend on the type of business account in Brisbane and whether you're opening the account at a traditional bank, credit union, or online bank.

Choosing an Accounting Method

Your accounting method determines how you report income and deduct expenses for the year. The Internal Revenue Service (IRS) allows you to choose between two options: cash and accrual. Here's how they compare.

Cash method. With the cash method, you report income in the year that you receive it and deduct expenses in the year that you pay them.

Accrual method. With the accrual method, you would report income in the year that you earn it, regardless of when it's received.

Setting Up a Chart of Accounts

A chart of accounts is a list of all accounts available for recording transactions in your accounting software program if you use one or a general ledger if you don't. To create this chart, you'd first organize your accounts into specific categories, then further break your organization down into relevant subaccounts.

Each category is assigned a range of numbers that are used to track individual accounts. For instance, if you have a category for business asset accounts, your organization might look like this:

Asset: Checking account, 1005

Asset: Savings account, 1015

Asset: Money market account, 1020

You'd follow this system for all of the account categories that you have. Common categories include asset, liability, equity, revenue, and expense accounts.

Determining the Fiscal Year

A fiscal year is 12 consecutive months for which accounting activity is recorded. Small business owners can decide when their fiscal year begins and ends; the only rule is that it must be 12 consecutive months.

For instance, you might choose to start your fiscal year on July 1 and have it end on June 30 of the following calendar year. Or you may choose a more traditional approach and have your fiscal year follow the standard calendar year, depending on what works best for your business. If you operate a seasonal business in Brisbane, for instance, then you may choose to begin your fiscal year at the beginning or end of your peak sales season.

Basic Bookkeeping for Small Businesses



Basic bookkeeping for small business owners revolves around a core set of tasks, all of which are designed to help you keep track of where funds are going. The most important bookkeeping practices include:

Tracking small business expenses

Recording transactions accurately

Documenting and filing receipts

Reconciling bank statements

In terms of which expenses to track for a small business, the short answer is all of them. Anything that you spend money on—whether it's your monthly lease payment, utilities, office supplies, or postage fees—should be recorded in your accounting system. And those transactions should be recorded accurately to ensure that you have the correct amounts when you're ready to deduct business expenses on your taxes.

Taken separately, those tasks can be time-consuming. When utilizing a comprehensive bookkeeping software program, they become easier. The best bookkeeping software syncs with your business bank account and payroll systems so that you're easily able to import and export transaction history. We'll cover some of the best business bookkeeping in Brisbane software options a little later.

Financial Statements for Small Businesses

Financial statements can yield valuable insights into how well your small business is managing income and expenses. You'll also need to present up-to-date financial statements to lenders if you plan to apply for small business financing at some point.

4. Elements of a Successful Financial Plan for a Small Business



Many small businesses lack a full financial plan, even though evidence shows that it is essential to the long-term success and growth of any business.

For example, a study in the *New England Journal of Entrepreneurship* found that entrepreneurs with a business plan are more successful than those without one. If you're not sure how to get started, read on to learn the six key elements of a successful small business financial plan.

What is a business financial plan, and why is it important?

A business financial plan is an overview of a business's financial situation and a forward-looking projection for growth. A business financial plan typically has six parts: sales forecasting, expense outlay, a statement of financial position, a cash flow projection, a break-even analysis and an operations plan.

A good financial plan helps you manage cash flow and accounts for months when revenue might be lower than expected. It also helps you budget for daily and monthly expenses and plan for taxes each year.

Importantly, a financial plan helps you focus on the long-term growth of your business. That way, you don't get so caught up in the day-to-day activities that you lose sight of your goals. Focusing on the long-term vision helps you prioritize your financial resources.

The components of a successful financial plan for business in Brisbane

1. Sales forecasting

You should have an estimate of your sales revenue for every month, quarter and year. Identifying any patterns in your sales cycles helps you better understand your business, and this knowledge is invaluable as you plan marketing initiatives and growth strategies.

For instance, a seasonal business can aim to improve sales in the off-season to eventually become a year-round venture. Another business might become better prepared by understanding how upticks and downturns in business relate to factors such as the weather or the economy.

Sales forecasting is also the foundation for setting company growth goals. For instance, you could aim to improve your sales by 10 percent over each previous period.

2. Expense outlay

A full expense plan includes regular expenses, expected future expenses and associated expenses. Regular expenses are the current ongoing costs of your business, including operational costs such as rent, utilities and payroll.

Regular expenses relate to standard business activities that occur each year, such as conference attendance, advertising and marketing, and the office holiday party. It's a good idea to distinguish essential expenses from expenses that can be reduced or eliminated if needed.

Expected future expenses are known future costs, such as tax rate increases, minimum wage increases or maintenance needs. Generally, a part of the budget should also be allocated to unexpected future expenses, such as damage to your business caused by fire, flood or other unexpected disasters. Planning for future expenses ensures your business in Brisbane is financially prepared via budget reduction, increases in sales or financial assistance.

Associated expenses are the estimated costs of various initiatives, such as acquiring and training new hires, opening a new store or expanding delivery to a new territory. An accurate estimate of associated expenses helps you properly manage growth and prevents your business from exceeding your cost capabilities.

As with expected future expenses, understanding how much capital is required to accomplish various growth goals helps you make the right decision about financing options.

3. Statement of financial position (assets and liabilities)

Assets and liabilities are the foundation of your business's balance sheet and the primary determinants of your business's net worth. Tracking both allows you to maximize your business's potential value.

Small businesses frequently undervalue their assets (such as machinery, property or inventory) and fail to properly account for outstanding bills. Your balance sheet offers a more complete view of your business's health than a profit-and-loss statement or a cash flow report.

A profit-and-loss statement shows how the business performed over a specific time period, while a balance sheet shows the financial position of the business on any given day.

4. Cash flow projection

You should be able to predict your cash flow on a monthly, quarterly and annual basis. Projecting cash flow for the full year allows you to get ahead of any financial struggles or challenges.

It can also help you identify a cash flow problem before it hurts your business. You can set the most appropriate payment terms, such as how much you charge upfront or how many days after invoicing you expect payment.

A cash flow projection gives you a clear look at how much money is expected to be left at the end of each month so you can plan a possible expansion or other investments. It also helps you budget, such as by spending less one month for the anticipated cash needs of another month.

5. Prioritize Your Business Debts



In an ideal world, you're able to pay all of your business's bills in full and on time – but for many struggling small businesses, the world is far from ideal. If your cash flow is more of a trickle, you may find you need to prioritize your business debts. Focusing on those that are most important first can give you a little breathing room while you build your business – just try to avoid ignoring debts completely for more than one billing cycle to avoid creating even bigger problems.

Paying Non-Negotiable Bills

Account for payroll and payroll taxes. If you can't afford to pay your employees, you're not going to be in business for very long. As long as someone is working for you, they must be paid for their time.

Keep rent and utilities up to date. You could lose your lease if you end up behind on rent payments, and if your electricity gets shut off you'll have to cease operations. Either way, these bills must be paid if you expect to remain in business.

Make arrangements for any aged debt. If you have any debts that are more than 60 days past due, these are non-negotiable in the sense that continued failure to pay could result in a lawsuit being filed against you and your business.

Evaluate any secured debt. Loans that are secured by property can be considered non-negotiable if the property is something your business cannot operate without. If you don't pay these loans, the lender can keep the property.

Work with major suppliers. If you have contracts with vendors or suppliers for goods or services that are necessary for you to have a business, keeping up your payments to them and maintaining a good relationship is essential for your business's continued operations.

Stacking Other Debt



Put debts for which you are personally liable up front. Unfortunately, if your business is organized as a partnership or sole proprietorship, you are personally liable for all of the business's debts. However, if you've created a corporation or LLC, separate out any debts you've personally guaranteed and plan to pay them off first.

Order your unsecured debt by interest rate. Even though unsecured debt is your lowest priority, that doesn't mean you should simply not make payments. A sound plan to prioritize your business debts must include a way to get your business out of debt.

Make a list of minimum payments. You need to know what the minimum payment is for each debt that you have. The total of these payments is the minimum amount you must pay each month to continue operating your business in Brisbane.

Pay off high-interest debt first. Even if other accounts have higher balances, or are older debts, the debts with a higher interest rate are costing your business the most. Accordingly, you should work to pay them off first.

Roll over your payments. As you pay off the top debt on your list with the highest interest rate, apply the amount you paid to that to the next debt on your list, working down progressively until all debts are paid.

6. Small Business Financing Options



Business funding can give your small business the boost it needs to thrive (and sometimes survive). Yet there are many business funding options, and some business owners might feel overwhelmed by the number of choices.

Finding the best business funding option for you will depend on several factors. Below you'll find an overview of eight popular business funding solutions, along with the pros and cons of each to help guide you through the research process.

Featured Small Business Loan

1. Online Loans



Gone are the days of having to visit a brick-and-mortar financial institution to take out a business loan in Brisbane. Today, it's easy to find online nonbank lenders that offer business loans that you can apply for in the comfort of your home or office.

Loan limits, repayment terms, interest rates and fees can vary widely depending on the online lender you work with and the loan type. And you can use this type of financing to cover a wide range of expenses, such as working capital, expansion costs, debt consolidation, and purchasing inventory or equipment.

Online business loans may offer more lenient approval criteria than traditional bank loans. According to Federal Reserve data, 81% of business loan applicants were approved for at least some funding with online lenders prior to March 1, 2020. That figure dropped to 55% after March 1, 2020 (but so did the approval percentages with other financing sources at that time).

With online loans, your business may be able to access funding faster, assuming it's approved. But, of course, lending speed and flexibility often come at a price.

2. Traditional Bank Loans

Business loans from traditional financial institutions, like banks and credit unions, remain a popular way to borrow money. For well-qualified borrowers, the interest rates with traditional business bank loans tend to be a more affordable option.

However, it can be tough for some businesses to qualify for bank loans—especially for new startups or those without established business credit. Even bad personal credit scores could present an obstacle when applying for this type of business funding.

3. SBA Loans



Loans backed by the Small Business Administration (SBA) tend to be one of the more affordable ways to access business financing. With SBA loans, the federal government guarantees a portion of the loan. That makes lenders more comfortable approving borrowers who might appear to be a risky investment otherwise.

The SBA itself doesn't issue loans. Instead, you'll need to contact an SBA-approved lender to apply. But like traditional bank loans, you may need to jump through numerous hoops to qualify for this form of business funding.

If you can qualify, however, your business might be able to borrow up to \$5 million. Repayment terms can stretch out as long as 30 years with some SBA loans, and you might get financing with a down payment as small as 10% of the loan amount.

4. Business Lines of Credit

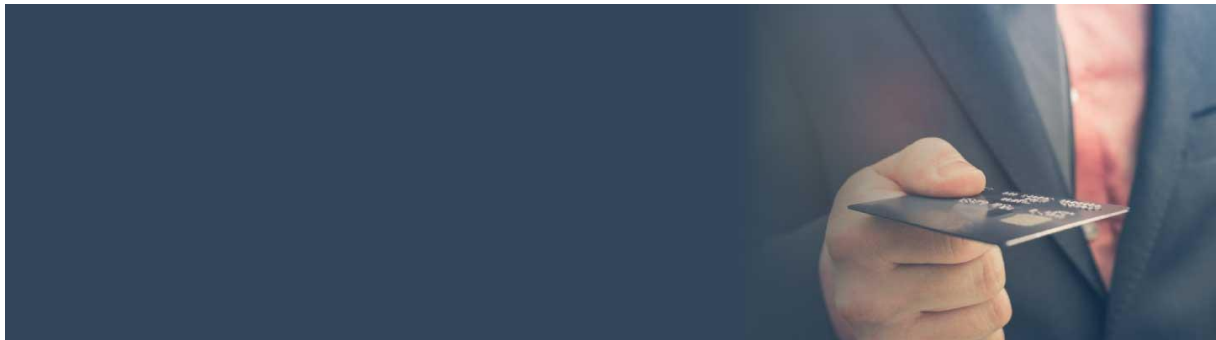
A business line of credit offers a flexible way to borrow money on an as-needed basis. If you don't know the exact amount of money your business needs for a project upfront, or if

you're looking for a standing source of capital, a business line of credit might be worth considering.

Like a credit card, you can use a business line of credit to borrow funds up to the credit limit on your account. As your business repays the funds it borrows, it can access the credit line again—up to the limit. When the draw period expires, however, you'll no longer have access to the credit line.

Business lines of credit are available through both traditional financial institutions and online lenders. So, the specific approval criteria you encounter, along with the interest rates and fees to borrow, can vary a great deal from one lender to the next.

5. Business Credit Cards



Business credit cards represent another flexible way to access financing and establish business credit. This type of funding may be easier to qualify for as well, especially if you have good personal credit scores (at least 670). For this reason, business credit cards can be a great tool if you're looking for a way to establish business credit.

Of course, the interest rates on credit cards can be high, even for well-qualified applicants. The average credit card interest rate for Nov. 2021 was 14.51% (based on Federal Reserve data for accounts that assessed interest). That figure represents consumer credit cards. Business credit card interest rates may be somewhat higher, but they also depend on your personal credit rating and other factors.

6. Small Business Grants

Small business grants represent a funding option that can be attractive to any business owner. The main appeal of grants is the fact that you don't have to repay them, nor do you have to give up a portion of your business equity to secure the funds. They are, in essence, free money.

On the negative side, you're likely to face steep competition when you apply for small business grants. So, you may need to fill out many applications (some of which may be detailed and tedious) if you hope for your business to get selected for a cash award. Grants

tend to be a long shot when it comes to business funding, but they're hard to beat if your business can qualify.

7. Invoice Factoring

For businesses that provide services or products to other companies, invoice factoring represents another way to access funding. With invoice factoring, your business sells its outstanding invoices to a third party. That third party—a factoring company—gives you a portion of the money upfront in exchange for those invoices. Then, it collects payments from your customers and gives you the remaining balance minus a percentage called a factor fee.

The creditworthiness of your customers matters more than your own business' credit scores when it comes to this type of financing. So, even with bad credit or no established credit, you might be able to qualify. Yet as you may encounter with other nontraditional business funding sources, the cost of borrowing can be high with invoice factoring.

6.1. 5 Strategies For Raising Capital As A Small Business Owner



Capital is a requisite for running and scaling a business. From investing in the set-up and logistics to entering new markets and diversifying the product line, everything requires adequate funds. This is the reason why the business plan has a whole section dedicated to financial planning. It provides details of the cash available, the amount that will be spent on each process, and the expected returns. The entire organisation functions on its financial prowess. Without financial stability, it is impossible to stay afloat. It entails accumulating sufficient funds to be invested back into the business and used to pay its bills, salaries and debts.

In addition, the venture must also save an amount every month to increase its emergency fund, which can be leveraged during an unforeseen situation. This needs a constant flow of capital into the business, either generated or secured from outside. Some big investments need financing and the support of a third party to expand and thrive. Here are five strategies small business owners can employ to raise capital for their venture. These are also helpful in keeping it safe during periods of uncertainty.

1. Self-Financing or Bootstrapping

Many start-up founders use this strategy, but it can be leveraged by entrepreneurs who purchase business for sale in Brisbane. If they have surplus cash that can be invested in the entity, they should go ahead with the plan. However, they should have a separate business bank account. It will help to keep personal and business funds separate for clarity of financial records and tax planning. It ensures you are not giving away equity to others and will retain full control over the organisation. However, in the self-financing strategy, the funding is limited, and the owner may lose personal assets in the process.

You can ask your immediate family or friends to invest if you do not have a significant amount. It is easy to borrow from loved ones because you get the amount you need without unfavourable terms or high-interest rates. However, you must prepare the paperwork and decide the payback terms to avoid disputes later. An advantage of this strategy is that you do not have to provide all the paperwork to take out the loan. The downside is that if the growth plan does not work out, you lose the money and strain your relationship.

2. Take Out A Business Loan

Scaling the business needs leasing a bigger office, hiring more employees, buying more stock and spending more on marketing and distribution. All these activities require significant capital, which can be secured through a business loan from banks. You will need the expertise of your accountant to determine the amount that needs to be borrowed. They will also check if the business can afford to repay the loan according to the projections.

The accountant will also assist in choosing between secured and unsecured loans. Unsecured loans offer a low-interest rate and no guarantee, whereas secured loans have high-interest rates and need an asset as collateral. It is vital to assess the terms of repayment and interest rate before applying for a loan. Whether you are expanding or looking for a business opportunity in Brisbane, you will have to provide a solid business plan and accurate financial reports to the bank for approval. So, keep all the paperwork ready to avoid hassles.

3. Seek Government Grants

Entrepreneurs can receive grants from the federal government to finance their growth plans. In addition, there are state government grants and support programs for innovation,

commercialisation, research, sustainability, etc. These can also be utilised to get rebates, incentives, free business tools, workshops, networking opportunities, etc.

Government will assess the business, its financial standing, length of establishment, location, industry, competence, and the need for the grant. Securing a grant is highly beneficial because it does not have to be repaid, but it may be challenging to get it. Also, the process is quite long, which can delay the growth plan and affect the business adversely.

4. Crowdfunding



With everything going digital, raising capital is also taking the online route. Entrepreneurs can now secure funds for their businesses by asking a large number of individuals to invest. The process takes place online and is known as crowdfunding. It has become highly popular in the past few years and offers the flexibility to opt for equity-based or reward-based funding. It also helps to inform the public about the venture and its products and increase brand awareness.

However, the process requires a lot of marketing among the pool of investors on the platform to generate the funding for quick growth. Entrepreneurs also have to pay a fee for utilising the crowdfunding platform, and there is no surety that the required capital can be raised. Still, many who own a start-up or have acquired businesses for sale in Brisbane use it to grow their small venture.

5. Find Angel Investor and Venture Capitalists



Although angel investors are more inclined to fund high-potential start-ups, they provide financial assistance to small businesses. If the entity is operating in the field of the angel and needs mentorship and guidance, angels can help with capital and support. They do this in exchange for ownership equity and become a part of the decision-making process.

Growth becomes streamlined when venture capitalists invest in the business and help to scale up. They provide financing to businesses that showcase the ability to grow profitably and have a bright future. These investors are interested in entities with capable and experienced management and with a robust business model. Thus, if you have purchased a business for sale in Brisbane, you can look for venture capitalists to expand quickly. The downside of this funding is that you will not have complete control over the venture.

Conclusion

In conclusion, managing small business finances demands diligence, strategic planning, and a commitment to financial discipline. By implementing sound practices such as budgeting, tracking expenses, and staying informed about industry trends, businesses can safeguard their financial health and position themselves for growth. Seeking professional advice when necessary and adapting to changing economic conditions are also critical aspects of financial management. Ultimately, by prioritizing financial stability and making informed decisions, small businesses can thrive and achieve their long-term objectives in a competitive marketplace.

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