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# SMALL BUSINESS PLAYBOOK

**PART 1** 2021

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## About this guide

**Have you recently launched a new business or started thinking about it? This guide is for you.**

This 'Small Business Playbook' was developed in 2021 to help aspiring small business owners grapple with the many structuring, tax, accounting and compliance issues that come with launching and operating a new venture in Australia.

Running a business can be a hugely rewarding and fulfilling experience; navigating many of these important concepts and decisions early on equipped with the right knowledge and professional support can help ensure you make the most of your new business.

This is not a comprehensive guide or exhaustive list of topics that need to be on your radar; we simply aimed to provide you with exposure to key concepts so you can research them further, while providing helpful tips and anecdotes along the way. We hope you find it useful and wish you well on your new business journey!

Kind regards,

Mark Copsey and David Downie
Partners at Allworths Chartered Accountants



# BUSINESS STRUCTURING

Selecting the most appropriate business structure based on your current situation and future plans is crucially important from a variety of perspectives:

- **Asset protection**: for example, you can use multiple entities to protect key assets such as intellectual property from any claims arising due to your day-to-day operations
- **Tax minimisation**: for example, switching from a sole trader to a proprietary limited company can prevent you from being subject to tax at the highest marginal rate personally
- **Attracting investment**: for example, if you're operating an early-stage technology startup, a company structure gives you the ability to distribute shares to investors and raise capital to fuel your growth, while benefiting from various grants and incentives

It's not unusual for businesses to start out in the wrong structure or see their needs change over time. It's never too late to reexamine your structure but it's far less complicated and expensive to avoid any foreseeable errors from the outset with professional advice.

Below we summarise the main features of typical business structures used by small businesses:

### Sole traders

https://asic.gov.au/for-business/small-business/starting-a-small-business/setting-up-a-business-structure/

Setting up as a sole trader is as simple and inexpensive as registering an Australian Business Number (ABN). You may not even require a trading name, i.e. if you are operating under your own.

You can elect to register for GST and are required to do so when you cross the annual income threshold (currently $75,000).

Income is received by you personally and taxed as such at your marginal tax rates. You're also responsible for all aspects of the business and have unlimited personal liability for any debts or claims against the business.

Despite these downsides, which can be mitigated to a certain extent (e.g. with insurance), operating as a sole trader can be a good place to start with low barriers to entry giving you an advantage in terms of speed to market.

However, if you operate in a risky space or plan to grow the business significantly, operating as a sole trader will not be appropriate.

## Partnership

A partnership is also a quick and easy structure to establish - in fact, a partnership can happen 'automatically' and be inferred from your behaviour when two or more people work in common with a view to profit.

Many startup cofounders who simply begin collaborating without formal agreement as to their structure should be aware they might be considered a partnership in the eyes of the law.

Partners share control and management of their business and income flows to each of them personally as per their partnership agreement (if there is one). Like sole traders, each partner is then taxed at their personal marginal tax rates.

A partnership is also not a separate legal entity, so partners are not only personally liable for their own actions or debts incurred but also those of their partners.

Once again, these downsides can be mitigated to a certain extent through insurance and by using a detailed partnership agreement. Amongst other things, these agreements will cover: how disputes are to be settled and succession planning in the case of a partner's death or retirement.

*In my 16 years as a partner of Allworths we have had to call up on the partnership agreement three times to settle matters. In two of those instances, not having the agreement in place could have caused financial disaster. So while you and your business partners get along now, I promise it can go wrong very quickly.*

*One of our larger clients recently called upon their shareholders agreement when two shareholders wanted to exit the business. The process went fairly smoothly as they followed the rules within the document to value the retiring shareholder's shares.*

*Preparing a partnership agreement is an added cost early on in the life of the business, but it could save a lot of pain in the future.*



## Company

https://business.gov.au/planning/business-structures-and-types/business-structures

A proprietary limited (Pty Ltd) company is a common and popular structure for several key reasons. A company is a separate legal entity with all the rights and responsibilities of a person and, generally speaking, company directors can't be held personally liable for the debts or obligations of their businesses (unless of course they engage in criminal or negligent activity).

### Benefits of a company business structure:

#### Limited liability

It's advantageous that your company is a separate legal entity and your personal assets will generally be protected in case of company debt, insolvency or litigation.

Some exceptions apply, including but not limited to:

- Debt: if you have signed a director's or personal guarantee
- Insolvency: directors are liable for debts of a company incurred when the company was not able to repay the debts.
- Litigation and crime: directors can be personally liable for actions or omissions of a company where they are negligent in their duties as a director.
- Unpaid tax and superannuation: directors can be personally liable for unpaid PAYG withholding, GST and superannuation liabilities of a company.

For most people, the company structure offers great protection and keeps your personal assets firmly separate from the day-to-day risks of running your business.

#### Expansion is easy

A company structure offers you the ability to issue shares of various classes to new shareholders; giving you the ability to raise equity finance (investment capital in return for a parcel of shares in your business).

This is a very important benefit to many founders who plan to raise investor capital one or more times to fuel their initial setup and continued growth before becoming profitable (and beyond that point).

Innovative companies such as technology startups should also explore whether they qualify as an Early Stage Innovation Company (ESIC), meaning their investors can benefit from generous tax incentives including modified capital gains tax treatment - making your investment proposition more attractive from the outset.

### Monetary incentives

Various other opportunities are available to companies regarding tax concessions and government grants, particularly when they are starting out.

For example, the Research & Development (R&D) Tax Incentive offers companies with less than $20 million in annual turnover a refundable tax offset of up to 43.5% of your eligible R&D expenditure.

Various grants such as the NSW government's Minimum Viable Product or Building Partnerships grants, or the federal government's Accelerating Commercialisation grants are only available to companies.

## Disadvantages of a company business structure:

### More expensive

Companies are more complex than operating as a sole trader or partnership and come with an annual fee payable to the ASIC. Their setup, administration and other requirements may cost you more in the form of professional services and registration fees.

### More regulated

It's important to note that companies are regulated by the ASIC, and must comply with all laws and regulations surrounding them. You need to take additional time to ensure your company and its directors are following any relevant reporting requirements, including greater tax reporting requirements, and are aware of their Directors Duties (contravention of which can lead to personal civil or criminal liability).

### No capital gains tax discount

Companies are not eligible for the 50% capital gains tax discount for assets held for over 12 months. Companies and their shareholders may be eligible for the small business capital gains tax concessions on the sale of company assets or shares in the company.

## Trusts

https://asic.gov.au/for-business/small-business/starting-a-small-business/setting-up-a-business-structure/

Trusts are a popular business structure as they can provide both asset protection benefits and income tax flexibility.

A trust is technically not a separate legal entity, but a relationship between the trustee and the beneficiaries of the trust as set out in the trust deed, which specifies the rules of the trust including the powers of the trustee and who can benefit from the trust income and assets.

Where a company is used as the trustee the trust can provide limited liability so the owners or controllers are not liable for the debts of the trust. Alternatively an individual or individuals can act as the trustees. Whilst this avoids the set up costs of a company, having an individual trustee/s reduces the asset protection benefit as individual trustees can be personally liable for the debts of a trust where the trust assets are insufficient to pay the debts.

Trusts are usually categorised as either unit trusts, discretionary trusts or hybrid trusts (which have features of both unit trusts and discretionary trusts). Unit trusts are similar to companies in that unitholders acquire a set number of units and are entitled to share in the income and capital of the unit trust in proportion to the number of units held. Discretionary trusts are popular as the trustee can distribute the income of the trust to any eligible beneficiary they choose, and in this way the income tax on the trust income can potentially be minimised from year to year.

Whilst the use of trusts as a business structure can provide substantial benefits, they are comparatively costly to set up and administer. They are also less easily understood by banks, government departments and agencies. In our experience some government agencies have refused to engage trusts for services, so if you are potentially trying to obtain government work you should ensure that the relevant department or agency is willing to deal with a trust before setting one up.

# DIRECTOR IDENTIFICATION NUMBER

As part of a new director requirement, all directors must verify their identity by applying for a director identification number. This includes all directors of companies, registered Australian bodies, registered foreign companies or Aboriginal and Torres Strait Islander corporations.

These are given to directors who have verified their identity with the Australian Business Registry Services. The scheme aims to prevent false and fraudulent director identities, especially in the case of illegal phoenix activity. All directors will need to apply for their own ID and will keep them forever. Applications are open and most easily done online. The process is free and you can update your details at any time.

Learn more:

https://www.abrs.gov.au/director-identification-number

# DIRECTORS DUTIES

Directors of an Australian company are subject to many legal duties that regulate their activities as directors. They can face personal civil liability and criminal liability for the actions and omissions of a company in a variety of circumstances. It is vital that prospective directors understand their potential liabilities when taking on the role of director. The areas where a director can be personally liable include:

- Debts incurred by the company when trading whilst insolvent (i.e. whilst unable to pay its debts).
- Losses incurred by the company where the director has breached their duties to the company (e.g. the duty to act in good faith and avoid conflicts of interest).
- Tax debts of the company for employee PAYG withholding obligations (the tax withheld on employee salary payments), and unpaid Goods and Services Tax.
- Unpaid superannuation obligations of the company.
- Failure to ensure the health and safety of employees in the workplace.
- Failure to comply with restrictions on electronic marketing (e.g. “spam” emails).
- Breaches of workplace relations laws governing employee wages and working conditions.

One of the first steps in making sure that directors comply with their legal obligations is to establish a robust financial reporting system.

The key elements are:

- Recordkeeping: establishing the foundation of the system. Use a cloud-based accounting system (e.g. Xero) to send customer invoices, receive and save supplier invoices, perform bank reconciliation and more. Bookkeeping can be largely automated using software to read invoice information and pre-fill transaction entries.
- Receivables and payables: maintaining working capital. Manage receivables (including sending payment reminders) and supplier payments using the cloud-based accounting system.
- Payroll: keeping your employees happy. Use a cloud-based payroll system that links to the accounting platform to schedule and execute employee pay-runs, including: automatic payment of wages to employee bank accounts, automatic payment of superannuation to a clearing house, as well as management of employee leave and reporting of payroll information to the Australian Taxation Office (ATO).
- Financial reporting; measuring your progress. Prepare profit and loss (P&L) reports, balance sheets, cash flow statements, and Key Performance Indicator reports. It is also important to regularly compare budgets to actual results.

# ACCOUNTING & FINANCE

## Financial Compliance

### Bookkeeping

Xero fulfills the bookkeeping function for many SME businesses. Apps like Dext can save hours for a small business, as can the hundreds of other add-on apps in the Xero marketplace.

However, many businesses still engage a bookkeeper to help plug any gaps on their way to full automation (e.g. reconciling transactions from your bank feeds, chasing up accounts receivable, and dealing with your tax agent at tax time).

These functions can also be fulfilled by financially savvy or interested business owners keen to learn and spend time in this area of the business.

### Record-keeping

https://www.ato.gov.au/General/Other-languages/In-detail/Information-in-other-languages/Record-keeping-for-small-businesses/

Record-keeping (of receipts and invoices paid by your business, plus agreements entered into with customers, suppliers and employees) is required by law and important to help ensure you meet your bookkeeping and tax obligations.

The law requires businesses to keep records:

- With an explanation of each transaction
- In writing (electronic or paper)
- In English or in a form that can be easily converted
- For five years for tax purposes and seven years for companies (some records may need to be kept longer)

Effective record-keeping, and the real-time tracking of your expenses, is also advisable as it helps you stay on top of your cash flow situation.

Systems such as Xero will be able to provide a 'live dashboard' view of your business' health, the importance of which can't be understated to business owners - especially those wearing the hat of 'Chief Financial Officer' along with all the other hats we wear!

### How do I do this?

If you use Xero as your bookkeeping system, add-on apps like Dext can be instrumental in seamlessly keeping track of all electronic invoices and paper receipts (by uploading photos of them as they are received).

With the right electronic record-keeping software, you can:

- Automatically provide ready-made reports
- Produce invoices, summaries and reports for GST and income tax purposes
- Keep up with the latest tax rates
- Report certain information to the ATO online
- Save on physical storage space
- Back up records in case of flood, fire, theft or cyberattack

**SCENARIO:** You're the owner of an SME or self-employed, and you find it boring and/or time-consuming to type your expenses into a spreadsheet, not to mention carefully filing all your paper receipts over several years. You'd rather spend that time on more important things like growing your business, maintaining client relationships or even just kicking a ball around with your kids.

**SOLUTION:** Dext aims to make your accounting admin as simple as possible. In doing so, the technology allows you to capture, store and keep track of your business receipts, bills, invoices and bank statements.

To use Dext, simply scan or take a photo (on your mobile) of a physical receipt when it's produced. Dext will then use AI to extract all the important information from your receipt and upload it straight into your accounts on Xero (upon review/approval from you). This way you can save time on a painfully menial task while also meeting your record-keeping obligations with ease. Alternatively you can provide your supplier with a dedicated Dext email address so they can forward their invoices directly to your account. You still need to review and approve the invoice but it's guaranteed to save you time.

You can also upload bills, digital receipts, invoices and bank statements from your phone, laptop or email account and the same thing will happen – Dext will extract all the key data points and send this information directly to your Xero account.

The use of Dext streamlines the process for expensing items, enabling you to start expensing more, paying less tax and saving much of your precious time.

# TAXATION

Australia has a very complex system of taxation, unfortunately one of the most complex in the world!

It is essential to have professional tax advice in order to both comply with your obligations and enable prudent planning to legally minimise taxes payable.

### Sole Traders

Sole traders are taxed on their "taxable income", which is their net assessable business income after reduction by available tax deductions. They are taxed at their personal marginal tax rates.

Special rules exist in relation to 'non-commercial losses' which operate to quarantine tax losses arising from 'non-commercial' business operations where relevant tests are not met e.g. income for the year is less than $20,000.

### Partnerships

Partnerships are not required to pay tax, instead they are 'flow through' entities for income tax purposes. As such the net taxable income or loss of partnerships for each year is distributed to each of the partners, and included in the partner's taxable income. The partnership is required to lodge its own income tax return annually showing the total taxable income of the partnership and the distribution to each partner.

### Companies

Companies are required to pay income tax annually on their taxable income, after the lodgement of their annual income tax return.

For companies that are part of a group with a combined annual turnover of less than $50 million, the tax rate is 25% of taxable income for the year ending 30 June 2022 and future years.

However, if more than 80% of the income of the company is "base rate passive entity income" (broadly passive income such as interest, dividends and rent), or the company qualifies as a large entity (with more than $50 million in combined annual turnover), the tax rate is 30%.

Taxable income is calculated as assessable income less allowable deductions. The assessable income of a resident company includes income from all sources worldwide. Accelerated deductions are available for investment, in items of plant or equipment, as an incentive to promote business investment.

Tax losses can be carried forward indefinitely for use in offsetting taxable income in future years, subject to the satisfaction of relevant tests regarding the continuity of ownership of shares in the company, and the continuity of the business conducted. For a limited period tax losses may be able to be 'carried back' to prior years to produce a refund of income tax where tax was paid in the prior year.

Capital gains realised on assets acquired after 19 September 1985 are subject to capital gains tax, at the applicable rate of company tax, unless limited exemptions apply.

After lodgement of the initial income tax return for the company, the Australian Taxation Office will calculate their estimate of the income tax payable for the subsequent financial year and will require the company to make quarterly (or monthly) instalments of this expected income tax liability, which are known as Pay As You Go Instalments.

### Goods and Services Tax

Goods and Services Tax (GST) is required to be paid by a business making supplies of goods or services. It is calculated at a rate of 10% of the value of the good or service and is applicable to most supplies.

You can elect to register your business for GST at any time (meaning you need to start adding it to your invoices), but you are required to when your annual turnover exceeds $75,000.

For some items, such as fresh food and financial supplies, exceptions can apply.

Businesses can also claim credits for GST paid on inputs used for business purposes.

GST is reported to the ATO periodically

(typically monthly or quarterly depending on the level of turnover of the business) in the "Business Activity Statement", along with other periodic obligations such as PAYG withholding (on employee salaries), Fringe Benefits Tax and PAYG instalments.

Importers typically are required to pay GST on imported goods on entry into Australia but can apply to the ATO to defer payment of the GST to their next BAS.

Typically, a GST credit is available to the business in relation to the GST paid, so the next cash flow impact is nil under the deferred GST scheme.

For property developers and investors, the GST regime can be complicated, with supplies of residential premises being "input taxed" with no GST payable (or claimable) unless the premises are new or substantially renovated.

### Fringe Benefits Tax (FBT)

FBT is a tax payable by employers in relation to benefits provided to employees (and their family members) in addition to their salary.

FBT is payable on common employer expenses paid to benefit employees, such as entertainment (e.g. restaurant meals), private health insurance premiums, payment of accommodation costs, low interest loans, and the provision of a company car.

FBT exemptions are available in relation to relocation costs, such as travel to Australia, and the cost of removal and storage of personal items. It is generally tax effective to "salary package" any expenses that are FBT exempt rather than pay an allowance to employees for these costs, which will be taxable to them as salary.

### Payroll Tax

Payroll tax is payable in each State and Territory on employee wages and benefits where the relevant threshold is exceeded. For example in NSW the annual threshold is $1.2M. Wages in excess of this amount are subject to payroll tax at the rate of 4.85%. This threshold is reduced where the business also pays wages in other States or Territories.

### Dividend Imputation

Australia has a system of dividend imputation whereby tax ("franking") credits are generated by payments of company income tax, which are recorded in a "franking account".

Companies may then attach these franking credits to dividends, and the shareholders can use the franking credits to reduce their own income tax liability.



### Annual Income Tax Return

- Income tax returns are required to be lodged with the ATO annually for the 12 months to 30 June.
- Where a foreign owned company has a parent with a different accounting period, a substituted accounting period can be approved by the ATO (e.g. a 31 December year-end).
- Make sure to register with a tax agent to get a tax return lodgement extension of up to 7 months.

### Business Activity Statements (BASs)

- BASs are required to be lodged with the ATO either monthly or quarterly (depending on the turnover and amount of employee tax withheld) together with payments of PAYG withholding, Goods and Services Tax, Fringe Benefits Tax instalments and Pay As You Go instalments of company tax.

### Payroll Tax Returns

- Payroll tax returns are required to be lodged monthly, quarterly or annually by an employer when their total wage bill exceeds salary and wage thresholds.
- This is lodged to the relevant state government body, and the rates and thresholds vary between states and territories.
- For the tax year ending 30 June 2022, the threshold is $1.2 million in NSW.

### Workers Compensation Returns

- Workers Compensation returns are required to be lodged annually to declare annual wages for the past year and estimated wages for the forthcoming year.

# PAYING YOURSELF

## Dividends vs salary

For business owners deciding how to remunerate themselves, often the choice is between taking a salary, dividends, or a combination of both. There are legislative restrictions to be aware of that may require you to choose a particular avenue of income.

Salaries, dividends and drawings will lead to differing tax outcomes so it's important to consider these carefully with the benefit of professional advice. The best solution for you may not resemble that of another business owner.

### Legislative restrictions

- Personal Service Income (PSI) rules may apply if the majority of your company or trust income is a result of your own personal skills and efforts. Therefore, profit will have to be attributed to yourself and included in your personal tax return.
- For companies, the rules in 'Division 7A' of the income tax legislation limit amounts that you can borrow from a company, and provide for minimum repayment periods and interest rates for loans to shareholders or associates. These rules are quite complex and professional advice should be sought to ensure that they are complied with. If not, taxable dividends can be deemed to have been paid without any actual dividend payments taking place.

### Salaries

- When budgeting and deciding if a salary is going to be suitable for you, you need to consider the stability of your revenue sources and all your fixed and variable costs; if you expect to see a cash surplus month after month, a salary may become a possibility for you.
- Add yourself to your payroll to keep payments regular and consistent, as this will be easier to incorporate into a business budget.
- Try to reflect industry standards with your salary, as if you were paying someone else to fill your shoes. At some point you may hope to do just that.

**A NOTE FROM MARK:**

*Mapping out your numbers in a budget is eye-opening for how your business is headed. Our firm has an annual budget which we track our actual numbers to monthly and any*

*large variances are reviewed and where necessary the budget is updated.*

- Your salary must be included in your personal income tax return, just like any other employee.
- The business will need to make superannuation payments in relation to your salary, and you will also need to be covered for Workers Compensation purposes. Payroll tax will also be payable if the relevant threshold is exceeded by the business.

### Dividends

- This method involves paying yourself out of "after tax" company profits. If the dividend is franked you can receive a credit of any company tax paid by the company.
- The payment of dividends is administratively simple, but you will need a Director's declaration and a dividend statement to shareholders.
- Superannuation is not payable by an employer on dividend payments, however dividends to working directors may count as wages for Workers Compensation and Payroll Tax purposes.
- Dividend payments directly reduce the equity of the company - when a dividend is declared and paid, the company's cash and its retained earnings are reduced.

# MANAGEMENT ACCOUNTING

When setting up a new business, you wear all the hats of the C-Suite, including Chief Financial Officer. This can be overwhelming and many aren't aware of what's involved in the responsible financial management of a new business.

On the other hand, this can be learned and supported through professional advice. As your business grows, you can look at outsourcing some or all of your finance function, for example to a "Virtual CFO", or hiring an in-house accountant. The roles we are talking about here are not usually fulfilled by your bookkeeper or tax agent as they are far more strategic and specific to your businesses, for example:

- Defining where the business is headed (the strategy)
- Plan how you're going to get there (through budgeting/forecasting)
- Keeping a close eye on your progress (management accounting)
- Securing any funding needs you will have (finance)
- Protecting the business from any foreseeable dangers (risk management)
- Taking care of yourself and your team (personal finances)

There are a number of regular financial compliance tasks that are necessary for businesses. The key recurring requirements to be aware of are listed below.

### Annual Financial Statements

- These should be prepared and signed off by external independent accountants at least annually for review and adoption by the directors. Technically this is not legally necessary (except for "large" proprietary companies or in other specific circumstances) but is highly recommended.
- In addition, directors should review management accounts on a regular basis (e.g. monthly) in order to fulfill their obligation to stay up to date regarding the financial position of the company.

### Budgets and Cash Flow Forecasts

- These should be prepared at least annually for the upcoming year, regularly reviewed, and revised as required to effectively manage the profitability and cash flows of the company, and to demonstrate proper management of the solvency of the company. In the unfortunate event that the company becomes insolvent, this will help protect directors from personal legal liability.



Preparing a budget will also help you factor in costs for expansion or funding requirements.

In many businesses the fixed costs are pretty easy to forecast. The difficult part is predicting sales and consequently the variable costs of making these sales. When preparing a budget you should run a few scenarios (Best, Expected, Worst) to stress test the business.

Modern accounting software packages such as Xero make it fairly simple to draft up a basic budget. If you have 12 months of records in Xero you can prepare a simple budget based on last year's numbers in a couple of minutes. You then have a template where you can easily update your numbers. However, some expert help may be required for more complex businesses.

The profit and loss budget is one part but you should also prepare a cash flow budget to factor in the timing of income and payments such as:

- Time it takes your debtors to pay you from invoicing
- Timing of GST and Pay As You Go Instalment payments, usually monthly or quarterly
- Timing of staff superannuation payments, at least quarterly
- Timing of income tax payments, including your own

### Stay up to date with your accounts

Even if your business outsources its accounting, it's important to still look at your accounts to see how all of these aspects are faring; the basics, such as cash flow, payables, receivables, as well as monitoring your KPIs and utilising a monthly reporting process. This is essential practise for tax planning and efficient profit distribution.

# CASE STUDY: SIMON ASHLEY, CFO OF BITUMINOUS PRODUCTS

Valuable lessons for SME leaders: an interview with experienced CFO Simon Ashley

Simon Ashley is a Chartered Accountant who started out as an auditor at Big 4 firms KPMG and PwC, before moving into industry. He has since held various senior management, executive and board roles both in Sydney and abroad, and has broad experience gained in a diverse range of industries including Private Health Care, Leisure, Manufacturing and Gaming.

Simon is now a Director and part owner (through management buy-out) at Bituminous Products, an Australian company specialising in the manufacture and supply of bitumen-based products for road surfacing and general industrial use. Simon originally joined the MBO team as the CFO, a functional role he still performs, but now also has some broader general management responsibilities.

Being a long-time client and friend, our Partner Mark recently had the opportunity to ask Simon a few questions about being an effective CFO. Simon's insights come from a wealth of experience across these matters and would be useful to any SME leader exploring strategies for improved governance, management accounting and people management.

**Mark:** So, Simon, what's the key to being an effective CFO?

**Simon:** It's not always as complicated as people make out, especially with all the technology that is available today and the ability to get the right support when you need it. You can definitely rely on your accountant to meet due dates, other requirements and overview of the business, but the key to being a CFO is using all the information available to you to identify potential financial problems in the business and to effectively solve them. Ideally before they've happened. There's a lot of variety and creativity in this, which always keeps me interested.

We usually have a framework put in place to quantify the outcomes of particular actions and these frameworks enable us to make data-driven decisions on a daily basis. Basically, it's part of my role in the management team to know which activities are working (and making money) so we can further support those, and which activities are NOT so we can fix or put a stop to them, quickly.

**Mark:** What are the key things to monitor, if you had to choose three?

**Simon:** I'd say trading revenue, debtors and banking. Firstly, we monitor the revenue from daily sales and then assess the profit generated from that. This is a great way to see if any improvements are needed, or if things are tracking well to budget.

We're constantly monitoring our debtors (accounts receivable) but generally our clients, especially Blue Chips, pay on terms. We look at it on a case by case basis and decide if any follow-up is needed to ensure we don't run into any cash flow shortfalls. We're always making sure that the paperwork we have submitted is in order, especially when dealing with large companies to ensure that this doesn't lead to bottlenecks in inbound cash flow.

The third thing is to ensure we are on top of our daily banking. In other words, that what we are expecting to happen re the first two is actually happening when it is supposed to.

**Mark:** Do you prepare budgets and if so, can you talk us through the process?

**Simon:** Yes absolutely, it's a fundamental discipline. Also, it is something the bank requires.

We start the process 2 months out from the beginning of the financial management year, using the actual previous 10 months' results, we also add the budgeted next two months' numbers. It's then an inclusive process involving the branches where each branch manager corroborates or approves the budget assumptions.

Part of this process is the capital budget, where each manager makes a pitch for their capital requirements to be assessed by the Board. Once approved these are factored into the budget.

**Mark:** How do you approach cash flow management?

**Simon:** We use a 3-way forecast. This includes making assumptions about where our Balance Sheet, Profit & Loss and Cash Flow statement figures should be. Obviously, we want to make sure there is always adequate cash flow, which is why our 3-way forecast is so important. It helps us identify any funding requirements such as peak working capital needs and to phase the timing of capital projects.

A quote from a former mentor comes to mind: "Revenue is vanity; profit is sanity; cash is reality." That's one to live by as a CFO.

**Mark:** Do you find yourself getting lost in numbers and losing sight of other aspects of the business?

**Simon:** Not really, and hopefully my colleagues would agree with that. In fact, I have found a key part of my roles over the years has been trying to develop the careers of people in the organisations that I've been in.

Seeing how we can incentivise and remunerate them effectively is one part of it but making sure that those who want development are supported and feel motivated, are being given new opportunities and making sure that they know their contribution is appreciated have all been key parts of my job.

It's not all about money, sometimes just communicating effectively and being on the same page with your people is what's missing. So, I try to make sure we take the time to educate employees about what matters to our business and how their roles or given tasks are benefiting the whole. And of course, listening to any feedback or ideas we may receive from them – that is key for all managers.

It's also important to keep your staff interested and engaged. Know your limitations and if you don't have the expertise, outsource the function to someone who does.

A piece of advice I was given early on in my career has really stuck with me: "Wherever you go, make sure you get good people working for and with you, as you're only as good as those around you."

**Mark:** Yes, I agree. I think Richard Branson said something similar.

**Mark:** The company has enjoyed exceptional growth since the management buy out, what are some of the factors you attribute to that success?

**Simon:** A combination of things I've already mentioned. One is continuous monitoring of performance across the business to spot areas of opportunity and further investment. The importance of problem-solving can't be overstated as any money saved can be reallocated to more worthwhile areas of the business, such as investing in and updating capital equipment. Efficient resource allocation is a big focus of a CFO.

But the other thing really is getting good people in and encouraging them. As I said before, you need to keep people motivated and engaged, this is something I truly believe in. For example, where incentives are part of the deal, don't cap them, if you do, aren't you just capping your own potential for success?

**Mark:** How do you report to the Board?

**Simon:** Our Board reporting pack includes our budget vs. actual numbers across the financial statements as well as all the assumptions we've used on our next forecasts. We also closely monitor our compliance with bank covenants which was especially critical in our early days. They look for any inconsistencies in what was expected versus what actually happened, not just in the financial data but also in terms of business performance and the operating environment.

In terms of benchmarking or comparing our numbers to those of our competitors or industry, we don't really do it. We definitely do look at our own historical performance and see how we're tracking over time.

Any changes in trends are noted and analysed in case corrective actions are needed. Again – that's a key part of my role. Spotting and solving potential problems, before they've happened as much as possible.

## SUMMARY

If we had to distil the key messages from this great interview, they seem simple yet powerful:

### Monitor and solve problems

- Analyse what activities are and are not working, then either try to fix or STOP doing the things that are not.

### Develop people

- Get in good people, and once they're in, nurture and incentivise them to ensure they stay and continue to contribute.

### Make more money

- If you get 1 and 2 consistently right, then more often than not, success will follow. "Making more money" may sound like a crude single measure of success but when reinvested it actually helps with 1 and 2, so you can do it all again. If we don't, then aren't we just being busy fools?

### About Bituminous Products

Bituminous Products is an Australian-owned, independently operated company specialising in the manufacture and supply of bitumen based and associated products for road surfacing and general industrial use. The company has grown steadily to present-day operations, which include manufacturing facilities in Sydney, Melbourne, Brisbane, Townsville and Perth.

Bituminous Products aims to be a profitable growing manufacturer and marketer of innovative bituminous and coatings products. This is being achieved through consistently delivering customer satisfaction through a well-trained and motivated team, supported by purpose built facilities that do not pose risk to the community, employees, customers or the environment.

https://bituminous.com.au/

***Thank you, Simon, for your time and insights!***

# FUELING YOUR GROWTH // SOURCES OF FINANCE

https://business.gov.au/finance/seeking-finance/sources-of-finance-debt-vs-equity

## Debt Finance

Businesses utilise debt finance by borrowing money that is paid back with interest within an agreed time. The people/institutions lending their money become creditors of the business and set up a repayment plan involving the timeline of principal and interest to be repaid.

As with all sources of finance, there are certain benefits and disadvantages that come with debt financing. Advantages include:

- Maintaining ownership: as you're only borrowing money without giving up any part of your business, you still have complete control over it. You are still the business owner.
- Tax deductions: any interest fees and charges on a business loan will generally be tax deductible, which is not the case for private loans. As long as your loan was for business purposes and you have records to prove it, you can claim these as deductions.

However, disadvantages are also important to be aware of for debt financing. These include:

- Accessibility: it may be difficult for new businesses to secure bank loans, as they are quite prudent and conservative when it comes to providing them.
- Repayments: you must be in a position to generate enough cash flow to meet your repayments. If the business fails you will be required to repay all debts.
- Credit rating: failure to repay debts on time will directly impact your credit rating, and this will make it difficult to acquire future finance.
- Bankruptcy: if you are a sole trader or partnership, or have provided a personal guarantee in relation to the business loan, there is always the risk of personal bankruptcy with debt financing.

After weighing up these pros and cons, if debt financing sounds suitable for your business, sources of debt finance for a small business include:

- Financial institutions (e.g. an overdraft or loan facility)
- Suppliers (e.g. through negotiating favourable payment terms)
- Debtor Finance (e.g. borrowing on your trade debtors)
- Family or friends



## Equity Finance

Businesses utilise equity finance by selling shares to raise capital. Shareholders then have part ownership of the company, whether they are private entrepreneurs or investors, or whether the company shares are an IPO on the stock exchange. All investors have a part to play in any ongoing business decisions, however small their percentage of shares are.

The advantages of equity financing are important to be aware of, and include:

- No loan repayments: as you haven't sourced a loan, there is no obligation to make payments to shareholders. If your business is not initially returning much profit, this gives you more cash flow to put towards growing your business.
- No credit issues: your credit history has no relation to equity financing, and therefore removes that worry for any businesses with a poor history or lack thereof (unless of course investors ask about this).
- Gaining knowledge: individuals or companies that invest in your business may very well provide you with insight and knowledge for improvement, as well as offer connections who can add value to your business.

On the other hand, disadvantages include:

- Equity loss: you will need to provide investors with their share of business profits, reducing the total amount left for you.
- Loss of control: you may need to share control of the company as large investors may sit on your board or control a large parcel of shares.
- Potential conflict: by sharing ownership, there is risk of tension and conflicting management styles, especially regarding how the business should operate.

This is where a robust shareholders agreement comes in, and is essential in helping to establish the framework of how the shares in the company can be dealt with.

Sources of equity finance for a small business:

- Self-funding
- Family or friends
- Private investors (also known as angel investors)
- Venture capitalists
- Stock market
- Government
- Crowdfunding - donation-based, reward-based, equity-based and debt-based

## Debtor Finance

A common issue for businesses is having a cash flow gap due to delayed payment of invoices from individuals or companies they have provided work to. The hold-up of cash flow can hinder businesses that are unable to support themselves whilst waiting for owed payments. To overcome this issue, debtor finance is an option for those requiring cash flow quickly.

Advantages of this type of financing include:

- Assists with cash flow: as mentioned above, it provides fast cash for businesses in need.
- A simple solution: it can be easier to qualify for this than securing bank loans or overdrafts.
- Flexible: debtor finance can be adapted to receive your accounts receivable almost automatically, to combat immediate funding needs.

The disadvantages of debtor financing include:

- Only solves a cash flow problem: it purely provides accelerated cash flow for your accounts receivable. It cannot be utilised purely for other needs, like buying business equipment.
- Only available for some businesses: only companies that provide goods and services to other businesses can take advantage of this source of finance. B2C companies cannot use it.
- Expensive: debtor finance interest rates can be quite high, and therefore can only be used by businesses with relatively high gross profit margins.

## Alternative Sources

Other sources of finance may include tapping into your own personal funds when your business is in need of capital. However, this comes with a level of risk that you may not get this money back if your business performs poorly. Further, loans from family or friends with excess cash are another option, and whilst this may be an easy fix in the short term, if the loan is not able to be repaid to a family member or friend there could be a very high long term cost to the relationship. It is always recommended that a written loan agreement is put in place, and it may be appropriate for the lender to obtain security on their loan to help ensure repayment.

As mentioned in the debt finance section, you may be eligible for a small business loan. However, if you do not meet the requirements, you have the option of taking out a personal loan, for example by mortgaging your home. Obviously this burdens a personal asset with business risk so is not ideal, and should be considered carefully in consultation with both professional advisors and affected family members.

Finally, crowdfunding (which can be debt, equity or rewards based) can be an effective method for financing your small business. It's relatively new and involves pooling small amounts of money from a large group of people. It is particularly useful for new projects and startups but comes with its own risks (not just financial but also brand related).

# BUILDING A TEAM // MANAGING EMPLOYEES

## Salary Packaging

https://www.ato.gov.au/general/fringe-benefits-tax-(fbt)/in-detail/employees/salary-sacrifice-arrangements-for-employees/

Salary packaging or salary sacrificing is an arrangement between an employer and employee, where the employee agrees to sacrifice part of their future salary, in return for non-monetary benefits. Common sacrifices are extra superannuation or a novated lease on a car to be used by the employee for private purposes.

These agreements can be tax effective for employees and should be set out in writing prior to any benefits being provided. They can be renegotiated at any time subject to the terms of the agreement, especially when employees have a renewable contract and want to shift the amount of their salary that is sacrificed.



# CLOUD TECHNOLOGY

## Finance Tech Stack

https://www.vidyard.com/blog/marketing-technology-small-businesses-infographic/

Your company's tech stack consists of all the programs and applications you use to build and run your business. Xero has many that we have found to be essential to the automation of our firm, that are outlined below.

### 1 Dext Prepare

Dext Prepare enormously simplifies how accountants and bookkeepers gather the information they require from their clients by taking away the need for data entry and to chase up paperwork. A win-win solution for provider and client alike. The technology allows you to capture, store and keep track of your business receipts, bills, invoices and bank statements.

Simply take a photo of a receipt on your phone, and Dext Prepare will then use AI to extract all the important information from your receipt and upload it straight into your accounts on Xero (upon review/approval from you). This way you can save time on a painfully menial task while also meeting your record-keeping obligations with ease. You can also upload bills, digital receipts, invoices and bank statements from your phone, laptop or email account and the same thing will happen – Dext Prepare will extract all the key data points and send this information directly to your Xero account.

**Founded in:** 2010
**Xero rating:** 4.8/5

### 2 Cloud Payroll

The aptly-named CloudPayroll is a popular cloud-based solution that allows you to effortlessly manage your payroll. It simplifies and streamlines many processes for you including the process of setting up payroll and managing leave, PAYG, superannuation, ATO lodgements (for Single Touch Payroll) and employee records all in a cloud-based system. Additionally, its Employee Kiosk feature makes it easy for employees to: view their payslips and work history, make changes to their personal details, view their projected leave balance for a future date, apply for leave and submit time sheets. All this functionality seamlessly integrates with Xero to maximise efficiency.

**Founded in:** 2011
**Xero rating:** 5/5

## 3 ezyCollect

ezyCollect is a receivables management tool that helps to accelerate payments through automated email, SMS or phone call reminders, as well as enabling online payments, automated 'thank you' emails, credit risk insights and debt escalation tools. Through ezyCollect, you can set up personalised automated reminder sequences, with templates provided for email, phone call, SMS and mail follow-ups. You can also add 'pay now' buttons, where customers can easily pay by credit card directly from their invoices. Customers also have the option to select 'pay later,' where they set up a plan to pay in instalments, while you get paid straight away through ezyCollect.

**Founded in:** 2014
**Xero rating:** 5/5

## 4 Spotlight Reporting

Spotlight Reporting offers a variety of comprehensive performance reports where users can consolidate up to 50 client organisations with multiple currencies, visualise cash flows and monitor liquidity, and drive action through its ability to pre-populate reports and share insights. You can easily import budget data, generate full 3 way forecasts with flexible rules and plan for the future by creating 'what if' scenarios. The dashboard provides you with an instant snapshot of your business' performance by giving you the option to select between a wide selection of displays and charts to review financial and non-financial metrics. Finally, you can aggregate, rank and benchmark multi-entity businesses and franchises for ease of comparison.

**Founded in:** 2003
**Xero rating:** 4.9/5

## 5 Vend

Vend is a point of sale, inventory management, reporting and customer engagement system for brick and mortar retail businesses. Users can produce sales reports with analytics to show what products, promotions and employees are performing best. Each area can then be further drilled into, for example, sales targets can be set for each employee, repeat customers can be rewarded through loyalty programs and numerous in-store promotions can be run simultaneously. You can automate painful admin tasks and eliminate human error with daily sales and payment totals, cash movements, stock orders, cost-of-goods and contacts flowing easily between the two systems.

**Founded in:** 2010
**Xero rating:** 4.1/5 stars

## 6 Deputy

Deputy is an employee management tool that simplifies rostering, timesheets, task allocation, team communication and Award interpretation. Its staff management software allows managers to schedule staff based on demand, availability and budget, and notify employees of roster changes instantly via the web or their mobile app. The software also tracks real-time attendance, so you know exactly who is in at all times and can easily approve accurate timesheets for payroll purposes. Additional functionality includes the ability to share important information on the company 'News Feed' and receive notifications when employees have read your messages (so there's no more "I didn't know about that" as an excuse). Employees can easily swap shifts with each other and manage their leave through the software, while managers can approve all this with ease from anywhere.

**Founded in:** 2000
**Xero rating:** 4.2/5

## 7 GoCardless

GoCardless is a world leader in recurring bank-to-bank payments. They enable you to collect pre-authorised payments straight from your customer's bank account when they are due via a Direct Debit. It can be used for one-off, recurring, subscription, or installment payments. This brings an end to manual payment collection processes and also helps manage your cash flow by ensuring timely cash receipts. The amount you set up to charge customers can be fixed or flexible as it's linked to the amount and due date on the Xero invoice you send your customer. This means you can also set up instalment payments, giving your customers the option of spreading out their invoice over multiple, smaller payments. Additionally, with GoCardless, you're able to collect payments in other currencies and receive the cash in your home currency with no mark-up on foreign exchange.

**Founded in:** 2011
**Xero rating:** 4.2/5

# INTELLECTUAL PROPERTY

Australia has a comprehensive legal regime for the protection of intellectual property including trademarks, patents, and copyright. Relevant registrations should be examined prior to starting business.

Further reading:

https://www.ipaustralia.gov.au/

## Trademarks

Trademarks can be one of a business' most valuable assets, particularly the more successful a business becomes. Once you trademark you become the legal owner of your brand. Commonly, trademarks include business names and logos, which are trademarked separately. For many companies their trademarks are their most valuable marketing tool, due to the brand loyalty and reputation that is built under their business name and logo.

**It's important to note that simply registering a trading name with ASIC or owning a web domain (in your business' name) does not give you any ownership rights in terms of intellectual property over those terms. You need to be especially careful they are not already trademarked by another entity.**

All companies must be cautious not to infringe another brand's trademarks as it could lead to a lawsuit. This can be avoided through using ATMOSS, the Australian government's IP trademark site. Taking the time to search for what's unavailable when developing your brand name or logo is always a smart idea to prevent similarity to pre-existing trademarks.

## Copyright

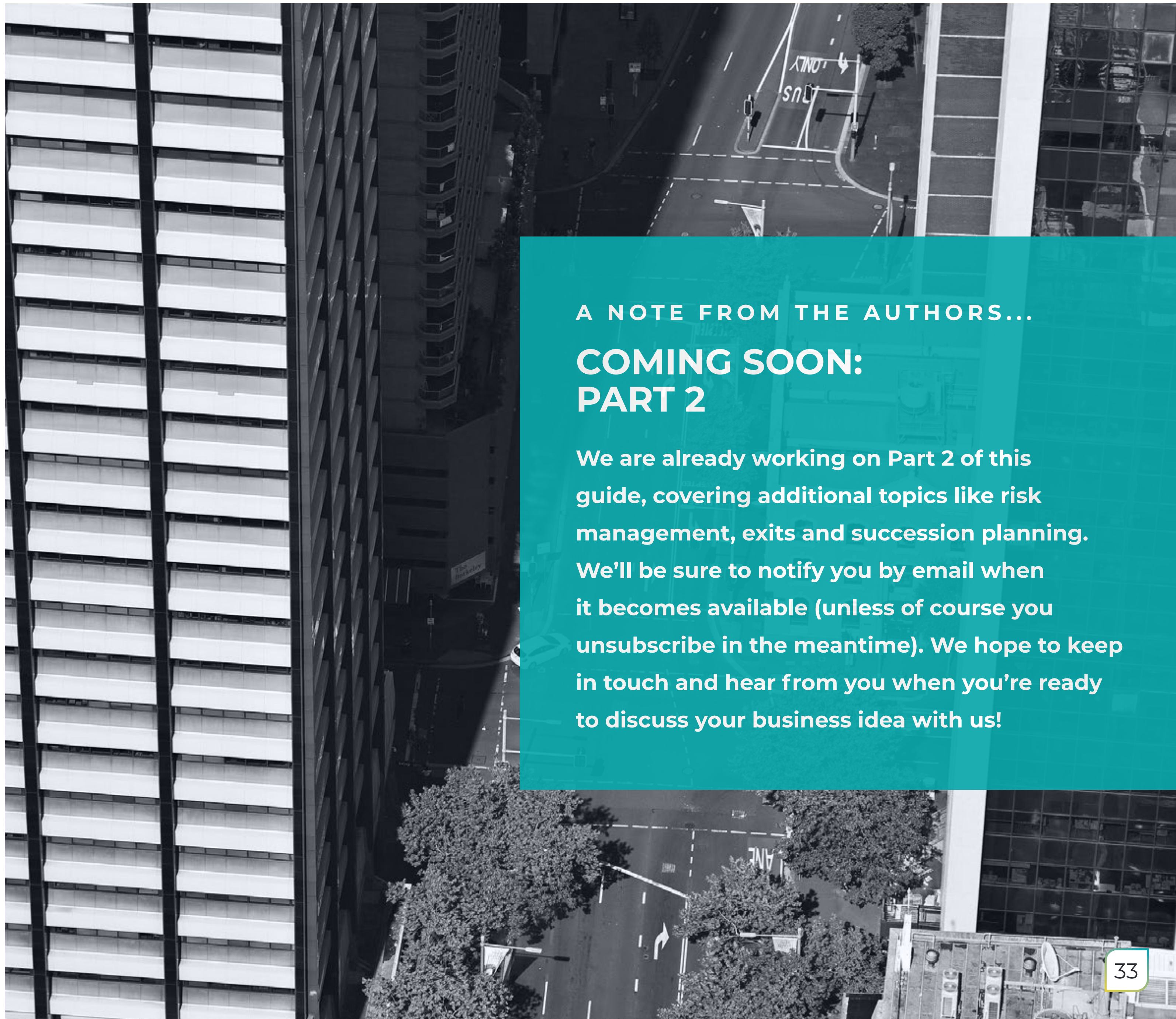
Essentially, any work your business puts out into the world (e.g. writing, music or computer programs) automatically belongs to you or your business under the laws of copyright. No registration is required. In Australia, copyright protection generally lasts for the duration of the author's life and an extra 70 years after that in the public domain.

By putting out work into the world, you will always run the risk of being plagiarised and it's important to keep an eye out for work in similar fields to your own. To ensure you avoid accidentally plagiarising someone yourself, avoid using anyone else's work to promote your products or services, such as music for your videos or writing for your blog posts.

## Patents

A patent is a right that is granted to an individual or company to exploit the invention of any device or process for the life of the patent. These need to be registered to exclude others from encroaching on your idea. Standard patents last for up to 20 years, and must also be filed with IP Australia.

By protecting your patent through registration, you can prevent others from using it, or license others to use it. Further time is provided to continue your research and development. You can search for similar patents that already exist through IP Australia, which can also provide you with competitive product information and ensure your concept does not infringe on someone else's.



A NOTE FROM THE AUTHORS...

## COMING SOON: PART 2

**We are already working on Part 2 of this guide, covering additional topics like risk management, exits and succession planning. We'll be sure to notify you by email when it becomes available (unless of course you unsubscribe in the meantime). We hope to keep in touch and hear from you when you're ready to discuss your business idea with us!**

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Mark Copsey is a Partner at Allworths and has been a part of the team for over 25 years since taking a temporary audit job while backpacking in Sydney from the UK in 1995. He became a partner in 2005 and founded Allworths Wealth Management in 2009, which he continues to lead. Working with a diverse range of clients, including high-net-worth individuals and families, international businesses, primary producers and SMEs, Mark loves getting to know clients on a personal level, visiting their business operations and helping families over multiple generations. He writes extensively about business and tax issues, wealth management and emerging asset classes, and insurance and estate planning.


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David Downie is a Chartered Accountant with 25 years' experience in the profession and 9 years as a Partner at Allworths. He gained 'Big 4' experience at PwC and helped a global investment bank with the implementation of the GST. He then worked in different roles both in commerce and in practice, including helping to establish a private wealth management company, before joining Allworths. He now assists a diverse group of clients, including high-net-worth individuals and families, SMEs and Australian subsidiaries of international companies such as Acne Studios, Epidemic Sound and Solarig. A devoted father of three, husband and certified car nut, David spends any free time with his family, or on the track. He writes extensively about legal and regulatory changes and small business financial management.



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**Allworths** is a full-service accounting and advisory firm made up of three complementary service lines: Chartered Accountants, Assurance & Advisory (Audit), and Wealth Management.

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Every day our team shows this commitment by leveraging their professional expertise, experience and networks in order to protect and grow your business and/or wealth.

As your trusted advisor, we will help you work towards your business or personal financial goals with every interaction.

We look forward to meeting and understanding your requirements soon!

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