

KEEP YOUR BUSINESS
ON TRACK WITH

EFFECTIVE ACCOUNTING STRATEGIES



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CHAPTER 1

MASTERING THE BASICS



For many business owners, the general consensus is that accounting and finance is the central force to the effective management of any business. This is based on the assumption that companies mainly measure their success based on money they have in the bank. Therefore, if your business does not have the means to control the cash you cannot successfully influence the direction and success your business will ultimately have. On the other hand, if you're a savvy bean counter, you can gain better control of your business.

Truth be told, there is a lot of hype going on where accounting is concerned. The rise of modern accounting tools, such as cloud accounting platforms and readily accessible data, plays a big role in the seemingly amplified role of accounting in managing a business. But even so, it is easy to recognise the importance of good accounting processes and systems to help gear up your business. Topping the list of benefits that business accounting brings to your business are :

Conforming to the Law

Accounting and tax planning typically go together. As you complete your books and see through your critical business numbers, it will be easier for you to plan in respect of your taxes. Aside from tax planning and ensuring compliance with legislative requirements, efficient accounting also allows you to find legitimate ways to reduce your taxes through tax minimization strategies and deductions that your company is eligible for receive.

Following a budget

As a business owner, you are well aware of how important a budget is to your business. If you want to focus more on strictly adhering to your budget, accounting for your business finances is an ideal practice. Accounting gives you a clearer picture when it comes to your cash inflows and your outflows. It also helps you understand your current business financial position—or your business net worth.



Determining Business Performance

How far have you gone and how far do you still need to go? Your answers to these questions might be a little vague or ambiguous. However, if you utilise accounting to its maximum advantage, you will find it easier to analyse your business performance. By knowing about these things you will likewise have a better understanding and knowledge of what you need to do to keep our business moving forward in the right direction

Accounting Basics

There is a wide array of benefits and advantages that comes with an optimised accounting function. Learning the ropes to strategic number crunching will not only have a great impact on your business finances, it will also affect your business performance extensively. But what does it take to reap all the benefits of a strong accounting function? The answer is simple: master the basics of accounting. These include, but are not limited to identifying the best structure for your business, understanding tax planning strategies, organising your finances to be able to access you numbers in real time, familiarising yourself with financial statements. We will explore these topics more in the subsequent chapters of this eBook.

CHAPTER 2

STRUCTURING YOUR BUSINESS



Prior to setting up your own business in Australia, you need to choose the best business structure. Your choice of structure will have a big impact on business management strategies, the complexity of your accounting functions and other matters in relation to the application of tax legislation to your chosen structure. Prior to choosing a structure, it is important to note that each type of structure has its own advantages and disadvantages. The business structures that are discussed in this chapter include, Sole Trader, Partnership, Company and Trust.

Sole Trader

This is the most simple of business structures as a Sole Trader is someone who has chosen to operate their business under their own name. This is where the business is legally and beneficially owned by an individual in their own name. All tax registrations and reporting requirements are done in the individual's own name.

Partnership

This second type of structure involves the partnership of two or more individuals to form a business entity. The maximum allowable number of individuals to join and get involved in a partnership is 20. A Partnership agreement should be prepared for the operation of the partnership. Partners can be individuals, trusts or companies.

Company

Company structures are also deemed to be one of the more simple business structures. Choosing this structure requires a little more work compared to the others. For one, a company needs to be incorporated under the Corporations Act. A Company is recognized as a separate entity and has limited liabilities for the shareholders of the company, meaning as a separate legal entity, a company is allowed by the law to have its own assets under its name. It can also sue and be sued. Shareholder liability is limited to paid up capital or calls owing on the investment of equity into the company.

Trust

Trust is great for asset protection in that they offer greater flexibility for income distribution and protection of business assets. This structure is usually chosen for the purpose of running a business for the benefit of others. Trusts are comprised of trustees and beneficiaries. A trustee is an individual or a company that carries out the business on behalf of the beneficiary.

Type of Structure

Advantages

Disadvantages

Sole Trader

Simple set up and operation

You retain complete control of your assets and business decisions

Fewer reporting requirements

Relatively easy to change your legal structure if the business grows, or if you wish to wind things up

Unlimited liability which means all your personal assets are at risk if things go wrong

Little opportunity for tax planning - you can't split business profits or losses made with family members and you are personally liable to pay tax on all the income derived

Type of Structure

Advantages

Disadvantages

Partnership

Simple and inexpensive to set up

Minimal reporting requirements

Shared management/staffing responsibilities

More opportunities for tax planning

Relatively easy to dissolve or exit and recover your share

Potential for disputes over profit sharing, administrative control and business direction

Joint liability of partners

Changes of ownership can be difficult, and generally require a new partnership to be established

Company

Limited liability for shareholders/owners

Company structure is commercially well understood and accepted

Profits can be reinvested in the company or paid out to the shareholders as dividends

Easy to sell and pass on ownership
 A company can carry forward losses indefinitely to offset against future profits

Significant set-up costs and maintenance costs

Complex reporting requirements

A company can't distribute losses to its shareholders

Type of Structure

Advantages

Disadvantages

Trust

Reduced liability - especially if corporate trustee

Asset protection

Flexibility of asset and income distribution

Can be expensive and complex to establish and administer

Difficult to dissolve, dismantle, or make changes once established particularly where children are involved

Cannot distribute losses, only profits

CHAPTER 3

UNDERSTANDING TAX ESSENTIALS

Accounting functions and tax planning go hand in hand. By keeping a close eye on your business finances, you will have a better means to comply with your tax liabilities including GST, State Taxes and Federal Income Tax requirements.

Tax Compliance

Tax compliance is defined as a distinct set of practices undertaken by taxpayers and their professional taxation advisor to adhere to the taxation standards of their state and country. In contrast, non-compliance to tax is the practice of pursuing illegal tax strategies such as tax avoidance and tax evasion.

Tax Avoidance

Tax avoidance is when a business owner undertakes practices for tax deductions that his or her business is not eligible for. Tax avoidance is highly monitored by the ATO, and heavy penalties, including prison sentences can apply in the most severe cases. Seeking the opinion of registered tax professionals is highly recommended to ensure that you do not enter into an Tax avoidance schemes or actions.

Tax Evasion

While tax avoidance is serious in the eyes of the ATO, tax evasion is considered more severe as it intentionally hides income from the ATO in order to avoid tax payments. There are many instances which lead to tax evasion. Some of the most common include deliberately withholding declarations for your income, claiming deductions for non-existent expenses, intentionally avoiding payment of PAYG withholding taxes for employee wages, failure to make payments of Superannuation Guarantee Charge for employees and purposefully neglecting tax return lodgement to avoid tax payments, among others.



On a general note, we may say that tax avoidance and tax evasion are complex tax malpractices that potentially puts you and your business at a disadvantage. It could wreak havoc in your business and severally damage your reputation unnecessarily. Instead of putting so many things at risk, what you could do is settle your taxes correctly by claiming allowable deductions. Here are some practical tips to help you do just that:

Do something about those bad debts

Do you have debtors that you haven't seen or heard from in a while? If so, it's easy to assume that you won't get the payment anytime soon. Your best option? Write it off as a bad debt! You'll get a tax deduction this way. Ensure any bad debt is written off prior to 30 June each year, as this will ensure a tax deduction for you. Whilst the write-off of bad debts isn't preferred due to the lack of cash received from debtors, it does mean that income tax or GST isn't being paid unnecessarily on these debts.

Make Superannuation Guarantee Payments on time

Paying for your employees' superannuation ahead of time qualifies you for a deduction. If you pay these in full prior to 30 June each year, it will ensure that you will be entitled to a full deduction for superannuation expenses in the current year. Otherwise, delaying payments until July will push the deduction to the next financial year, instead.

CHAPTER 4

ORGANISING YOUR BOOKS



Bookkeeping is the first stage in the accounting process and lays the groundwork for the tasks performed by your accountant. The role of a bookkeeper goes beyond recording business financial transactions such as sales, purchases, payroll, collection of accounts receivable, payment of bills, etc. The job of a bookkeeper is more on keeping records organised. The use of a bookkeeper can also save time for business owners as it allows them to focus on the generation of income rather than the management of business finances.

Novice business owners have a tendency to overlook the importance of bookkeeping for their business. In many instances, this oversight may lead to problems in their accounting functions later on. Either that, or it may lead to serious complications when the business is chosen for a random audit. This is why as early as now, you should make it a point to understand the best bookkeeping practices to keep your business moving towards its goals and objectives.

Consider Cloud Accounting

Most accounting software will provide all the basic functions needed for any type of business bookkeeping. We recommend Xero to help you manage your business accounting functions better as it will provide you with all the relevant information and reports that you need to stay on top of your business's finance accounting.



Speak to a Professional Expert

Having a good tax accountant/business advisor is invaluable as they can ensure that your wholistic business strategy and financial position remain on track. They are also well placed to provide advice and recommendations to correct issues in your business before they become a major issue.

Separate Personal and Business Records

Do not combine your business records from your personal records. Doing so will make your tax planning initiatives more complicated. It will also likely strain your budget and make it difficult to know the true position of your business.

Manage your Expenses

Late and unpaid bills can affect your credit rating and can also impact on your ability to pay your taxation liabilities on time as well. Keep your bills organised and always pay on time. Keep track of your payment receipts as well.

Review your Books Religiously

Give yourself at least half an hour every week to go over your finances and make sure everything is in order. This way, you will have a broad overview of your business every week and everything will be organised come tax season.

CHAPTER 5

ALL ABOUT FINANCIAL STATEMENTS

In most cases, business owners find it difficult to work on their financial statements because they do not have the time for this tedious task. Or even if they do have time, their lack of experience in handling this complex information gets in the way of efficient management of financial statements.

At this point, though, it is important to realise that generating and interpreting financial statements is vital in keeping tabs on your company's financial position as well as in making critical business financial decisions. For a more thorough understanding of these documents, here are some of the most common form of financial statements that you will likely encounter while your business operations is ongoing:

The Cashflow Forecast

Cashflow forecast explains where your business' cash came from and where it was spent. This financial document is important as it helps business owners see actual or cash profit. When asking for a bank loan or collaborating with investors, cashflow forecasts provide a historical background on the income generation and spending activities of your business. Moreover, your ability to pay a loan is determined by the records shown in your cashflow forecast.

A simple way to get your business' cashflow forecast: compute cash inflows against the outflows.

The Profit and Loss Statements

The profit and loss statement refers to the actual profits and losses of your business within a certain period. It is designed to show the results of business operations over a period of time through a calculation of your actual net profit.

The Balance Sheets

The balance sheet is a financial document that provides a summary of your business' assets liabilities and shareholders' equity. A balance sheet is important because it gives a clear picture of what a business owns, what it owes and what percentage of its possessions belong to the owners or the shareholders.

At HTA Advisory we have advisers who can assist you in choosing the most suitable business structure. For more information about our company and the services we offer, click the button below to check out our website.

www.htaadvisory.com.au