

# Our Handbook for Business, the Bible

## Money in business: Supplement

These are my top 6 money numbers (subject to seeking your own professional advice)

### 1. OWNER'S WAGES

- Paid for your labour time and expertise working in and managing the operation
- The rate should be commensurate with your duties, responsibilities, hours, etc.
- It is treated as a normal operating expense paid into their private bank a/c, at same time as team wages paid...not accrued and owed as a debt
- If there is not enough cash available to pay the owner's wages, there must be a profitability and/or cashflow problem that needs to be investigated urgently
- Beware treating business money as your private piggy-bank because it is not; the business has its own money; you have yours...these need to be separated.

### 2. GROSS PROFIT

- Includes 2 components - OPERATING expenses PLUS Net Profit (3 below)
- Set a 12-month target, then into monthly or weekly to monitor actual performance
- Actual performance must be monitored weekly or monthly and Year-To-Date.

### 3. NET OPERATING PROFIT

- Calculated as total sales income less all operating expenses
- This is over and above your wages (1 above)
- Based on money invested, desired ROI, risk, funds needed for re-investment, etc.

### 4. NET OPERATING CASHFLOW

- Refer to the Xero Cashflow Statement (or equivalent in other accounting programs)
- Net operating cash flows IN (via the P/L) and flows OUT to fund non-operating activities [financing & investing] via the B/S
- If non-operating cash outflow exceeds operating cash inflow there is a DEFICIT
- A small operating cash surplus or a deficit needs to be 'covered' by cash reserves
- If there is a deficit the Q arises - is it a temporary situation; a trend; or is it terminal?

### 5. BUSINESS VALUATION

- This is a subjective number and is likely considered on an annual basis
- There are several ways to value your operation that your accountant can explain
- Potential buyers will discount the value IF your operation overly depends on you for success and raise the value IF you have great systems & team, not dependent on YOU.

### 6. OTHER PEOPLE'S MONEY

- Some money you receive or withhold is held in trust for the rightful owners
- E.g., BAS liability belongs to the ATO; superannuation contributions belong to the staff and must be paid into their Fund; Payroll Tax belongs to the State Revenue Office
- Best practice is a separate bank account into which these funds are transferred regularly, so the money is available for payment when it falls due.