



Financial Principles

Understanding and managing the finances of your business is vital to its success and it doesn't have to be difficult. The key is to keep it simple and meaningful, and keep track of what's going on.

You need a regular profit and loss, but you need to look at more than the bottom line. The secret to successful financial management is in the percentages. If your profit has increased, but your costs have also increased, you need to be aware of this so that it can be managed.

Make sure your chart of accounts is ordered in a way that can easily identify your cost of sale (COS), fixed, variable, staffing and advertising costs. Some terms that you will need to be familiar with include:

- **COS** (sometimes called cost of goods) is the cost that is required to make a product for sale – either buying goods or the raw products used to make something. Service industries tend to have very low cost of sale because their major cost component is labour.
- **Fixed costs** are those costs that stay the same regardless of how many customers you have.
- **Variable costs** differ according to the customer numbers and the type of industry you're in, eg electricity for an office would be fixed, but for a manufacturing plant it would be variable.
- **Staffing costs** include wages and all on-costs, training and staff amenities.
- **Advertising costs** may include stationery and postage if this is the way you advertise, or it may include the costs of placing phone book or media ads.

Percentages that you will need to monitor include:

COS / Income
Fixed Costs / Income
Variable Costs / Income
Staffing / Income
Advertising / Income
Net Profit / Income

Once you are monitoring these percentages you can accurately measure growth, benchmark against others within the industry and identify areas for cost cutting.

Other important tips include:

- Manage your cashflow – plan and budget your spending and ask for deposits or part payments if that is possible within your industry.
- Stay on top of debtors – send invoices, follow up with statements then a phone call. Make time to chase your money. The job isn't over until you've been paid.

Don't wait for your accountant to tell you the type of year you have had financially. Stay on top of it, manage it and plan for growth.

For more information or an obligation free consultation contact Justine Bennett Consulting & Coaching Services on 0413 873 288 or justine@jbconsulting.com.au