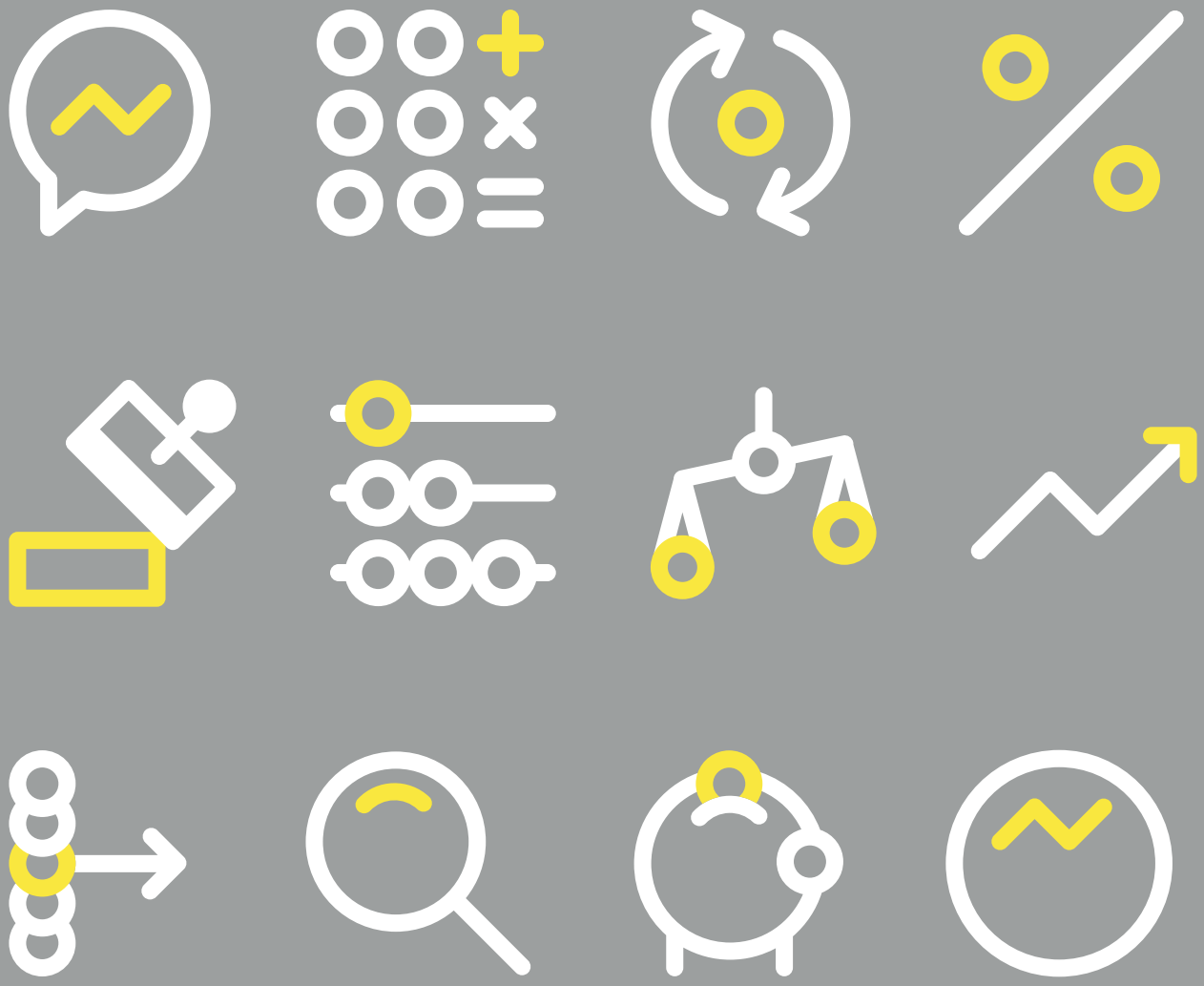

12 FINANCE SECRETS FOR START-UP SUCCESS

startups

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More small businesses seeking success GO QuickBooks

Managing a start-up can be overwhelming, but it doesn't have to be. QuickBooks has been designed to help you stay in control of your company's finances, so you can focus on growing your business. Know exactly how you're getting on with real-time dashboards, plus easily create invoices and reports for your customers and investors. Get ahead with QuickBooks today.

Thousands of businesses GO with the world's No.1 online accounting software.[1] Join them today by signing up for our **free 30 day trial.**[2]

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[1]Based on the number of paying customers and accountants worldwide, December 2014.
[2]30 day free trial, see website for details.

intuit QuickBooks.

12 FINANCE SECRETS FOR START-UP SUCCESS

INTRODUCTION

As an entrepreneur, financial planning isn't necessarily your strong suit. Most people start a business because they have an idea that keeps them awake at night, or simply to live a life on their own terms. Whatever the reason, wrestling with numbers and spreadsheets isn't usually part of the dream.

We created this guide to try and demystify the world of financial planning, and arm you with the tools you need to stay on top of your numbers. We hope this will be a resource you can refer back to as you build your business, and one that will help you to make smarter, more informed decisions. Happy planning!

Steph Welstead
Author

CONTENTS

SECRET 1

JARGON BUSTER

KICKING THINGS OFF, WE BREAK DOWN SOME COMMON TERMS YOU NEED TO UNDERSTAND TO GET TO GRIPS WITH FINANCIAL PLANNING

When you're starting a business, particularly if you're making the leap from employee (where you just do your own job) to entrepreneur (where you do EVERY job), it can all feel a bit overwhelming.

And unless you come from a finance background, getting to grips with the financial side of things can feel daunting to say the least. So what better way to kick things off than with a 'jargon buster', a handy resource you can refer back to again and again.

TURNOVER

Also known as revenue, this refers to the total income your business generates before any costs are deducted. A large turnover does not necessarily mean a business is profitable.

GROSS PROFIT

Your gross profit is the amount of profit you're left with after deducting only the "costs of sales" (costs directly involved with making money) – e.g. materials, manufacturing, etc. It doesn't factor in costs related to running the business, like utilities and rent. These are your overheads.

NET PROFIT

Your final profit figure (before tax), once you factor in all your costs (including overheads). In other words: total income – total costs.

BALANCE SHEET

A statement which details what a company owns (assets) and owes (liabilities), as well as the amount invested by shareholders (shareholders' equity), at a specific point in time. It's a tool used to help determine the financial position of a company at any one time, as well as showing how a company is funded and what it has done with that funding.

BREAK-EVEN POINT

The point at which your business is producing enough revenue each month to cover all your fixed and variable costs. Once you reach this point, you've "broken even" – any additional income generated each month is profit.

PROFIT AND LOSS

Also called an 'income statement', this shows a business' profitability over a specific period, by recording all the income and outgoings. It's a good idea to do a profit and loss (P&L) forecast to predict your business' profits, as well as regular P&L statements to record your actual figures.

CASHFLOW

The flow of cash in and out of your business. You complete a cashflow forecast to record the money coming in and out of your business each month, to see how that affects your bank balance and to make sure you have enough money to pay all your bills and salaries.

DIVIDEND

The money distributed to you (and other shareholders) from your company's net profits. These payments need to be approved by shareholders and can be structured in two ways: a one-off payment, or ongoing cashflow to you and your shareholders.

DEPRECIATION

The diminishing value of a fixed asset over the period of its 'useful life', e.g. a new laptop that needs to be replaced after three years. This is to spread the net cost over that period against the revenue your company generates, which helps you to calculate your true profit or loss in a given month or year.

EQUITY

The amount you own in a business, after any debts or liabilities owed. You can sell equity to investors to raise finance, in the form of shares, based on an agreed valuation of what your business (total equity) is worth. If an investor buys 10 shares out of a total of 100, they own a 10% stake in your business.

SECRET 2

CREATING A WINNING BUDGET

YOUR BUDGET IS AN ESSENTIAL TOOL FOR ESTIMATING YOUR INCOME AND EXPENSES OVER A SET TIME PERIOD

Budgets are usually worked out for a year and then broken down on a month-by-month basis. This enables you to see clearly how much money you need to bring in each month to cover your expenses (break-even) and turn a profit, and allocate resources effectively.

For those looking to raise finance, your budget is one of the first documents lenders or investors will want to see – it shows that you're on top of your spending and (in the case of lenders) that you've worked out how you'll afford repayments.

But more importantly, your budget is a vital tool for you. A regularly updated budget helps you stay on top of your cashflow, plan ahead with clear intentions and make better spending decisions.

Here are a few tips on how to create a winning budget:

ANALYSE YOUR EXPENSES

Just the act of keeping track of your expenses can be eye-opening, helping you see where you can afford to make cutbacks and avoid over-spending. So make sure you use your budget to regularly question your expenses.

Your budget is a useful tool for showing you not just how much you're spending, but how this affects your income. For example, you might see that a particular marketing channel isn't having the impact you'd expected and needs a rethink, or that you're spending a lot on software when a free/freemium alternative might be just as effective and more profitable.

KEEP IT SIMPLE

The most important point to make a budget effective is that it's something that you actually use! There's no point in creating a detailed, complicated document if it then just sits there unopened. Your budget should be a living, breathing document that helps you plan ahead effectively and correct if necessary. Whether you use accounting software (like QuickBooks) or a simple spreadsheet, you need to find a system that works for you.

A BUDGET IS A USEFUL TOOL FOR SHOWING YOU NOT JUST HOW MUCH YOU'RE SPENDING, BUT HOW THIS AFFECTS YOUR INCOME.

> *" Don't be afraid to seek help when you prepare your first-time budget, it's too important not to get right. You can then update it yourself going forwards."*

RICH PREECE, VP AND MANAGING DIRECTOR, EUROPE, INTUIT

UPDATE WITH ACTUAL NUMBERS

A lot can happen in a year, especially in a start-up. You're learning and evolving as you go and one big client win (or loss) can change things significantly. So carve out time each month to refer back to your budget and update it with actual figures. This can help you spot any discrepancies and make adjustments if necessary. This practice will also help you create a more accurate budget for the following year.

SET GOALS

Crucially, use your budget to help you plan ahead and set goals for your business. For example, if your goal is to bring someone else on board to help you expand and take on more clients, you can see how much income you'll need to be generating to enable you to do this. Once you know this, you can then create a realistic plan for what you need to do each week or month to get there.

YOUR BUDGET SHOULD BE A LIVING, BREATHING DOCUMENT THAT HELPS YOU PLAN AHEAD EFFECTIVELY AND CORRECT IF NECESSARY.

Following the expression 'that which gets measured gets managed' – staying on top of your budgeting will help ensure you regularly keep your business on track.

SECRET 3

STAYING ON TOP OF YOUR CASHFLOW

HOW TO KEEP YOUR BUSINESS IN GOOD FINANCIAL SHAPE

Your business may look great on paper. You might have a growing roster of clients, be forecasting a healthy profit and have all the hallmarks of a thriving business. But if you're not keeping up with invoicing, clients aren't paying on time or a big expense comes up that you haven't planned for, your real-world bank account can tell a different story.

Managing cashflow means making sure there's enough money in the bank to cover outgoings such as salaries, rent and bills, predicting your company's financial health and planning or investing accordingly.

One of the best ways to do this is with a cashflow statement – as per the example on the next page. For now, here are six tips for staying on top of your cashflow…

KNOW YOUR BIG OUTGOINGS

When doing your cashflow forecast, make sure you factor in costs that fall outside of your usual monthly expenses, such as your annual tax bill, quarterly VAT return and any big one-off payments. You can find a timeline of key HMRC payment deadlines at the back of this book.

INVOICE PROMPTLY

One of the most important ways to ensure healthy cashflow is to stay on top of your invoicing, to ensure a regular flow of money into your business. You can check out our tips on how to invoice effectively in Secret 5 of this guide.

SPLIT BIG PROJECTS INTO CHUNKS

If you're working on a project that's going to take a lot of time or resources, don't be afraid to propose a payment plan, perhaps with some of the money upfront or a number of instalments tied to milestones being hit. This helps keep your cashflow healthy, protects you if your client runs into financial difficulties and enables you to focus your energy on doing the work.

EXPLORE MULTIPLE REVENUE STREAMS

It's not usually a good idea to put all your eggs in one basket, and a business with one income stream is more vulnerable to outside forces. Is there a way to bring more stability to your business? 'Passive income', where you can automate the buying process (whether selling digital products such as eBooks or e-courses, or affiliate advertising on your blog), is a great way to do this. It generally takes a lot of work upfront to set up a successful passive income stream, but once it's up and running you'll have an asset you can sell again and again.

HAVE A SAFETY BUFFER

Even the most careful planners can't foresee everything. Things happen. Clients run into cashflow problems of their own; people get sick; equipment breaks down. It's always helpful to have a safety buffer that you can dip into if and when unexpected shortfalls crop up.

KEEP THINGS LEAN

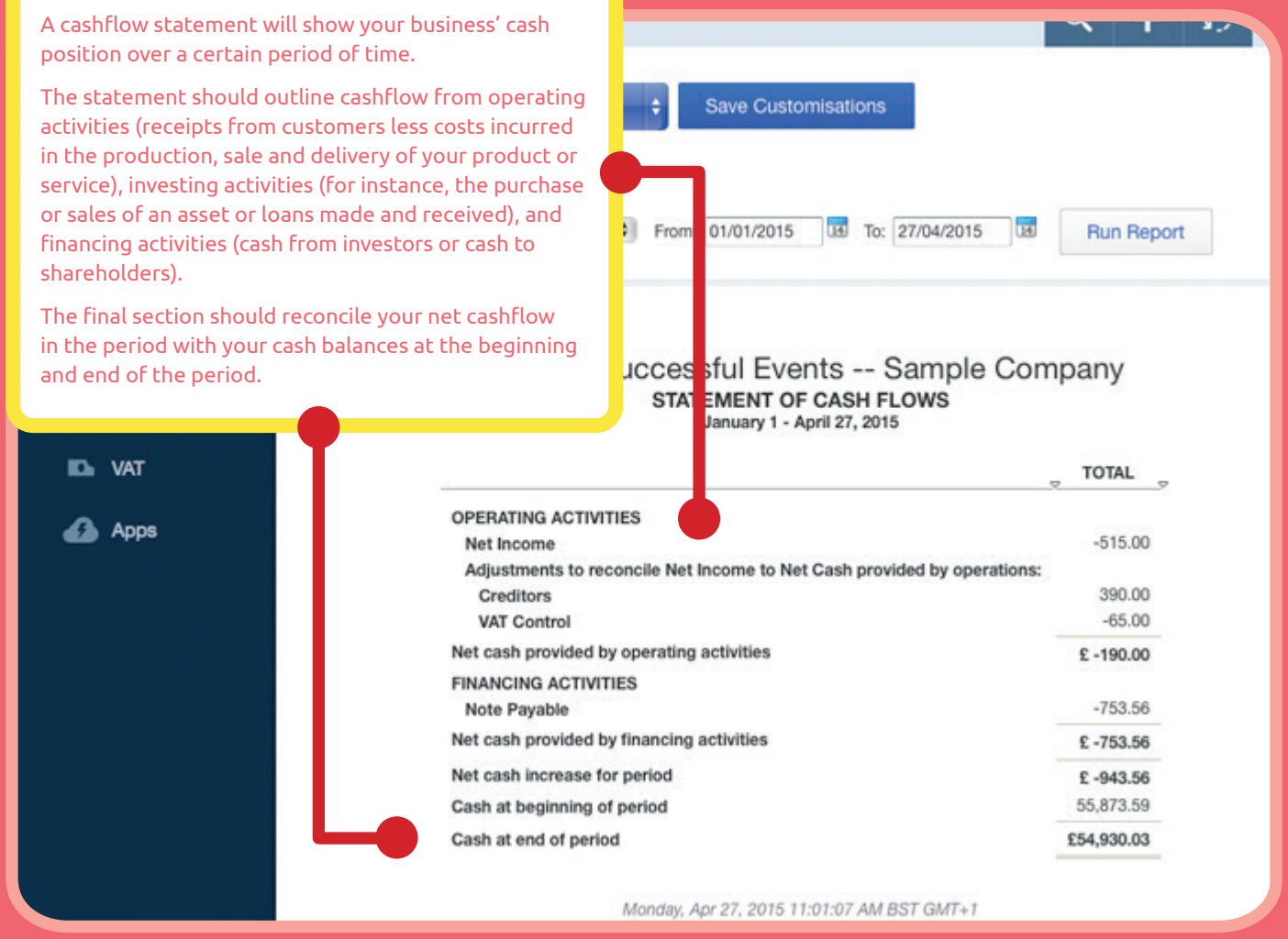
You can also stay more resilient to outside forces by keeping your business as lean as possible, without cutting corners or holding your company back, particularly when it comes to taking on fixed costs. This might mean working from home or a co-working space in the early days, or using freelancers rather than full-time staff to scale your business up and down as needed.

YOUR CASHFLOW

A cashflow statement will show your business' cash position over a certain period of time.

The statement should outline cashflow from operating activities (receipts from customers less costs incurred in the production, sale and delivery of your product or service), investing activities (for instance, the purchase or sales of an asset or loans made and received), and financing activities (cash from investors or cash to shareholders).

The final section should reconcile your net cashflow in the period with your cash balances at the beginning and end of the period.



SECRET 4

TAX TRIUMPHS AND VAT VICTORIES

HOW TO UNDERSTAND AND STAY ON TOP OF YOUR RESPONSIBILITIES TO HM REVENUE & CUSTOMS

As a business owner, you could end up with a fine, a tax inspection or even face legal action if you fall foul of HMRC.

Your specific obligations will depend on many factors, such as your business structure, industry and how you pay yourself, so it's important to note this isn't a comprehensive guide on complying with the law.

Instead, think of it as a few handy pointers and some key things you need to be aware of.

REGISTERING YOUR BUSINESS

While there's some overlap, much of what you need to do to stay compliant depends on the structure of your business.

As a sole trader, you need to register as self-employed with HMRC as soon as you can, but no later than 5 October in the following tax year (if you started trading on 21 August 2015, you'd need to register by 5 October 2016 and complete your first tax return for 2015/16 by 31 January 2017).

With a limited company, you need to incorporate (register) your business at Companies House. You'll also need to register for corporation tax with HMRC within three months of starting your business.

ONGOING RESPONSIBILITIES

Sole trader businesses are the simplest type of business to set up and run. Your main responsibilities include keeping accurate records of your income and expenses, completing your yearly tax return and paying any tax due to HMRC by the 31 January deadline.

As a limited company, you have a lot more ongoing responsibilities. These include:

- *Filing your year-end accounts to Companies House – due nine months after your financial year end*
- *Filing your annual return to Companies House – due on the anniversary of your incorporation (or up to 28 days after this)*
- *Filing your company tax return – due 12 months after your financial year end*
- *Paying any corporation tax – due nine months and one day after your financial year end.*

To make sure you're meeting your responsibilities, speak to an accountant.

PAYING TAX

Again, your tax liability will depend on the structure of your business. As a sole trader, you pay income tax on all your business' profits, via your yearly tax return.

This bill will also include Class 2 and Class 4 National Insurance contributions, a student loan repayment (if applicable), and potentially a 'payment on account' (advance payment) towards the following year's bill. That's why it's crucial to put money aside for your tax as you go along.

As a limited company, you pay corporation tax on your company's profits at a rate of 20% on profits up to £300,000, and 21% thereafter (2015/16 tax year), via your company tax return.

For your personal income, you'll either pay income tax through your salary or dividends tax through self-assessment (or both). Read more about this in **Secret 11**.

Then, if you hire staff, you'll also need to register as a new employer with HMRC and pay tax and NI to HMRC each month. Learn more in **Secret 10**.

VAT

Whichever structure you choose, you'll need to register for VAT once your turnover exceeds £82,000 in a 12-month period (2015/16 tax year), within 30 days of hitting the threshold.

And, as of 1 January 2015, new rules mean that if you're selling a "digital service" (such as eBooks or e-courses) to customers in the EU, you have to charge VAT based on the rate in the country where your customer is based – regardless of whether you're trading over the UK VAT threshold or not.

CASE STUDY

ANDY LOGAN, VAPE EMPORIUM

For us, one of the biggest learning curves with regards to VAT was ensuring that we didn't get stung by the quarterly VAT bill.

We've learnt to instantly syphon off 20% of all the revenue that we take, as we transfer it into the bank. Ideally, this goes into another account, so we don't have such easy access to it. This way, when the quarterly VAT bill comes through, we know that we'll have that cash aside to pay for it, without any painful surprises! It also then means that if the VAT bill is less than the money we've accumulated, we've got a nice chunk of cash to reinvest into the business every quarter.

SECRET 5

EASY STEPS TO BETTER INVOICING

EFFECTIVE INVOICING IS FUNDAMENTAL TO A HEALTHY BUSINESS. HERE'S HOW TO GET IT RIGHT

Invoicing. Let's face it, it's not the most exciting part of running a business. And when you're busy bringing in clients and doing the work, it's one of those tasks that's all too easy to neglect.

But effective invoicing is fundamental to a healthy business. Get it right and you'll improve your cashflow, become more financially stable and free up time and energy to focus on building your business.

Here are six steps to better invoicing, plus a handy checklist of what you need to include.

AGREE TERMS UPFRONT

Before you start work on a project, particularly with a new client, agree how and when you're going to be paid. Put these payment terms on your invoice along with the specific due date. It's also helpful to clarify the invoicing process, including the details of the person you'll need to send your invoice to.

TRACK YOUR TIME

Once work begins, record the time you spend on the project as you go, including the specific hours and days worked, to make sure nothing gets left off your invoice accidentally (it's not always easy to remember what you were working on two weeks ago!). Even if you're being paid on a per-project basis, keeping track of your time can still help you assess the profitability of the job, and whether this type of project is right for you.

INVOICE PROMPTLY

One of the best ways to ensure healthy cashflow is to invoice as soon as the work is done or you've hit a pre-agreed milestone. Get into the habit of sending your invoice as soon as you finish the work, or carve out time every week to send out your invoices and chase up late payments.

BE SPECIFIC

The bigger the company, the more scope there is for processing delays, so aim to provide all the info they could possibly need to get your invoice signed off, processed and paid without any queries. Our checklist will help with this, but in particular, always ask for a purchase order or reference number upfront, and if you're given one be sure to include it on your invoice.

INCLUDE BANK AND CONTACT DETAILS

Make it super easy for your clients to pay directly into your bank account by putting your bank details on your invoice. This also prevents your client from having to come back to you for this info if this is their preferred payment method (which it often is these days). Also, be sure to include both your phone number and email

address so you can be contacted straight away if there are any queries.

KEEP TRACK OF PAYMENTS

Whether you use a simple spreadsheet or proper accounting software, you need a system that enables you to keep track of all the invoices you send out, their due dates and when they're paid. That way you can easily see when payment is late. If an invoice does fall overdue, get in touch with your client as soon as possible. Be friendly but firm. Delays can happen for all sorts of reasons, and a polite phone call to the accounts contact is often all that's needed.

You can also avoid a whole heap of delays by providing all the info your client will need first time around. Below is a rundown of what you need to include:

WHAT TO INCLUDE IN YOUR INVOICE: A CHECKLIST

- *The word 'invoice'*
- *Your client's full business name and address*
- *Your full business name and address*
- *Your contact details – email and phone number*
- *A unique invoice number*
- *An invoice date*
- *Payment terms (e.g., 30 days from invoice date) and due date*
- *Your bank details*
- *The purchase order number or reference number (if there is one)*
- *The name of your contact in the organisation*
- *A brief but specific description of the products or services supplied, including:*
  - *The exact nature of the work*
  - *The specific job or project you worked on*
  - *The number of days/hours and actual dates worked*
  - *Your rate*
  - *A clear breakdown of costs*
- *An invoice total*

If you're VAT registered, you also need to include:

- *Your VAT registration number*
- *The VAT amount – it's best to list all three amounts separately: net, VAT and gross*

If you're a limited company, you also need to include:

- *Your company registration number*
- *Your registered office address*

12 FINANCIAL TIPS TO KEEP YOU IN THE "RIGHT 50%"

As a start-up, you don't need us to tell you how hard it is for new businesses to thrive in today's climate. Couple this with a recent article in *The Telegraph* stating that 50% of small companies fail in their first five years, and it can seem quite daunting out there for entrepreneurs.

However, Intuit QuickBooks is here to help.

WHY UNDERSTANDING IS KEY

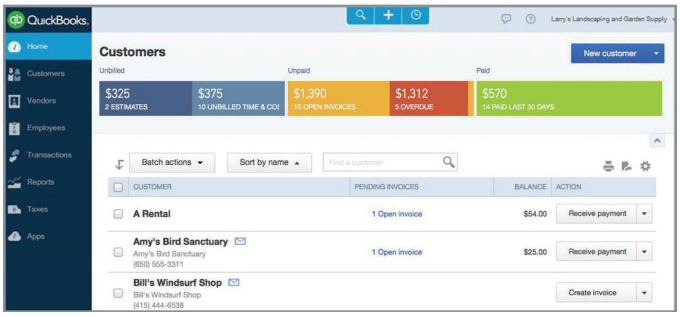
We believe that it's important to give you the information you need to prepare your start-up for success. A way that you can future-proof your start-up is by paying special attention to your finances, or better still, how you manage your finances.

WE HAVE ALWAYS BEEN DEDICATED TO THE SUCCESS OF SMALL BUSINESSES.

It's not the most appealing subject, talking about invoices, cashflow and accountants, and getting your business up to speed in these areas won't necessarily provide you with a competitive advantage. But without a thorough understanding of how effective financial management has a significant impact on your start-up, you could find yourself in the "wrong" 50%.

FINANCIAL TIPS AND TRICKS

That's why we've created this eBook. At Intuit, we have always been dedicated to the success of small businesses in our 30-year history by producing the world's No. 1 online accounting software, and we've put together 12 financial secrets that will prepare you for start-up success.



QuickBooks' easy-to-navigate platform provides you with a detailed snapshot of your business

Whether it's your first time running a business or your latest venture, we believe that there are still financial tips and tricks that you can utilise to ensure you make the decisions that will help your business to thrive through your first five years and beyond.

There are a number of factors to consider when thinking about finance. For example, you might understand why cashflow is important, but if you don't have an adequate way of reporting on it, you can't plan effectively on how much money

you expect to bring in, against the money you expect to come out. Therefore, without this visibility, you might find yourself running out of cash which will prevent you from investing into your business at crucial periods.

In this eBook, we also cover the importance of creating and customising invoices; rather than seeing them as a simple document you send to clients and customers to get paid, they could also be seen as a marketing opportunity. Doing something simple like adding your logo to your invoice can contribute to a more professional look and feel to your business.

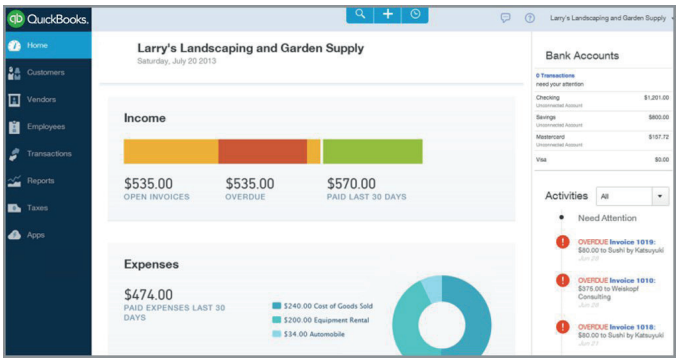
WITH OVER ONE MILLION USERS ACROSS THE WORLD, QUICKBOOKS HELPS BUSINESSES GET MORE DONE.

These finance tips can take time to put into practice, especially when you have so many plates spinning at any one time. That's why we created QuickBooks Online, allowing you to put the tips we've mentioned in this eBook into practice all in one place.

ABOUT QUICKBOOKS

With over one million users across the world, QuickBooks helps businesses get more done, from developing invoices to get your brand noticed by new suppliers, to creating reports that give you the insight you need to make better business decisions.

It can seem intimidating, moving from spreadsheets to a financial management system, but with our unlimited telephone and online support, you can be assured that we're never more than an email or call away, ready to answer your questions.



QuickBooks is the world's No.1 online accounting software

As an agile start-up, a lot of your work needs to happen when you're away from your desk. With QuickBooks Online, you can take this important work with you, having the ability to use it across all of your devices.

If you have any further questions about how QuickBooks can help your business, please feel free to visit www.quickbooks.co.uk.

Hopefully, this eBook, in association with Startups.co.uk and Intuit QuickBooks, will give you the confidence you need to master the financial secrets that are mentioned here, giving your start-up the boost it needs to become (and more importantly stay) successful.

SECRET 6

WHY YOU NEED AN ACCOUNTANT

FIND OUT HOW AN ACCOUNTANT COULD HELP KEEP YOUR SMALL BUSINESS FINANCES IN CHECK

As a burgeoning start-up with limited funds, hiring an accountant may seem like a financial extravagance you can't afford. However, the right accountant could save your business a lot of time, effort and money in the long run.

Bobby Chadha, the small business and accountant product lead at Intuit QuickBooks, answers five quick fire questions to explain how talking to an expert could benefit your business.

1 DOES EVERY START-UP NEED AN ACCOUNTANT? AT WHAT STAGE SHOULD YOU HIRE SOMEONE?

An accountant wears many different hats and can guide a start-up from inception (registering the company) to ongoing advice and engagement. Accountants have a great source of knowledge and experience; your accountant will be able to assist you in how to remain compliant throughout your business journey but also help guide your business to grow.

2 WHAT SORT OF THINGS CAN AN ACCOUNTANT DO FOR A START-UP OR SMALL BUSINESS? WHAT CAN THEY TAKE CARE OF OR ADVISE ON?

Accountants can help set up and register your company, advise you if incorporation or remaining self-employed is the best route for you to go down and, importantly, they can advise you on setting goals for your business. For instance, if you are going to purchase machinery for your t-shirt printing business and are also planning on investing in more machinery in six to 12 months' time, an accountant can help you plan for these purchases in terms of budgeting and tax implications.

Accountants are trusted advisers and it's now very common to find accountants who not only look after your year-end tax and accounts filing, but also help you create budgets and keep you informed via easy to understand reports which provide great insights into your business.

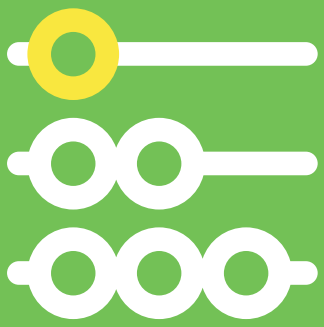
3 WHY SHOULD A START-UP OR SMALL BUSINESS HIRE AN ACCOUNTANT? WHAT ARE THE MAIN REASONS AND BENEFITS?

The key benefits are:

COMPLIANCE – helping you remain compliant with your duties as a company director or as a self-employed individual.

UNDERSTANDING YOUR BUSINESS – by providing you with advice around your business and insights which will help you to grow.

KNOWLEDGE – Accountants not only know their debits and credits, but have great knowledge around initiatives and schemes which can aid your business. I know a firm in Sheffield that has helped many of its clients apply for local government grants to help them grow.



4 WHAT SHOULD AN ENTREPRENEUR LOOK FOR IN AN ACCOUNTANT IN TERMS OF EXPERIENCE, ACCREDITATION, SERVICES OR APPROACH? ANY RED FLAGS TO WATCH OUT FOR?

I recommend speaking to friends and family who have an accountant and keep an eye out for accreditation and membership of the main accounting bodies. Members or qualified accountants need to continuously keep up-to-date with changes to legislation and must attend courses. I also recommend looking for an accountant who specialises in your particular business sector.

It's important to find an accountant who has experience using new applications and technologies. Accountants who are aware of and adopt new technology can also be on hand to advise you on software to buy and use for your business. With the evolution of cloud based accounting platforms, your accountant can collaborate with you in real time via the software and provide insights and guidance in the everyday running of your business.

My last bit of advice is to find an accountant you get on with. This is very important, your accountant should be welcoming and approachable; you should feel comfortable in contacting your accountant when you need help. This will also help build a relationship which is based on mutual respect and trust for years to come.

AN ACCOUNTANT WEARS MANY DIFFERENT HATS AND CAN GUIDE A START-UP FROM INCEPTION TO ONGOING ADVICE AND ENGAGEMENT.

5 HOW AND WHERE CAN YOU FIND THE RIGHT ACCOUNTANT FOR YOUR BUSINESS?

There are many different avenues to find the right accountant for your business. If you attend networking events for people in your industry, speak to your peers and ask them about their experience with their accountant. You can also check out accountants nearby your location by visiting the sites of the main accounting bodies such as the ACCA and ICAEW where they list accountants who have their accreditation and will provide you with that Piece of mind.

You can also search the websites of the main accounting software providers. QuickBooks Online, for example has a great find-an-accountant portal where accountants who are certified experts in their software are listed.

YOU CAN FOLLOW BOBBY CHADHA ON TWITTER @BOBBYCHADHA0

SECRET 7

UNDERSTANDING YOUR BALANCE SHEET

A SNAPSHOT OF YOUR BUSINESS' FINANCIAL POSITION AT A PARTICULAR MOMENT IN TIME

While a cashflow statement shows the money coming in and out of the business each month (and how that affects your bank balance), and a profit and loss statement shows you how profitable the business is over a specific period, neither of these tools will show you if, for example, the business is £1m in debt.

That's where the balance sheet comes in. A balance sheet provides an overview of a company's total assets and liabilities at any one time. It shows how a company has been funded and what the company has done with that funding.

So as you can see, each of these three financial statements has a valuable role to play in helping you keep on top of your business' finances. But none of these documents can tell the full story of the financial health of a business on its own – you need to see all three together to gain a reliable picture of how your business is doing.

READING YOUR BALANCE SHEET

As mentioned, your balance sheet summarises the financial health of your company, by listing the total assets and liabilities. Assets include everything the business owns or is owed, such as cash in the bank, equipment and outstanding invoices to customers.

Liabilities include everything your business owes to others, including any debts, loans and outstanding invoices from suppliers.

A balance sheet is one of the first things a potential investor or funder will want to see, but as with your cashflow and profit and loss statements, it's also a vital tool for you.

As a business owner, it's really important that you know how to produce and read a balance sheet. It shows you the net worth of your business, helps you stay on top of your finances and alerts you to potential troubles.

A typical balance sheet is split into three main sections:

1 ASSETS

This is then usually split into current assets and long-term assets. Current assets include cash and other assets that are expected to be converted into cash within a year. Long-term or fixed assets include things like property and equipment, minus depreciation.

2 LIABILITIES

Again, this is usually split into current liabilities, which are debts or obligations that are due within a year, and longer-term liabilities.

YOUR BALANCE SHEET

Your balance sheet should literally balance, where:

Assets = liabilities + shareholders' equity

As Investopedia puts it: "This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity)."

In a healthy business, current assets should always outweigh current liabilities. This suggests you can afford to meet all your short-term debts and obligations.

3 SHAREHOLDERS' EQUITY

This is the company's total assets minus its total liabilities, and indicates the net worth of the business. Shareholders' equity usually comes from two main sources: money that was originally invested in the company by shareholders (and subsequently, if more funding has been raised) and profits retained in the business.

l Events -- Sample Company
ALANCE SHEET
As of April 27, 2015

	TOTAL
Fixed Asset	
Tangible assets	
Accumulated Depreciation	-399.96
Furniture and Equipment	2,750.00
Total Tangible assets	£2,350.04
Total Fixed Asset	£2,350.04
Current Assets	
Stock Asset	8,411.93
Total Current Assets	£8,411.93
Cash at bank and in hand	
Current	54,930.03
Total Cash at bank and in hand	£54,930.03
Debtors	
Debtors	3,240.00
Debtors - USD	30,620.82
Total Debtors	£33,860.82
Net current assets	£97,202.78

SECRET 8

GETTING TO GRIPS WITH PROFIT AND LOSS

USE A P&L STATEMENT TO RECORD INCOME AND OUTGOINGS – AND CHECK IF YOU'RE MAKING MORE THAN YOU SPEND

Unlike a balance sheet, which gives a snapshot of your finances at a specific moment in time, your profit and loss (or P&L) sheet shows your profitability over a period – whether a month, quarter or year – by listing your total income and outgoings during that time.

If your company is incorporated, you're required by law to produce a profit and loss sheet for each financial year. If your business is not trading as a limited company you don't have to produce one, but the information you give to HMRC to work out your tax bill will amount to the same thing anyway.

A profit and loss statement generally shows both the "gross profit" (the figure you get by deducting only the "cost of sales" from your turnover), and the "net profit" (the final profit figure after all costs, including overheads, are deducted), before tax. Check out our jargon buster at the beginning of this guide for more detailed explanations of these terms.

USING YOUR PROFIT AND LOSS STATEMENT

Even if you're not required to produce one, the P&L sheet is still a really useful tool for showing you, as well as any investors, lenders or shareholders, how your business is doing at a glance.

It can help you see whether or not your current business model is working and make better decisions about how to take your business forward.

For example, if you're working non-stop and feel constantly burnt out yet are still not turning a profit, you might decide you need to raise your prices, cut back on unnecessary expenses, or introduce a new income stream to make your business more financially stable.

LIMITATIONS OF PROFIT AND LOSS

As you'll see in Secret 3 of this guide, while a profit and loss sheet is great for showing profitability over a set period, it doesn't show how much cash is actually in the bank at any one time.

THE P&L SHEET IS A REALLY USEFUL TOOL FOR SHOWING YOU HOW YOUR BUSINESS IS DOING AT A GLANCE.

So while it's a useful tool for showing you whether you're making a profit, it needs to work alongside your cashflow forecast (which shows what's going in and out of your bank account each month) and your balance sheet (which shows everything your business owes and owns at any one time) to give a reliable picture of your company's financial health.

HERE'S AN EXAMPLE OF A BASIC PROFIT AND LOSS SHEET:

Cost of goods sold = opening inventory + purchases - closing inventory

PROFIT & LOSS STATEMENT

Sales/Turnover		**£60,894**
Opening stock (1st of month)	£3,000	
Add purchase made	£24,253	
Less closing stock (30/31st of month)	£4,278	
Cost of goods sold	£22,975	
Gross Profits		**£37,919**
Overheads		
Rent and rates	£3,294	
Heat, light and power	£783	
Insurance	£106	
Indirect wages and salaries	£7,296	
Marketing costs	£571	
Printing, stationery and consumables	£1,951	
Computer costs	£758	
Telephone	£939	
Depreciation of assets	£3,697	
Legal and professional fees	£750	
Bank and finance charges	£264	
		£20,409
Net Profit Before Tax		**£17, 510**

Gross profit = total value of sales - total cost of sales

Net profit = gross profits - overheads

SECRET 9

ACCESSING THE RIGHT FINANCE

YOU'VE GOT A KILLER BUSINESS IDEA BUT HOW WILL YOU FUND IT? READ ON TO FIND OUT YOUR OPTIONS

The funding landscape has changed dramatically in recent years, with a number of new models and platforms emerging to help entrepreneurs access the funding they need to get their businesses off the ground.

Read on to find out what your options are, along with the pros and cons of each, to help you decide which route is best for you.

1 BUSINESS LOAN

Despite a fall in lending, the traditional business loan route is still a popular option, particularly with the availability of government initiatives such as Start Up Loans and the British Business Bank.

Before applying for a loan, you'll need to complete a business plan. This helps to clarify your business idea and vision and identify potential problems with your business model. The lender will also want to see financial forecasts, which support your business' viability and show that you have factored in your loan repayments.

Pros: You'll have an injection of cash and you don't have to give away any equity.

Cons: You have to pay it back! Make sure you can meet your repayment schedule.

2 SMALL BUSINESS GRANTS

Not surprisingly, start-up business grants are highly sought-after, and hence difficult to come by.

There are often more than 3,000 grant schemes running at any given time, so it's unsurprising start-ups can find navigating their way to business grants complicated. Each grant scheme has its own set of criteria (such as location, size and industry) to determine whether a firm is eligible.

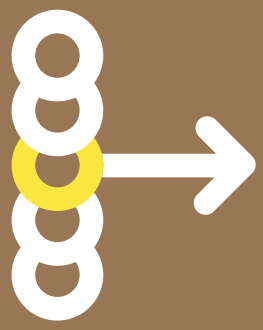
UK businesses can find a comprehensive list of government-backed grants using the government's online tool: the 'business finance support finder'.

Pros: You don't have to give away equity or make repayments, but it may be dependent on hitting agreed milestones.

Cons: Notoriously difficult to come by, and the application process can be time-consuming.

3 INVOICE FINANCE OR FACTORING

Invoice finance and factoring enable businesses to borrow money against their unpaid invoices. When you invoice a client, the finance company advances you a percentage of the money straight away (in return for a fee and, usually, a small percentage of the invoice value). Your client then typically pays the finance company directly.



Invoice finance and factoring are similar, but with invoice finance the credit control process remains in-house, whereas with factoring it's outsourced. Most providers will want you to sign a deal for at least 12 months, so choose wisely.

Pros: Great for cashflow and alleviating the impact of late-paying clients.

Cons: Check your contract carefully – there can be penalties if an invoice is not paid within a certain time period and think carefully before handing over credit control to a third party.

4 CROWDFUNDING

Crowdfunding sites allow members of the public to pool their resources, investing as little as £10 each in start-ups.

There are two types of crowdfunding: equity crowdfunding (platforms such as Crowdcube and Seedrs), where you give investors a slice of your company, and reward-based crowdfunding (platforms such as Kickstarter and Indiegogo), where you offer rewards in return for pledges.

If you choose the equity route, investors will back you in the hope of a later financial return.

Pros: As well as funding, you can build a loyal tribe of backers and evangelists.

Cons: Most platforms are 'all or nothing'; if you don't hit your target, you don't get any of the cash.

5 ANGEL INVESTORS

Angel investors can provide huge injections of capital early in a business' life, as well as using their experience and connections to great effect. Even better, the government is offering tax breaks to angel investors through the Seed Enterprise Investment Scheme.

Angels back businesses they believe in, at their own risk, in the hope of a financial return.

Pros: Many angel investors are successful entrepreneurs. You can bring someone on board who offers both funding and experience.

Cons: You have to relinquish equity and you'll have an investor to answer to.

Whatever route you go down – and you may use several – equally important to raising finance is managing your funds effectively, which is exactly what this eBook is all about.

SECRET 10

HIRING YOUR FIRST EMPLOYEE

GETTING TO GRIPS WITH BECOMING AN EMPLOYER

Bringing your first employee on board is a momentous step for any start-up, and can really help take your business to the next level. But it can sometimes feel quite daunting. From fulfilling all your legal obligations to making sure your new team member feels valued and motivated – not to mention finding the right person for the job in the first place, there's a lot to get your head around.

So to help get you started, here's a rundown of some of the key things you need to do and be aware of when you're hiring someone for the first time.

CAREFULLY CONSIDER YOUR NEEDS

Consult your budget and think about whether any increase in demand or enquiries is ongoing or seasonal. Do you need someone on a short-term or permanent basis? Part-time or full-time?

PUT TOGETHER A JOB DESCRIPTION

Be clear about the tasks the employee will be doing and the skills or qualifications needed. Familiarise yourself with discrimination law and the questions you're not allowed to ask in the application process (like whether someone's married or has children).

DECIDE HOW MUCH YOU'RE GOING TO PAY YOUR EMPLOYEE

Your budget can help you figure this out, but also make sure your offer is competitive and that you pay at least the National Minimum Wage (£6.70 per hour for adults as of 1 October 2015).

CONFIRM YOUR EMPLOYEE'S ELIGIBILITY TO WORK IN THE UK

Check and take a photocopy of their passport details before they start working, along with their VISA for non-EU citizens.

APPLY FOR A DBS (IF RELEVANT)

Depending on your field (for example, if you're working with vulnerable people), you may need to apply for a DBS check to ensure your employee doesn't have a criminal record.

GET INSURANCE

As soon as you become an employer you need to take out employers' liability insurance. This is a legal requirement, which covers you against compensation claims if someone is injured or becomes ill as a result of working for you.

WRITE A STATEMENT OF EMPLOYMENT

If you're employing someone for more than a month, you'll need to give them a written 'statement of employment' within two months of them starting work, including key info such as the employee's name, job title and start date, how much and how often they'll be paid, their working hours, holiday entitlement and more.

REGISTER AS A NEW EMPLOYER ONLINE WITH HMRC

You can do this up to four weeks before you pay your new staff member for the first time.

SET UP YOUR PAYROLL

If your employee doesn't have a P45 from their previous job, they'll need to fill in a 'starter checklist' (which replaced the P46) to provide all the info you'll need to pay them.

ORGANISE YOUR WORKPLACE PENSION

Every UK business must now automatically enrol workers earning more than £10,000 a year (for the 2014/15 tax year) and aged between 22 and the state pension age into a workplace pension scheme. (The law is coming into effect in stages so you'll need to check your staging date).

GET YOUR NEW EMPLOYEE OFF TO THE RIGHT START

Share your business' mission and values, make sure they have everything they need to do their job efficiently and take the time to make them feel welcome and valued.

And of course, your job as a new employer doesn't stop there! You'll also need a system for managing holiday and sick leave, to fulfil your health and safety duties, manage your employee's performance, and more.

CASE STUDY

NEIL WESTWOOD, MAGIC WHITEBOARD

I started Magic Whiteboard with my wife Laura and we ran the business on our own to keep costs low and invested all profits in growing the business.

It is a big decision to take on your first member of staff because it is a considerable commitment in terms of money and time. You need systems and processes in place. We decided to contract out the payroll to our accountants. They are experts at this. They send us wage slips each month and we transfer wages to staff bank accounts. This works well. In hindsight we should have taken on our first employee earlier than we did. I was very risk averse because of the recession and the economy was unpredictable. Taking on an extra member of staff allowed us to substantially increase sales – I could do more sales and marketing and the day-to-day processing of orders was done by the team.

SECRET 11

SALARY OR DIVIDEND: PAYING YOURSELF

WE'VE COVERED A HOST OF TIPS AND TOOLS TO KEEP YOUR START-UP FINANCIALLY HEALTHY, BUT HOW DO YOU KEEP YOURSELF AFLOAT?

If you're a sole trader, this is pretty straightforward. So long as you keep accurate records of your business' income and expenses, you can take money out of your business whenever you like. You'll pay income tax on all of your profit via your annual tax return. However, to budget effectively it's still a good idea to pay yourself a regular amount each month and put money aside for your tax bill as you go.

If you set up a limited company, things are a little more complicated. Your company becomes a separate legal entity and any profits belong to the business first and foremost. You can still take money out of the business, but there are rules surrounding how you can do this.

The business pays corporation tax on its profits, and the amount of personal tax you pay depends on how and how much you choose to pay yourself. You have two main options for this: pay yourself a salary, or take payments via dividends.

SALARY

If you choose to pay yourself a salary, you essentially become an employee of your company. You'll need to register as an employer with HMRC (see **Secret 10** for more info) and decide how much to pay yourself and how often, usually weekly or monthly.

Then, you (or whoever looks after your payroll) will need to process your salary each week or month to make deductions for income tax and National Insurance, plus student loan and pension contributions if applicable. Most accounting software, including Intuit's QuickBooks, can make these calculations for you.

THE MAIN BENEFIT OF PAYING YOURSELF A SALARY IS RECEIVING A SET AMOUNT EACH MONTH.

Under RTI (real time information) rules, you must tell HMRC details of all employee payments on or before the date payment is made. You then have to ensure HMRC receives full payment of the tax and NI contributions (employee's and employer's) by 22nd of the following month.

The main benefit of paying yourself a salary is receiving a set amount each month. This helps you budget more effectively and means you don't have to worry about setting money aside for your

personal tax bill; your income is 'taxed at source', just like any employee.

However, as the director of a limited company you'll still need to register for self-assessment to tell HMRC how you're paying yourself, and pay tax on any dividends received.

DIVIDENDS

Dividends are payments made to shareholders from a company's profits. Small private companies can pay a dividend at any time – providing there are available profits in the business. All dividends should be documented with a dividend voucher and board minutes, even if you're the only director.

Tax-wise, dividends get a little more complicated. Firstly, dividends are subject to corporation tax at 20% (for profits up to £300,000 a year, in 2015/16). On top of this, dividends may then be subject to income tax.

Currently, many directors receive at least some of their income through dividends because the personal tax rates are lower than regular income tax rates. You don't have to pay NI on dividends and they're also deemed to have been paid net of a 10% notional tax credit.

As it stands, dividends tax for basic-rate taxpayers is 10% – meaning most pay no personal tax at all on dividend income at this level, thanks to the tax credit. Dividends falling within the higher and additional rate bands are then taxed at 32.5% and 37.5% respectively, but this is offset by the 10% tax credit.

MANY DIRECTORS RECEIVE AT LEAST SOME OF THEIR INCOME THROUGH DIVIDENDS BECAUSE THE PERSONAL TAX RATES ARE LOWER THAN REGULAR INCOME TAX RATES.

However, the government recently announced big changes to dividends tax, due to come into force on April 6, 2016. Under the new laws, the 10% tax credit is being scrapped. Instead, the first £5,000 of dividend income in each tax year will be tax free. Income above this will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate payers.

WHICH IS BEST FOR YOU?

It depends on your circumstances. At present, many business owners opt to take a salary up to their annual tax-free allowance, currently £10,600 for most people (in the 2015/16 tax year), then top this up with dividends. However, it's best to speak to an accountant to find out the best way forward for you – especially given the impending changes to dividends tax rules.

SECRET 12

THE BIGGEST FINANCE HEADACHES

DON'T LET FINANCIAL WOES DISTRACT YOU FROM RUNNING YOUR BUSINESS

Many things can give you a headache when you're running a business: over-demanding clients, under-performing staff, work-life balance (or rather, lack of) – the list goes on.

But financial headaches can be some of the most painful, causing relentless stress and uncertainty, sapping your time and energy and taking your attention away from doing what you do best.

Here, we've rounded up some of the biggest financial headaches small business owners can face, along with some tips on how to avoid them in the first place.

LATE PAYMENT

This one's got to come first, right? Late payment can be an absolute nightmare for small business owners, causing many a sleepless night and putting a huge strain on cashflow.

You can't always avoid late payment, but you can minimise the risk by agreeing payment terms upfront and getting your invoicing right (see **Secret 5** for tips), keeping on top of when payments are due and sending a statement or gentle reminder to your client as the date draws near.

But unfortunately, it's still not always possible to get clients to pay on time. If an invoice does fall overdue, get on the phone immediately and ask when you'll be paid (being polite but firm). There are also steps you can take under late payment legislation, such as exercising your right to claim interest and compensation for any debt recovery costs.

RUNNING OUT OF CASH

Speaking of late payments, sometimes all it takes is a couple of overdue invoices and a looming payroll to put an otherwise healthy business in a precarious spot. Ask any entrepreneur about the biggest challenges they're facing, and cashflow usually features somewhere in the top three.

To avoid running out of cash, keeping on top of what's going in and out of your business each month is paramount. Creating a cashflow forecast (and updating with actual figures every month) is essential for this. You can also check out some more tips for managing cashflow (and a template to help you do this) in **Secret 3**.

MISSING A FILING DEADLINE

The best way to avoid this one? Hire an accountant! But aside from that, make sure you keep accurate and up-to date records throughout the year (you'll be glad you did when it's time to complete your tax return).

> *" Try to prioritise putting systems in place as early as possible – and seek advice where needed, it will undoubtedly save you time and money in the long run."*

RICH PREECE, VP AND MANAGING DIRECTOR, EUROPE, INTUIT

Also, make sure you're aware of the important deadlines throughout the year, and put them on your calendar. You can find a handy timeline of important dates on the final pages of this guide.

WORK DRYING UP

As we've mentioned, having a savings buffer can be a game changer for your business, relieving stress (or rather, preventing headaches) and helping you ride out a period of reduced sales – for example, during slower summer months.

Diversifying your revenue streams can also help you get through a period of fewer bookings or sales – while making your business less vulnerable to external forces like a client going out of business. When you know you've still got money coming in, you can focus your energy on marketing or whatever it is you need to do to get your business through the slump.

A TAX AUDIT OR INSPECTION

Any business can be audited by HMRC, so there's nothing you can do to avoid this one completely. But you can be prepared by keeping up-to-date, organised and accurate records, or hiring an accountant to make sure you meet all your yearly obligations.

You can also help avoid a tax investigation (this is different from a regular audit and means there's something specific they want to look into) by making sure you file and pay on time, disclosing everything you need to and submitting accurate information.

If you're informed of an impending visit from HMRC, don't panic – but do seek advice from an accountant to find out how best to prepare.

HMRC KEY DATES

MARK YOUR CALENDARS! HERE'S A RUNDOWN OF IMPORTANT DATES AND DEADLINES YOU NEED TO BE AWARE OF THROUGHOUT THE TAX YEAR

KEY DATES FOR SELF-ASSESSMENT:

5 OCTOBER 2015

Deadline for telling HMRC if you need to register for self-assessment for 2014/15 tax year.

31 OCTOBER 2015

Deadline for filing paper tax returns for 2014/15 tax year.

31 DECEMBER 2015

Deadline for submitting online tax returns for 2014/15 if you want HMRC to collect any tax due via your PAYE/tax code (this only applies to people who are employed, who owe less than £3,000).

31 JANUARY 2016

Deadline for filing tax return online and paying any tax due for 2014/15, including first 'payment on account' for 2015/16.

6 APRIL 2016

First day of the 2015/16 tax year.

31 JULY 2016

Second 'payment on account' due for 2015/16 tax bill.

5 OCTOBER 2016

Deadline to tell HMRC if you need to register for self-assessment for 2015/16 tax year.

KEY DATES FOR BUSINESSES WITH EMPLOYEES:

22ND OF EACH MONTH

Deadline for all PAYE and NI payments for staff salaries (for the previous month)

However, you must submit DETAILS of any payments made to employees ON or BEFORE the date the payment is made, under 'real time information' (RTI) rules.

22 APRIL 2016

Final deadline for all payments of staff PAYE and Class 1 NICs from the 2015/16 tax year.

31 MAY 2016

Deadline for issuing a P60 (for 2015/16) to each relevant employee who was working for you on 5 April 2016.

6 JULY 2016

Deadline for filing forms P9D, P11D and P11D(b) (if applicable) with HMRC, which detail any employee benefits or expenses.

22 JULY 2016

Deadline for any outstanding payments of Class 1A NICs for the 2015/16 tax year.

KEY DATES FOR LIMITED COMPANIES:

2015/2016

- **Corporation tax payments** to HMRC are due nine months and one day after your financial year end.
- **Your company tax return** to HMRC is due 12 months after your financial year end.
- **Your year-end accounts** to Companies House are due nine months after your financial year end.
- **Your annual return** to Companies House is due on the anniversary of your incorporation date or the date you filed your last annual return (you can file up to 28 days after the due date).

KEY DATES FOR VAT-REGISTERED BUSINESSES:

2015/2016

You'll need to file a quarterly VAT return. Your online HMRC account will tell you when these are due (along with any payments) – it's usually one calendar month and seven days following the end of an accounting period.

KEY DATES FOR THE CONSTRUCTION INDUSTRY:

19TH OF EACH MONTH

Deadline for receipt of the contractor's monthly return (under the Construction Industry Scheme (CIS)).

USEFUL CONTACTS AND RESOURCES

For more information on financial planning and running your small business, check out these resources:

Acas
Help and advice for employers and employees:
www.acas.org.uk

Companies House
For incorporating and registering your company:
www.gov.uk/government/organisations/companies-house

Gov.uk
The best place to find government services and information:
www.gov.uk

HM Revenue & Customs
The UK's tax and customs authority:
www.gov.uk/government/organisations/hm-revenue-customs

QuickBooks Online
The world's No.1 online accounting software:
www.quickbooks.co.uk

Small Business Centre
Gain key insights on how to grow your business:
www.intuit.co.uk/r/

Startups
Advice for starting, running and growing your business:
www.startups.co.uk

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Managing a start-up can be overwhelming, but it doesn't have to be. QuickBooks has been designed to help you stay in control of your company's finances, so you can focus on developing your business. Know exactly how you're getting on with real-time dashboards, plus easily create invoices and reports for your customers and investors. Grow with QuickBooks today.

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[1]Based on the number of paying customers and accountants worldwide, December 2014.
[2]30 day free trial, see website for details.

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