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On the books

Julianne Dowling
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Accountant Michelle Pearce began her business Face Accountants - a boutique taxation and accounting advisory firm - from her home four years ago and now employs three accountants.

She and her team serve the small-to-medium business market in Sydney so she has a real understanding of what it takes.

"It's quite easy to start a business, but it's a challenge to make it a sustainable success," she said.

"Our point of difference is that we try to make dealing with finance enjoyable. We encourage our clients to call and keep in touch. We want clients to talk to us so we understand fully what's going on, and we try to help them understand how to run a business better."

Has your business progress met your expectations?

"Understanding your business risks and your worst case scenario is important when starting out. For example, if you have to buy a business then you need to know what debt you would be left within say, a year's time if that business failed and whether you could service that debt. If you can survive worst case, then this takes your mind off the worry about day to day survival, allowing you to focus on success.

"The first three years are the hardest in a new start-up. When I started Face Accountants, we initially contracted with larger clients; however, I felt that we need to have an office, and achieved that in six months.

"We felt that we needed more traction through visibility. Our customers needed to see that we had an office and had somewhere to bring their receipts and material.

"We chose somewhere close to where we lived as it was central for our client base, and close to the city. We initially leased for 12 months because that was the owner's wishes, and we weren't sure if we would grow. But in the end, the landlord decided not to move in so we took a three year lease (with a three year option) and did a proper fit-out."

How did you budget for fit-out?

"Affordability and practicality are key. We had a small space to work with, and I saw it as a marketing expense rather than an investment. The cost writes down quickly. We had desks and equipment, which we recycled. A new fit-out can be motivational for staff just as much as for your clients. You also have to consider the fit-out and how easy it is to update.

"Rents can be a major expense, and there are personal guarantees involved. In taking on a term lease, you have to factor in future growth so you don't tie yourself in for too long with no flexibility to grow.

"A bigger place may not be a bad thing, if growth is likely. You can sub-lease additional space in the short term. You have to consider how long you will be in those premises when looking at the lease term.

"When we did our new branding, we attracted more creative clients because they liked our fit-out and logo; I believe they felt more comfortable in the new environment."

What about retail start ups?

"New retailers face upfront investment in stock, fit out costs and staffing without much of an income stream

initially. They need to do a 12-months budget up front to ensure they can finance that period because it takes a while for any shop to get traffic, and for its stock to move. You will also need good stock to pull people in at the outset.

"Know who and what you are in terms of the business. Understand your position to price. If you're a beautician, then are you a quick \$15 wax or a more expensive treatment? The fit-out will follow that positioning.

"You can set up and take any client, but you need to be true to your market positioning and where you want to be."

Is a company structure a good idea from the outset?

"If the founders don't have much risk in terms of employees and creditors, then they may not need a company structure initially, and will generally start as sole traders.

"In 12 months time, it is a good to review that for a tax or asset protection reason. The actual rolling over into a new company is pretty straightforward.

"Generally, people may prefer to be sole traders because of the nature of their business, and how serious they are about their business.

"When people go from sole trader to a company, you will need to see the money as separate to yourself. If you want to pull money out then you may need to draw a wage or distribute a dividend. There's certainly more taxes to be aware of for a company too."

What are some of the issues for SME owners when it comes to motor vehicles?

"People love to own their cars through their companies, and accountants will question whether there's any benefit in doing that. You need to do the numbers to determine whether it's worthwhile tax-wise. Many people purchased cars when the small business tax break launched by the Government, but may have had little understanding of the impact of buying a car.

"For example, the cost limit of \$57,180 applied, and of course, different structures have different tax impacts or outcomes. This tax break is an extra depreciation write off so it defers tax in a company rather than act as a true permanent deduction unlike the results for a sole trader, partnership, or in a discretionary trust.

"It's a cash flow helper if you pay company tax, rather than a handout bonus. FBT implications also apply to motor vehicles which are part of the company's expense.

What's your advice on cash flow control?

"Talk to your suppliers to let them know to adjust their cash flow if you're having delays in payments. Sometimes, communication helps. Some industries such as builders can't change the way they collect payments. The larger companies will extend payments and take longer.

"I changed my own debt policy recently in order to reduce my time on collections and improve cash flow. Most of my clients are really good payers, but it's the 80/20 rule and a few spoil it for many. So review your credit policies.

"For instance, maybe a photographer should take some upfront payments, look at cancellation fees and then collect the balance of payment before the wedding day. Wedding photography is an emotional purchase, and you are more likely to get paid before the event rather than after it is over.

"Look at how you incur your expenses and interim bill to improve your cash. Be vigilant. As soon as terms are up then chase payments up through an email or phone call. If you insist on seven day terms then you shouldn't wait until 30 days. People won't respect that. Bill when the work is top of mind.

How can business owners find a good book keeper?

"It's a must (for a book keeper) to have financial credentials, and not be just a processor. I prefer that. There are two sides to the journal and they need to know how to balance both sides of the sheet.

"So if it's an accountant who started the book-keeping business, and CPA qualified then that's good even if you have to pay more for it.

"You don't need the \$800 MYOB package if you're a consultant; the \$145 version will be better for cash entries, and basic book keeping.

"There's also a virtual programme with a monthly fee, such as saasu.com – that can be an option if you have people working in remote locations. This will provide downloadable statements.

What are some common tax slips made by small business owners?

"There can be grey areas about expense reimbursements. You need to look at your company's returns. If there's a sizeable loss every year and it's as a result of your expenses, then the ATO will ask at some point as to why the company isn't profitable?

"In order to be eligible for financing, you need to show profitability...so there needs to be a balance in claiming every expense, and deduction.

"People also may claim Goods and Services Tax (GST) on things they shouldn't. If you're having a business meeting with lunch then the lunch which includes GST is deductible provided FBT is paid. Other examples where GST is not payable include insurances or car rego registration fees or filing fees for ASIC – you need to look at the receipts. So don't be lazy about checking what qualifies.

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