



Government of South Australia

Department of Trade and Economic Development

BizFacts

www.southaustralia.biz

Planning to Start a Business

Are you buying yourself a job?

Have you asked yourself why you want to start in business? Is it because you want to invest your money, time and talent into a profit-making venture, or are you trying to buy yourself a job? Many people find that their hopes turn into a struggle to survive on less than they would have received through regular employment because they have not done their homework.

Starting a business for many means that they are prepared to spend long hours and a great deal of effort in order to make long-term gains in the way of increased sales income or a profitable venture which they can later sell and make capital gains.

Before you commit yourself you should do your sums.

Firstly, you should list all your living expenses in order to see what minimum take-home sum is needed to maintain your present style of living. Secondly, you should consider the impact of any finance you want to raise to start the business and whether this poses a risk to your other assets. Thirdly, could you meet the repayments if the venture fails? How much will you need to set aside for taxation and personal investment for the future? A personal budget is provided for this purpose, on the back of this page.

What is your current available capital and can you do better by investing it on the money market? For example, if your current employment gives you \$30,000 a year and you have \$30,000 in capital that you could invest at (say) 10%, then your business would need to provide a taxable income of:

$$\begin{array}{r} \$30,000 \\ / \quad \$3,000 \quad (\$30,000 \text{ at } 10\%) \\ \hline \underline{\underline{\$33,000}} \end{array}$$

Will it do this?

What volume of sales would you need to support this? If you can keep 15 cents out of each dollar of sales then you will need a volume of:

$$\begin{array}{r} \$33,000 \\ \div \quad 0.15 \\ \hline \underline{\underline{\$220,000}} \quad / \text{ year} \\ \text{or} \quad \underline{\underline{\$18,333}} \quad / \text{ month} \\ \text{or} \quad \underline{\underline{\$4,230}} \quad / \text{ week} \end{array}$$

Do you see yourself meeting these targets?

What are the other financial considerations?

How much capital do you have to start the business and is it enough? Many businesses fail because they are undercapitalised. If you have to borrow money do you know where and at what rates you can get this? If this is a first-time venture then you may find it difficult to raise money unless you have other assets that you can put up as collateral against the loan. Check that you are not buying dear money. Shop around for the best rates and terms. Ask the financial institution about the other services they can offer for your business, including overdraft and credit facilities.

Have you prepared a business plan?

You should prepare a business plan in which you take all income, expenses and starting costs into account. Calculate the gross profit, net profit and personal returns you can expect. Include all items of stock and plant you will have to purchase for setting up the business and also the costs of legal expenses, lease, connection of public utilities and telecommunications. Do you know what the council and water rates will be and what your fuel, light and phone bills will cost? Do you know what other businesses of your type gross and what their track record is like? Is there a failure rate and high risk? Discuss your plans with your bank manager and your accountant before you commit yourself

What provision should you make for Taxation?

Ask the advice of your accountant about allowable deductions when calculating the potential return from your venture. Ask about possible tax liabilities so you can plan for them.

*See Over

Annual Personal/Family Expenditure Budget

\$ per year	Items of committed spending:
	House repayments or rent
	Personal loan repayments
	Other loan repayments (car etc)
	Credit card and store accounts
	Council rates and water rates
	Electricity/gas and heating
	Phone (rental and calls)
	Food
	Clothing
	Insurances:
	Superannuation
	Life insurance
	Health fund
	Household insurance
	Car insurance
	Fares and other transport costs
	School fees and costs
	Professional and trade association fees
	Other items:
	TOTAL (A)

\$ per year	Items of optional spending:
	Entertainment
	Sports
	Hobbies
	Donations to charities
	Holidays
	Savings and investments
	Other optional items:
	TOTAL (B)

	GRAND TOTAL (A+B)
	CURRENT INCOME AFTER TAX (C)
	CURRENT SURPLUS (C – [A+B])

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