

CHECKLIST FOR GOING INTO BUSINESS

Before making the decision to go into business it is essential to do your homework properly.

The Checklist For Going Into Business is a great starting point. It covers a comprehensive range of issues to be considered and can be supplemented by professional advice.

In addition to ongoing accounting and taxation matters there are many legal, physical, financial, marketing, personnel, insurance and government requirements which must be addressed.

Starting a small business is not easy. There are many factors to take into account. Considering all of the issues raised in the checklist will assist you to achieve a smooth start. There is, I believe, a positive correlation between planning and success.

In the interests of maximising your chances of success, I urge you to seek advice before committing yourself, and I wish you the best of luck.

The Society of CPAs is a valued source of advice on ways to improve the operating environment for small firms and I commend the Society for this well researched and very practical initiative.

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MINISTER FOR SMALL BUSINESS, CUSTOMS & CONSTRUCTION

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1 Preliminary

Why do you want to go into business?

Are you unhappy in your present position?

Have you been retrenched and want to “buy a job”?

Have you seen an opportunity of which you can take advantage?

You need to be convinced that by going into business you will be better off than staying in employment.

Are you the right type to run a business?

Can you deal with the demands – long hours, staff problems, complaints? Can you persevere when things get tough?

Can you exercise self-discipline?

Do you understand the business you are going into?

Do you have the necessary experience and/or qualifications?

What are your chances for success?

Other than enthusiasm, what do you have that will make the business successful?

Can you afford the financial risk?

Do you have the financial resources to commence or acquire the business and to continue to operate it?

Do you have the support of your family or others dependant upon you?

Are the people closest to you in agreement with your plans?

Have you undertaken any business training?

Have you attended any small business intenders' courses or done any other preparation?

2 Market Research

Feasibility study

You should research thoroughly the industry you are entering, your product or service, the potential market, competitors, sources of supply, staffing requirements, etc.

Sensitivity analysis

The likely outcomes of changes in turnover, in prices and in costs should be explored.

Business plan

It is strongly recommended that a business plan be prepared which will incorporate the above two items as well as a range of other information that will help you to plan ahead. If finance is required, potential lenders will demand to see a business plan.

3 Legal Structure Decision

Under which of the following legal structures will the business be operated? You may need the advice of an accountant or solicitor to help you choose.

- ♦ Sole trader
- ♦ Partnership
- ♦ Company
- ♦ Trust

4 Legal Structure Implementation

Partnership agreement

This may be a simple written memorandum of understanding between the partners setting out their respective rights, obligations and duties or it may be a more formalised agreement prepared by a solicitor.

Company formation or purchase

A solicitor can form a company for you or you may purchase one that has already been created. Shelf companies that have not previously traded may be acquired through an accountant, a solicitor or from a company that markets them.

Business name registration

If using a business name it must be registered in each of the states and territories in which you propose to trade.

Trademark or patent registration

To ensure that no-one else can take advantage of your trading name, product name or design it may be necessary to apply for a trademark or patent. It may be advisable to seek the assistance of a patent attorney.

Franchise agreement

If operating under a franchise it is advisable to consult an accountant and/or solicitor before signing any agreement.

Contracts

Legal advice should be sought before signing any contract, purchase agreement or other legal document.

5 Physical Requirements

Location

Are the business premises situated in a location which suit the market you are targeting? Have you done a study of all the available plans for the future of the area to ensure there are no potential problems eg. restricted access?

Space requirements

Do you have enough space for your immediate needs and for the foreseeable future? Is there an adequate loading bay if one is needed? Is parking available for customers and staff?

Services

Are electricity, water, gas services available? Are they reliable? Does the building meet your requirements for computer and telephone connections and cabling? Is there enough light?

Major equipment

Do you have, or can you acquire at the right price, the plant and equipment your business will need? How will the equipment be acquired – by purchase, lease, hire purchase? Has a lease/buy analysis been done? Is finance required and is it available? What security does the lender require?

Has a feasibility study been done indicating that the use of the equipment will fully justify operating costs, including servicing and maintenance, insurance and safety requirements?

How dependent will the business be on the equipment? Is there a disaster plan including alternative facilities in the case of a major breakdown?

Support equipment

What are your requirements of office furniture, telephone, fax, answering machine, computers, photocopier, etc?

Has lease/buy analysis been done?

Is the necessary expertise available to install and operate computer systems, etc? Is outside assistance necessary to choose the most suitable hardware and software?

Motor vehicles

What vehicles are available or need to be acquired?
Select on the basis of suitability and affordability.

Has lease/buy analysis been done?

Inventories

If stocks of goods are to be acquired from a vendor, has a valuation been arranged? Does inventory include any slow-moving or obsolete stock? Are the right levels of stock maintained?

Will good stock control procedures be put into place to ensure optimum levels are maintained?

Consumables

What aids to manufacture or other consumables are required?

6 Plan Funding Needs

Capital and
recurrent budgets

Have budgets been prepared estimating what funds will be needed to commence or purchase the business, to acquire necessary assets and to provide working capital to operate the business?

Cash flow forecasts

Have cash flow forecasts been prepared on a monthly basis for at least the next twelve months?

Profit projections

Have profit and loss budgets been prepared on a monthly basis for at least the next twelve months?

7 Source of Funds

Personal contributions

How much cash is available from personal resources and how much can be raised by the sale of assets, etc?

Family involvement

If funds or physical assistance are to be provided by family members, then duties, responsibilities and rights of each person involved should be agreed in writing.

External investor

Can an external party be induced to introduce equity by way of partnership, joint venture, share subscription, etc?

Bank or other lender

If monies have to be borrowed, what security is available?
Have likely interest charges been included in the cash forecast and profit budget? Has an application for business finance been prepared for submission to prospective lenders?
Has your accountant been consulted before any approach is made to lenders?

Lease/purchase alternatives

Has a lease/buy analysis been done to see whether leasing, hire purchase or direct purchase is the best way to acquire assets.

8 Particular Industry Requirements

Trust accounts

Is your industry required by a law or by your professional association to maintain trust accounts and to have them audited? What requirements cover the earning of interest on trust accounts?

Insurance compensation funds

Are you required by government or professional association regulation to carry professional indemnity or public liability insurance or to contribute to any industry compensation fund?

Labelling

What information is required by law to be shown on labels attached to your products?

Contracts

Are there legal or ethical rules that require a standard form of contract to be used within the industry?

Professional associations

Is it necessary or advisable to belong to an industry association?

9 Marketing

Analysis

Have you identified any advantages you may have over your competitors? Has your target market been specified – who are your potential customers, where are they?

Is it advisable to seek marketing advice?

Advertising

To what extent is advertising necessary in your industry?

Has an advertising budget been worked out?

Has the target audience been identified?

Pricing policy

Has a break-even analysis been done?

Has a price been set and compared with that of competitors?

10 Staffing

Personnel

How many staff will be required and at what levels of experience? How will they be recruited? Are apprenticeships to be offered and if so, through what scheme? Can government incentives to employ staff be utilised? What training will be necessary?

Working hours

What hours are staff required to work? Will overtime be paid?

How many permanent, part-time and casual staff will be needed?

Remuneration

Will employees be paid on time or piece-work basis?

Will commission be paid? What incentives will be offered?

Will salary packages be negotiated and, if so, has fringe benefits tax been included in calculations? Has the cost of the packages, including purchase and maintenance of motor vehicles, etc. been carefully estimated?

Award requirements

Has reference been made to all appropriate industrial awards or relevant advice otherwise obtained so that all conditions of employment are fully understood?

Other legislation

Are the requirements of the Superannuation Guarantee Levy Act, Training Guarantee Act, Occupational Health & Safety Act, Payroll Tax Act, Workman's Compensation Act and the group tax provisions of the Income Tax Assessment Act fully understood or has appropriate advice been received from an accountant or solicitor?

11 Insurance

The following insurances should be considered.

It may be necessary to consult an insurance broker.

- ♦ Building
- ♦ Contents
- ♦ Commercial (theft, fire, cash, plate glass, etc)
- ♦ Loss of profits
- ♦ Fidelity
- ♦ Public liability
- ♦ Product liability
- ♦ Professional indemnity
- ♦ Motor vehicle
- ♦ Personal disability
- ♦ Workers compensation
- ♦ Keyman
- ♦ Superannuation
- ♦ Retirement planning
- ♦ Buy/sell agreements

12 Local Government Requirements

Lease purpose clause

Will the proposed activity at the proposed location be permitted under local government regulations?

Zoning requirements

What requirements need to be satisfied in order to commence business at the proposed address? Has the local government authority been consulted concerning future re-zoning plans?

Health/environment regulations

What regulations cover health and environmental aspects of the proposed activity?

Business licences

Has the Business Licence Information Service been interrogated to determine what regulations cover the proposed activity and what permits and approvals are required?

Government charges

Have all relevant charges been considered such as stamp duties on purchase of business and on transfer of assets, rates and taxes, land taxes, etc?

Transfer of title of assets, including motor vehicles

What procedures are necessary to transfer titles? It may be necessary to consult a solicitor.

13 R e c o r d K e e p i n g

Accounting system

What accounting system needs to be put into place? Will it be computerised or handwritten? What sort of information will it produce and is that information relevant and sufficient for your needs? What training is necessary to understand the system? Will qualified staff need to be employed? Has advice been sought from your accountant?

Secretarial

If you are operating under a company, who will maintain the secretarial records and comply with the reporting requirements of the Corporations Law?

14 Registrations

Are registrations required in respect to any of the following:

- ♦ Company formation or acquisition
- ♦ Business names
- ♦ Tax file number
- ♦ Group employer
- ♦ Prescribed Payments System
- ♦ Fringe Benefits
- ♦ Payroll Tax
- ♦ Sales Tax

15 Buying an existing Business

Purchase price

Financial statements for the previous 3 years and, if possible, income tax returns should be obtained from the vendor and checked by your accountant who will suggest a reasonable purchase price. This may include an element of goodwill. Stamp duties and other acquisition costs should be considered.

Assets

Assets to be acquired should be specified in writing and their values checked by reference to their importance to the business. It may be advisable to have a professional stock-taker value inventories. If purchasing shares in a company rather than its assets and business, legal and accounting advice is essential.

Contract of sale

A solicitor experienced in commercial matters should be retained to advise on the terms of the contract.

16 Other sources of information

Small business development corporations

Each State government operates a service providing advice to small business and those intending to commence business. They also act as a referral centre to courses in small business management, publications and professional advisers, and can provide access to the Business Licence Information Service.

Accountants

The accountancy profession provides much more than just preparation of income tax returns. Your accountant is able to help you at every stage, from commencement of the business through to ongoing involvement in management. You should ensure your accountant is a member of one of the major accounting bodies.

Solicitors

A solicitor experienced in commercial matters should be consulted before signing any contract or legal agreement.

Courses

A number of educational institutions offer courses in various aspects of small business management. A listing should be available from your State government's small business centre.

Publications

Your local library's catalogue should include titles on small business. Some banks and other institutions publish handy guides for small business.

Do you understand that things could go wrong and the business could fail?

Are you aware of the factors that could contribute to business failure:

- ♦ Undercapitalisation – not having sufficient funds to continue operating
- ♦ Too much debt – inability to service debt capital
- ♦ Inadequate cash flow
- ♦ Insufficient range of products, customers or suppliers
- ♦ Poor record-keeping and inadequate management information
- ♦ Poor management skills, including inexperience
- ♦ Lack of planning and inability to adapt to changing circumstances
- ♦ Poor credit control and inadequate debt collection methods
- ♦ Stock levels too high or slow-moving
- ♦ Ill health of principals or key employees, loss of key managers

Have you considered all the possible consequences of business failure?

Do you understand that, in the worst case, you might lose most of your possessions, including the family home?

Small Business and Accounting...

BUSINESS PLAN PREPARATION

The process of planning your success and documenting your proposals in the key areas of finance, marketing and, of course, producing and delivering your products or service to customers. (Your bank will certainly be impressed if you can show that you know where you are headed.)

BUDGETING

Quite simply, a road map for your business and an essential part of your strategic planning.

CASH FLOW

Forecasting and management – the most critical area of all for your business. Ask your accountant to set up a system to enable regular reviews and so facilitate your decision making process.

KEEPING THE RECORDS

Bookkeeping, certainly! These are the basic records needed to prepare Profit and Loss Accounts and Balance Sheets for taxation and other authorities. Using professional qualifications and experience your CPA will show you how basic bookkeeping procedures can be used to easily and economically develop management reports that will tell you the financial health of your business and even how it is performing compared to others.

The first stage –
The planning stage

1

The next stage –
Operating your business

2

The third stage –
Investing for the future

3

How a CPA can help you:

TAXATION

As well as personal don't forget other taxes such as sales tax, payroll tax, fringe benefits tax, capital gains tax and stamp duties among others. Your CPA has the expertise you need for this area.

COMPUTERS

A CPA can help by determining your needs and recommending the best software and hardware solutions.

AUDITING

An independent assurance on your figures can be given as a basis for decision making by business owners and lenders.

FINANCIAL PLANNING

Helping you to make the most of your money.

SUPERANNUATION

Advice on providing funds for your retirement and enjoying income tax advantages along the way. Your CPA will also help you to comply with Occupational Superannuation Standards for your staff.

INSOLVENCY AND FINANCIAL DIFFICULTIES

Your accountant is a valuable source of assistance. Don't delay, make contact as early as possible.

To find the names of CPAs in your area please contact the nearest office of the Australian Society of Certified Practising Accountants.

Australian Capital Territory
Level 8, Colonial Building
161 London Circuit
Canberra ACT 2601
Phone (06) 257 1858

Queensland
Level 3, Silverton Place
101 Wickham Terrace
Brisbane QLD 4000
Phone (07) 3832 1194

Victoria
CPA House, 3rd Floor
170 Queen Street
Melbourne VIC 3000
Phone (03) 9606 9606

New South Wales
Level 3, Quay West Building
111 Harrington Street
The Rocks, Sydney NSW 2000
Phone (02) 9375 6200

South Australia
280 Pulteney Street
Adelaide SA 5000
Phone (08) 8232 3188

Western Australia
Level 1, Australia Place
15-17 William Street
Perth WA 6000
Phone (09) 9481 5944

Northern Territory
Level 3, Redco Building
62 Cavenagh Street
Darwin NT 0800
Phone (08) 8981 2116

Tasmania
146 Davey Street
Hobart TAS 7000
Phone (03) 6234 8244

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