

BUDGETING FOR START UP COSTS

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The Mission of the Business Enterprise Centre is to foster, develop and support small business by providing relevant, accurate and professional information and assistance to those intending to start a small business or those existing small businesses that need support. This information and assistance is offered free of charge on the explicit understanding that:

- ◆ The information supplied is intended to provide general guidance and direction on all aspects of small business.
- ◆ The Centre is not engaged in rendering legal, accounting, financial or other professional advice.
- ◆ The information is not intended to replace professional advice and at all times the Centre, its officers and employees recommend that if legal, accounting or other expert advice is required, clients seek professional advice before committing funds to any business venture.
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Budgeting for Start Up Costs

For many small businesses, the cost of getting started and keeping going for the first few months is quite high while income is usually low. Budgeting for those costs will tell you how much money you will need to have available to you up-front before it is sensible to start spending at all.

There are many expenses which will be one-offs. Fill in the costs of these, below, which are relevant to your business:

Use the expenses budget part of this hand out to determine your costs.

Bond or key money	\$
Initial franchise costs	\$
Business cards, letterhead, etc.	\$
Renovation ,remodelling, fit out costs	\$
Purchase of equipment	\$
Opening stock & materials	\$
Licenses and / or permits	\$
Initial promotion & signs	\$
Initial professional fees	\$
Insurance	\$
Other	\$
Other	\$
TOTAL (A)	\$

There are other expenses which will need to be covered on top of these one-offs. Very few businesses start off with enough turnover to make ends meet during the first few months. For that reason, you have to be aware of what those first few month's costs are going to be and how much money you will need to be able to call on in order to cover those costs.

One-off expenses brought forward (A)	\$
Monthly premises expenses(rent, power, phone) x3	\$
Monthly postage, stationery, and on-going promotions x3	\$
Month loan and hire purchase repayments x3	\$
Stock, all expenses for the first 3 months	\$
Vehicle costs for first 3 months	\$
Staff wages for the first 3 months	\$
Personal drawings for the first 3 months	\$
TOTAL Working Capital	\$

This may scare you but the total of these costs is how much money you will need to have on hand so that your business will not run out of money before it is making money. If you don't have this much money available, you may run into the problem of being "under capitalised". Being under capitalised is a common cause for business failure.

EXPENSES BUDGET

Use this as a work sheet to determine the running costs of your business. Retain your calculations and methods for deriving the information you write down. Attach any relevant work sheets or price lists so you can refer to them later. As we said, the Golden Rule is not only to have a reasonably reliable figure, but also to know how you came up with it. I can guarantee someone will ask you!

<i>COST OF SALES</i>	<i>MONTHLY</i>
Advertising	\$
Promotion	\$
Freight Out	\$
Travel	\$
Sales Motor Vehicles Costs	\$
Commission	\$
Other	\$
<i>COSTS OF MATERIALS</i>	
Stock	\$
Materials	\$
Packaging	\$
Freight In	\$
<i>OVERHEADS</i>	
Rent and Rates	\$
Electricity	\$
Phone	\$
Insurances: fire	\$
Public Liability	\$
Loss of Earnings	\$
Other Insurance	\$
Repair and maintenance of building	\$
Repair and maintenance of equipment	\$
Postage	\$
Stationery	\$
Printing	\$
Subscriptions	\$
Cleaning / Laundry / Clothing	\$
Accounting	\$
Bank Charges	\$
Loan Repayments	\$
Legal Fees	\$

Budgeting for Start Up Costs

Franchise costs / Licences / Permits	\$
Equipment & Tool replacement	\$
Vehicle	\$
Other	\$
<i>CAPITAL PURCHASES</i>	
Capital Equipment (itemise)	\$
Hire Purchase	\$
Loan Repayments	\$
Other	\$
<i>COST OF LABOUR</i>	
Drawings	\$
Wages	\$
Sub contractors	\$
Coffee and Tea	\$
Training	\$
Superannuation	\$
<i>TOTAL EXPENSES PER MONTH</i>	\$

VEHICLE COSTS

To determine what it costs to run your vehicle, here is a way to itemise those costs. As with your other budgeting, some of the values will be weekly, others monthly and others annually. At the end you'll want a monthly figure to slot into the Expense Budget.

Petrol or Diesel	\$
Other fuels	\$
Oil & Filters	\$
Registration	\$
Tune-ups	\$
Minor Repairs	\$
Major Repairs	\$
Tyres	\$
Insurance Premiums	\$
Insurance excess (time no. of accidents)	\$
Depreciation on value	\$
Loan Repayment	\$
Traffic Tickets	\$
Auto Club membership	\$
Car Wash / Materials	\$
Rust Proofing	\$
Other	\$
<i>TOTAL VEHICLE COSTS</i>	\$

The Automobile Association says that if you use your vehicle less than 15,000kms per year, the costs to you vary according to the size of the engine.

The RAC W.A regularly updates vehicle running costs. These costs vary depending on the size of the engine: age of the vehicle and the number of kilometers traveled.

If you use your car for business and personal use there are several ways to determine the business allocation of costs. Ask your accountant for the best way to assess your costs.

The ATO also produce figures for vehicle running costs. The ATO figures are generally less than the real costs produced by RAC WA. It would be useful for you to be aware of both sets of figures.

DRAWINGS AND WAGES

Wages is money paid to an employee. the person who owns the business is responsible to pay a net amount, or after tax amount, to the employee, usually every week. All PAYE tax is the responsibility of the employer to pay, on behalf of the employee. Make sure you know when the payment is due.

Drawings is all the money the owner has taken out of the business for non business related purposes, ie personal spending. Anything which can not be directly related to the business is considered personal drawings, ie. the owner is drawing against future profits.

Be aware that your drawings are not just another cost to the business. For one thing, you will not be able to take drawings if there is no money in the bank. Just because you have budgeted to take money home to live on does not necessarily mean the money will be there to draw on. Remember that you will be required to pay tax on all drawings you have made on your business.

Consult with your accountant on the best way to plan for provisional tax and allow for this figure in your budgets.

Experienced business people know that there is another person to pay in business, especially setting up a new one.

That person is 'Murphy' who says "whatever can go wrong, will go wrong".

To allow for 'Murphy's Rule' or a contingency allowance in starting up a business, allow an amount that is relevant and that you have access to in 'real money' such as overdraft arrangements.

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