Introduction to business finance

Finance is about managing your money — knowing what’s coming in and going out. Check out our jargon-buster: B is for budget, C is for cash flow.

By understanding your business finances, you can make smart decisions about where to spend your money and make sure you’re earning enough to keep your business running.

A big part of managing your finances is having visibility of what’s going on in your business, whether you’re a sole trader, or in a partnership or company. The key tools and reports to manage your finances are:

1. Cash flow

Your cash flow is the money coming in and going out of your business — and how much of the money sitting in your bank account is yours to spend. A healthy cash flow is having enough money to pay what you owe when it’s due.

2. Budget

A budget is an estimate of your income and spending over a period. It helps you think ahead and plan your spending to get to where you want to go.

3. Profit and loss statement

Your profit and loss statement is an accounting report that shows your income and expenses — and whether you made a profit or loss — over the financial year. It may also be known as the income statement.

4. Balance sheet

The balance sheet is an accounting report that shows what you own and what you owe at the time of the report. It’s known as the ‘snapshot’ of your business’s financial position.

Tips on cash flow forecasting (/tax-and-accounting/business-finance-basics/getting-paid-on-time/)

Going contracting?

For tips and advice on managing your finances as a contractor, check out the Managing your contracting finances page on this website.

Managing your contracting finances (/getting-started/advice-for-contractors/managing-your-finances/)

Why manage your business finances

By staying on top of your finances you can:

- understand how your business is performing
- make informed decisions about your spending
- make sure you have enough money in the bank to pay the people you need to, when you need to
- stay on top of your tax payments
- provide accurate information to get investment or a business loan
- set and achieve key business milestones — like expanding into new areas, or hiring someone new.

See our tips and advice on hiring staff (/hiring-and-managing/hiring-people/overview-of-the-hiring-process/).

Tips to manage your finances
• Keep accurate records and check them regularly
• Use a separate business bank account to keep a clear record of the money coming in and going out of your business
• Put aside a portion of your income into a savings account to cover your taxes and levies
• Set a budget and compare how you’re actually going against the budget every month to make sure you’re on track.

Systems that can help (/tax-and-accounting/tax-time-tips/systems-that-can-help-at-tax-time/)

Your questions, answered by business experts: Technology and Productivity with Paul Conway

Transcript of video (/tax-and-accounting/tax-time-tips/systems-that-can-help-at-tax-time/transcript-your-questions-answered-technology-and-productivity/)

Common mistakes

Avoid these common mistakes to keep your business finances on track:

• Not having access to records that can help you understand your finances.
• Spending the money in your bank account, not realising it’s needed to cover bills.
• Not putting away money as you go to cover your taxes and levies.
• Invoicing late, and not chasing up debtors — this has a huge impact on your cash flow.
• Not getting advice when you need it, or trying to do it all yourself.

Tips on getting financial advice (/getting-started/advice-and-governance/getting-financial-advice/)

Vote Form

Has your cash flow been hit by payment delays from government agencies in the past two years?

We know getting paid on time is a big deal for business. Your feedback will help us understand whether government payment times can be improved.

☐ Yes
☐ No

Vote

Rating form

How helpful did you find this information?

Rate this

☐ 1 Star
☐ 2 Star
☐ 3 Star
☐ 4 Star
☐ 5 Star

Additional comments

Submit
Basic tips for reducing your tax bill

Add up the true costs of hiring staff — salary, recruitment and training — before you take the next step.

How expenses can help reduce tax bills

Offsetting expenses against income can help with your tax bill. But you’ll need to know what to claim for, and how.

Business planning advice

Whether you’re growing fast or new to business, expert advice can kick-start your planning.

Self-assessment: Business finance

Take this assessment to get a better idea of your financial strengths and weaknesses, and where you need to focus.