Understanding Your Breakeven Point

Understanding your business breakeven point is essential to know how much money you need to make to stay in business. It can therefore help you make well-informed financial decisions and practical business plans.

The breakeven point is the income or sales needed to cover all costs. Any earnings above this point generate profit. So your breakeven point tells you the minimum sales required to continue operating a viable business.

Understanding the breakeven point in conjunction with financial reports can give you valuable data to analyse fixed and variable costs and set sales targets for the business or individual staff members.

Fixed and Variable Costs

- **Fixed costs** – remain the same regardless of how many sales you make. Expenses like rent, equipment lease repayments or full-time staff have to be paid whether you sell any goods or services or not. Fixed costs are often called overheads.
- **Variable expenses** – (sometimes called production costs) fluctuate based on sales. For example, cost of goods sold, production labour, and commissions paid to salespeople will vary according to the number of goods or services sold.

It's helpful to work out an amount or percentage of variable costs compared to the sale price of your products or service.

This may not be exact initially, but even if you get a rough figure to work with, this will help calculate your breakeven point. Over time as you analyse your financial reports, you'll be able to refine the calculation and adjust your selling price accordingly.

How to Calculate Breakeven

You'll need to know your fixed costs (overheads), selling price and production costs.

One common method of calculating breakeven is as follows:

- *Overheads / (selling price – production cost)*

For example, let's say overheads per month (rent, vehicle lease, administration staff) are $20,000, and you sell a coaching program for $3,000 with variable costs (coach fees, handout materials for participants, advertising) of $1,500 per program.

- *$20,000 / ($3,000 – $1,500) = 13.33*

You would need to sell over 13 programs per month to break even, which equates to $40,000 worth of sales.

If the same program had variable costs of $1,800, you would need to sell 17 programs per month to generate $50,000 worth of monthly sales just to cover costs. Variable costs of $1,000 per program would mean you only need to sell 10 per month to break even.

With these examples, you can see how important it is to understand your fixed and variable costs. Then you'll know exactly how much you need to make to remain in business and the resulting impact on your financial position. Once you have a reasonably accurate breakeven figure, you can quickly calculate your profit before tax for sales above the breakeven point. In the example where variable costs are $1,500 per program, let's say you sell 20 programs each month. This would result in an extra $10,000 in profit (before tax) after paying for overheads and variable costs.

Can breakeven help with your pricing?

Understanding your breakeven point can give you some deep insights into your selling prices, helping you understand if they're realistic.

For example, if your variable costs are high, how much more income will you need to reach breakeven. Is there a fair price for consumers that covers your expenses in a reasonable time frame? Do you need to raise prices to account for fixed and variable costs accurately?

Talk to us about calculating your breakeven point

There are different ways of calculating your breakeven point to confirm the viability of your business, and the ideal pricing point for driving both sales and profitability.

We'd love to help you understand your business financials in more depth, so you can plan for long-term sustainability, enjoyment and profitability.

Your Q3 2023 Deadlines for the Diary

The ATO lets us have a little extra time for December lodgments so we can enjoy the summer holiday period. But once you're back in the swing of things after a break (or busy trading period), you'll need to plan for deadlines, lodgments and payments.

Remember, Single Touch Payroll Phase 2 is now mandatory, although some software providers, such as Xero have extensions in place until 31st March 2023. If your payroll software is STP2 compliant, upgrade now if you haven’t already. If your payroll has grown in the last year, you may need to look at upgrading your payroll software – talk to us, and we can get you set up on a solution that is better suited to your business.

We’ve highlighted some upcoming business lodgment due dates to help you get organised for January to March, the third quarter of the 2023 financial year.

Lodgment Type	Period End Date	Lodgment and Payment Due Date	Notes
Single Touch Payroll Phase 2	31/12/2022	Each pay run	STP Phase 2 reporting mandatory for all employers unless you have an extension in place with ATO or your payroll software.
Activity Statement Monthly	End of month	21st of the following month	December 2022 monthly activity statement lodgment extension until 21st February 2023.
Superannuation Guarantee Contributions	31/12/2022	28/01/2023	Check the cut-off date of your super clearing house – their due date could be earlier than the ATO due date.
Activity Statement December Quarter	31/12/2022	28/02/2023	The due date for businesses lodging directly with the ATO is the same as the tax agent due date for the December quarter only.
Fringe Benefits Tax Return	31/03/2023	25/06/2023	Paper lodgments are due by 21st May. Get your FBT records together before the end of March – vehicle logbooks and documents, lease documents, invoices and employee declarations.

Talk to Us About Lodgment Planning

If we're already lodging on your behalf, registered agent lodgment extensions automatically apply.

You may have earlier deadlines if you're lodging activity statements and other forms directly with the ATO. If you need more time to lodge and pay, let us know, and we can help you meet your obligations or arrange a lodgment extension if required.

Some tax return due dates fall within the first quarter of

2023 – talk to us if you're unsure of your business entity's tax return due date.

It's good practice to plan for your lodgment dates, so you're always ahead with cash flow planning for ATO and superannuation liabilities.

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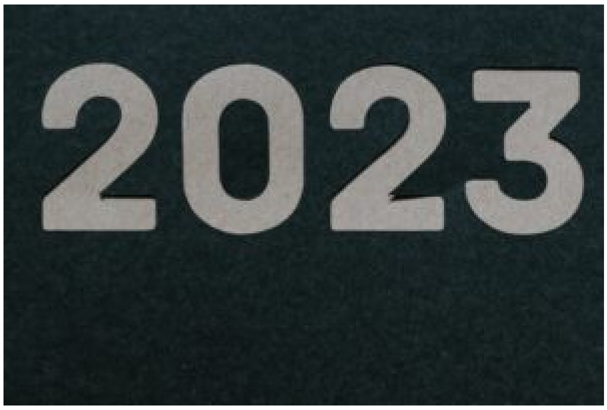
5 goal-setting tips for 2023

Whether you want to grow your business or take more time for yourself, these goal-setting tips can help you achieve your long-term plans.



1. **Think big!** – What do you want from your life – and how can your business help you achieve that? Think about next year and beyond; what does your business look like in five or 10 years? When you know what end point you're aiming for, it's easier to set goals that move you in the right direction.
2. **Pick something you can measure** – Vague goals aren't as helpful as those you can measure and monitor. Think about what you already measure in your business and how you'd like to see those metrics change. For example:
   - A 3% increase in net profit year-on-year
   - A 2% reduction in expenses
   - 1 new customer per month
   - Reduce average payment time to under 50 days
   - 4 weeks of holiday during which you don't go into

the office at all

3. **Make a plan to achieve each goal** – Once you've picked a few goals, come up with ways to achieve them. It could just be back-of-the-envelope thinking, or have a brainstorming session with your team or your advisers (give us a call!). When you have a plan in place, do your best to follow through and make it happen.
4. **Keep monitoring your progress** – Check in each month to see how you're tracking with your goals. Set yourself reminders on your calendar or make it part of your invoicing cycle. If you're not quite on track, you can make tweaks or come up with some fresh ideas to help you reach your targets.
5. **Plan a celebration!** – Give yourself a good reason to keep striving for your goals. It might be a long lunch, a trip to the movies, a manicure, or a beer advent calendar next December. Something you'll enjoy that's not going to blow the budget.

We can help

Not sure what your goals should be or how to monitor them? We can show you where to find the information you need, how to check on it, or keep an eye on it for you.

Our team also has some fantastic ideas for how to reach your goals and build your business – get in touch!

Understanding your revenue drivers

For your business to make money, you need to generate revenue.

You produce revenue through your usual business activity, by making sales, getting your invoices paid, or taking cash from paying customers. So, the better you are at selling your products/services and bringing money into the business, the higher your revenue levels will be.

But what actually drives these revenue levels? And how do you get in control of these drivers?

Knowing where your cash is coming from is more crucial than ever

As a trading company, you face the multiple challenges of a global recession, an increase in online consumer buying and a 'new normal' when it comes to trading, markets and buying expectations. The better you can understand the nature of your revenue and its drivers, the more you can flex, manage and control your ability to generate this income.

This helps your medium to long-term strategic thinking, and your decision-making, allowing you to be confident that you're focusing on the business areas that deliver maximum revenue.

Import areas to consider will include:

- **Revenue channels** – where does your revenue actually come from? Do you create income from online sales and ecommerce, through retail sales in bricks and mortar stores, or through wholesales to other businesses? You may focus on just one of these channels, or it could be that you use a mixture of two, three or more.

- **Revenue streams** – your total revenue will be made up of a number of different 'streams' So, you might be a coffee shop, whose revenue streams include coffee sales, cake and pastry sales and lunch sales. Knowing which revenue streams you rely on, which are most productive and what return they are delivering allows you to make decisions. If 80% of your income comes from 20% of your products, perhaps you need to tighten up your product range and ditch some of the poor sellers. If you're selling more services to one particular industry, perhaps you should focus more marketing in this specific niche, or downscale your sales activity in less profitable niches.
- **Product/service split** – Do you know which products/services are the most profitable in the business? Which products/services have been resilient to market changes (giving you some revenue stability) and which have adapted well to change? The more you can dive into your metrics and find the most productive and adaptable products and services, the greater your ability is to provide constant and evolving revenue for the business.
- **Value vs volume** – Is your revenue based on selling a high volume of products/services at low margin, or low volume at a high margin? Based on this, can you move your margin down to create a more attractive price point (and more value for customers)? Or are their ways to push volume up, shifting more units and boosting total revenue? By diversifying into new channels, new streams or new products/services you can aim to balance value and volume to create brand new sales – and higher revenue levels.

Talk to us about exploring your revenue drivers

If you want to boost revenue and increase your overall profitability, come and talk to us. We’ll review the numbers in your business, help you to understand your revenue drivers and will give you proactive advice on enhancing your total revenue as a company.

Get in touch to kickstart your revenue generation.

Our Business Planning service

Success is about planning; we want to help you achieve success. It’s essential to take time out from the day-to-day activities in your business to focus on your business; setting goals and establishing strategies to unlock your business potential. At the end of the session, you’ll have a one page Business Plan to act as a guide map to ensure you’re on course for success.

Every business must have a Business Plan. During the four-hour Business Planning session, you’ll:

- Discuss and set both personal and business goals for the next 12 months
- Discuss and agree on an action plan with strategies to support achievement of goals
- Identify Gross Revenue Targets and Key Performance Indicators
- Identify opportunities and vulnerabilities in your business that need to be managed
- Establish a 90 Day Action Plan to set achievable actions

Any time is a good time to develop a Business Plan if you don’t have one, however, it’s particularly relevant at the start of a new financial year. If you’re contemplating a major change in your existing business or starting a new venture, a Business Plan is crucial.

By attending a Business Planning session, you’ll:

- Review and set the direction of the business
- Identify and prioritise key goals
- Create strategies and establish a timeline for you to achieve these goals
- Develop a tool for communicating your business goals and vision with the team

We look forward to helping you develop a guide map to success.

Are you considering an SMSF? Here’s what you need to know.

It’s always a good idea to think about your retirement. Many people in Australia use a Super Fund to manage their retirement savings. But some people opt to do something a little different, and set up a self-managed super fund (SMSF).

What is an SMSF?

At a basic level, setting up an SMSF means creating a trust which has either individual or corporate trustees. These trustees manage the fund assets, and look after legal compliance, including auditing and reporting obligations.

For people who are prepared to look after the legal and financial elements of running a fund, entering into an SMSF can mean more control over how funds are invested, over fees paid and over what insurance is taken out.

What is an SMSF for?

Any SMSF must have the same purpose. That is, to provide retirement benefits for fund members and their dependants. Any decisions made by trustees must be in line with this aim. Using the funds of an SMSF for anything else isn’t just unethical but is actually illegal.

An SMSF isn’t for:

- Early access to superannuation
- Investing in art or collectible for decorative purposes or personal use.
- Buying holiday homes.

Becoming a trustee

One of the main differences between an SMSF and other types of funds, is that in an SMSF the members are also the trustees and assume the compliance risk. If the SMSF is found to have breached the law, the trustees or the director, can be personally fined.

In addition, if there are disputes between the members, the ATO will not become involved. If the situation is serious enough, mediation or court may be an avenue but these routes will be at the members’ expense.

Understandably, the decision to become a trustee is a major one and needs careful consideration and professional consultation.

Updates to SMSF fund structures

Changes on 1 July 2021 mean that SMSFs can now have a maximum of six members, an increase from four. It's important to note that as an SMSF is a type of trust, the number of trustees may still be restricted to less than six by existing state and territory laws. As always, it's a good idea to seek professional advice before structuring your fund.

> Learn more from the ATO

We recommend you speak to one of our team and your financial planner to help you determine whether a self managed super fund might be right for you.

Understanding Your Balance Sheet

To understand the financial position of a business at a specific point of time, look at the balance sheet. The balance sheet may also be called the statement of financial position. Together with the Profit and Loss Statement, and possibly other reports such as the Statement of Cash-flow, these reports provide a complete understanding of the financial position and business performance.

So what's involved? – The balance sheet has three sections: assets, liabilities and equity.

What are Assets?

Assets are things and resources that a company owns. They have current and/or future value and can be measured in currency.

Assets may be subdivided on the balance sheet into bank accounts, current assets, (receivable within one year), fixed assets, inventory, non-current (or long term) assets, intangible assets and prepayments.

These include banks and other financial accounts held, accounts receivable (trade debtors), supplier deposits or bonds, stock on hand, property, equipment, vehicles, investments and intellectual property. All of these can be translated into monetary value.

What are Liabilities?

Liabilities are amounts owed to suppliers and other creditors for goods or services already received. Liabilities may also include amounts received in advance for future services yet to be provided by the business.

Liabilities are generally subdivided into current, (payable within one year), and non-current liabilities.

These include accounts payable (trade creditors), payroll obligations (salaries, taxes, superannuation), interest, customer deposits received, warranties and loans.

What is Equity?

Equity includes owner funds contributed, drawings, retained earnings and stocks. The value of the equity equals assets minus liabilities.

Transactions that affect profit and loss accounts also affect balance sheet accounts. For example, providing a service increases the accounts receivable balance, which therefore increases the equity.

The Balance Sheet Equation

The balance sheet must always balance! Asset value = liabilities + equity.

For example, if you buy a new vehicle for the business at say 50,000, having paid a 10,000 deposit and taking out a 40,000 loan, the value of fixed assets increases by 50k, but the bank asset value decreases by the 10k deposit paid. The value of liabilities increases by 40k loan, thus leaving the balance sheet balanced on both sides of the equation.

The balance sheet equation shows you how much money you would have left over if you paid all your bills and debts and sold all your assets at a given date. This amount is the Owner's Equity.

Note that the balance sheet equity total is not necessarily how much the business is worth at market value. Assets are listed on the balance sheet at their transaction value, which may be very different from the market value. Some assets may be worth more, and others may depreciate in value. Business value is calculated not just on the balance sheet figures but many other factors.

Need more information?

Talk to us. Get the complete picture of your business performance and financial position, regardless of what stage of business you are at.

Profit vs cash

There's a massive difference between profit and cash. Let's explore the differences to make a better plan to increase both.

1. Sales.

Profit increases when you increase sales; cash increases when you collect the money from customers. To increase both your profit and cash from sales:

- Delight your customers
- Generate more leads and referrals
- Convert a higher number of quotes or proposals
- Increase transaction frequency
- Increase transaction value

2. Invoicing.

Profit increases when you send an invoice to a customer; cash increases when you collect the invoiced amount. To increase both your profit and cash:

- Set clear Terms of Trade
- Offer a small discount for early payment
- Agree the price in advance
- Stick to your payment terms
- Don’t do work for people who have overdue payments

3. Margins.

Increasing your margins will increase your profit; collecting the increased margin will increase your cash. To increase both your profit and cash:

- Increase your prices
- Invoice faster
- Negotiate better payment terms with suppliers
- Reduce errors and rework
- Train and empower your team
- Increase your efficiency

4. Financing.

Reduce your finance costs to increase your profit; borrow money for assets to increase your cash. To increase your profit and cash through financing:

- Spread the costs of assets over 3-5 years instead of buying them outright (e.g. vehicles)
- Borrow from a bank instead of a finance company
- Secure the asset purchases over ‘bricks and mortar’ (if possible)

5. Overheads.

Reducing your overheads will increase both your profit and cash. To reduce your overheads:

- Negotiate with suppliers
- Measure your return on your spend (e.g. advertising, accounting fees, etc.)
- Review your subscriptions
- Go paperless

This is not an exhaustive list of ways to increase your profit and cash. Join us for a Cashflow & Profit Improvement Meeting, where we can help you identify specific areas of improvement in your business to increase both profit and cash.

> *“Never take your eyes off the cashflow because it’s the lifeblood of the business.” – Sir Richard Branson*

When to Register Your

Business for GST

Should you register your business for GST? Many business owners register their businesses from day one, regardless of income. Others, for example, many sole traders, choose not to register for GST until it is mandatory.

However, it is common that new businesses don't realise they have exceeded the income threshold at which they must register! This can result in having to pay GST on sales to the ATO even if you haven't included it in your prices – so you could lose one-eleventh of your income.

When is GST Registration Compulsory?

Your business must register for GST when it makes $75,000 income within a financial year. If you're regularly making $6,250 or more each month, it's time to check whether you should register for GST.

It's good practice to check your turnover every quarter, and when you are getting close to the threshold, check every month. If you're not yet using online accounting software, talk to us about your options, as this will make reporting and preparing for GST registration much easier.

You must register for GST within 21 days of reaching the threshold.

Special Rules

- You can voluntarily register even if your turnover is less than $75,000. This means you can complete an annual BAS if you prefer.
- If you're making money through a ride-sharing platform like Uber, you must register for GST immediately. All commercial driving income, regardless of turnover, is subject to GST registration.

- If you want to claim fuel tax credits, you must register.
- If your business is a not for profit, the registration threshold is $150,000 per financial year.
- If you're not an Australian resident business, the rules for working out GST turnover are different, so talk to us before registering.

Need Help?

When starting a new business, there are many decisions to make, and GST registration is just one of them. Get in contact about the benefits of registering, and we'll help you get set up on appropriate accounting software to help you on your way to business success.

Finalising 2022 Single Touch Payroll

It's nearly time to make a finalisation declaration for Single Touch Payroll. There is no need to issue payment summaries to employees you have reported through STP.

Employers must complete the finalisation declaration by 14 July for employees. Employers with a mixture of employees and closely held payees have until 30 September 2022 to make the declaration.

Small employers (fewer than 19 employees) that only pay closely held payees have until the payee's income tax return due date. Employers will need to liaise with the individual payee about the exact tax return due date.

You may have some payees who have not been reported through

STP, so you still need to issue a payment summary for anyone not reported through STP. You will also need to submit a payment summary annual report (PSAR) for any payments outside the STP system.

Once the STP finalisation has been sent to the ATO, the employee's information will be released in their myGov account and listed as 'tax ready'.

STP Payroll Checklist

Be efficient and prepare as much as you can now so that you are able to finalise your data by 14 July.

- Check that your business details, including ABN, registered name and address and authorised contact person are correct in your software.
- You should already have necessary details for all employees, both current and any who have terminated throughout the year if you are using STP. The essential information is full name, date of birth, address and tax file number.
- Review any terminated employees. Is the correct termination date recorded in your software? Are Employment Termination Payments (ETPs) coded correctly?
- Review salary sacrifice payments to superannuation for Reportable Employer Superannuation Contributions (RESC) amounts.
- Check with us for any Reportable Fringe Benefit Tax (RFBT) amounts that should be included.
- Check that all payroll categories are assigned to the correct ATO reporting category. This includes all ordinary earnings, loadings and penalties, allowances, commissions, bonuses, leave payments and termination payments.
- You may have other unusual payments such as those made under a voluntary agreement for contractors or labour-hire arrangements—check that you have reported them

correctly.

Finalising Single Touch Payroll

It’s important to verify payroll figures before finalising, in order to minimise the chance of errors and having to re-issue at a later date. The finalisation process is the same whether you are using STP Phase 1 reporting or Phase 2.

Once the payroll year is completed at 30 June, you can then analyse the payroll amounts for each employee and cross-check against the numbers in your profit and loss accounts.

Talk to us today if you would like us to make the STP end of year process easier by reviewing and validating your payroll figures prior to finalising the data and lodging with the ATO. The end of the payroll year will be here sooner than you think!