

Financial Finesse Series Nothing Personal

Separating business, home, and personal identity can be difficult for women entrepreneurs because you have so much of yourselves wrapped up in what you do for a living. Running a business tends to be all-consuming and it can be hard to tell where you stop and your business begins. And, not just in terms of your emotional investment. Your personal and company finances can also get mixed together if you're not extra careful. Our goal in this article is to have you understand some of the reasons you should separate your business and personal finances and give you a few tips to help you get organized.

As a young girl, Betty Barton of Terrace, BC loved being outside in the sun, playing in the dirt with her toy trucks, and was always excited to visit a construction site with her dad. Betty was naturally drawn into the world of building contracting and construction and eventually started Barton Construction Ltd. As she began taking on bigger jobs, the financial demands of the company increased. She wanted to take on some government contracts, but in order to do so, she required bonding. At the time, more debt was the only avenue to accomplish this. Betty recalls that, "Our home was paid off and that accomplishment felt very good. However, in order to expand the business, I had to then use our home as collateral and that was emotionally trying."

Starting and growing a business often requires a considerable financial investment which might mean that you need to make some personal financial sacrifices. Sometimes, like in the case of Betty, when the personal stake in a business is high it is easy to develop the perception that your business owes you. And, in a sense, you're right. After all, you wouldn't have poured your heart and soul into your company without thinking you were going to get something back. However, be cautious because that attitude can lead you to indiscriminately taking cash from the company as it becomes available.

Twenty dollars, (or even 100 dollars), here or there to cover a personal expense such as gas, a meal, or your kid's school supplies might seem harmless enough. You justify your actions because the amounts involved are relatively small and you're not taking a regular salary from your business. But the amount isn't really the issue. Failing to make a distinction between business and personal finances actually points to a couple of larger concerns:

- First, if you feel you need to take cash out of the company account you may not have budgeted enough and/or secured enough operating capital to provide yourself with a living wage from your business. It is important that you know how much the business should pay you so that you can pay your personal expenses and not need to "dip into the company cookie jar" from time to time;

- Second, if you remember from last month's article, the timing of a business's cash inflow and outflow often does not line up with its revenues and expenses. In other words, cash in hand can quite often represent money owed or required to produce products and services. Therefore, you need 12 months of cash flow projections and a system to track the *actual* flow of cash relative to those projections on at least a monthly basis.

Let's look at two benefits to keeping your business and personal finances separate. First and foremost, it legitimizes what you're doing, not only in your eyes but in the eyes of other interested parties, including bankers and the Canada Customs & Revenue Agency (CCRA). Keeping separate records might not seem like a big deal when you're just scraping by, but once you start making more money the consequences can be considerable if your records are too mixed up to make good management decisions and you could end up paying the incorrect amount of taxes.

Legitimate business expenses can be deducted from your business revenues to reduce taxable income. This means that if you keep detailed accounting records, and track the expenses you incur over the course of the year, you will never pay more tax than you have to. Of course, your expenses have to be legitimate and they have to be backed up with the necessary receipts and/or other documentation.

The second important benefit for making a clear distinction between your business and personal finances is that, you get an accurate and objective view of your business's viability. You'll never know if it can support both you and your goals in the short and long term if you don't have an uncompromised picture of its finances

Look at it this way. Suppose you were a silent partner in your company and had a significant sum invested. What do you think it would do to the business if you decided to pop in every now and then, unannounced, and demand money to pay that investment back? How do you think your requests, even for moderate amounts, might affect financial planning for and cash flow management in the business? Do you think you would be helping or hurting its chances for long-term success?

It can be challenging to keep your business and personal finances separated so we want to provide a few tips for you:

- If you operate from your home, try to confine your work to one room or one area and keep that space exclusively for your business. This way, you can easily determine the percentage of housing costs to apply to the business. As much as possible, find ways to clearly distinguish what belongs to the business and what doesn't. For example, if you can, set up a separate business phone line or at least track your business telephone usage;
- Set up a company credit card and use it for business expenses. Remember, though, that the card is a tracking tool, not a source of financing. Interest on credit cards is too high to be using one to float your business;
- Establish a filing system for your business receipts. Don't throw them all in a shoebox and hand them to an accountant at the end of the year. The shoebox provides you with virtually no ongoing financial information on which to run your

business. The least you should do is figure out the major expense categories that you have and, as your costs are incurred, file the invoices and receipts accordingly. Then, once a month, enter the information into your revenue/expense and cash flow statements;

- If you use your car for business purposes, keep a log of the kilometers you travel for the business. You'll be able to apply a percentage of your vehicle expenses against your business revenues at year end.

Don't think you need to do it all. Consult with your accountant to set up a system that makes sense for you. Sarah Holland of Holland Advisory Services says, "I don't believe that all entrepreneurs should do, or be able to do, their own bookkeeping and tax returns - and in some cases, I would strongly advise that they shouldn't. However, it is critical to have enough financial understanding to tell if you're making a profit, how your cash flow is doing, and how each area of your business is doing."

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