

We would like to congratulate you for making it this far... 😊 We are assuming that by now you have-

1. The entrepreneurial mindset in order to start a business and become successful.
2. Identified an unique name for your business, business structure, potential legal obligations, rules & procedure, how to register your business.
3. Decided how you are going to market your product/service and reach out to people and promote your organisation.

In this module, we will discuss about some necessary steps like- insurance, business banking, budgeting, cashflows etc. and some examples to help you understand the concept why you need to know this to keep your business in track.

Business banking and insurance

What is business banking ???

We all know business banking is a company's financial dealings with an institution that provides business loans, credit, savings and checking accounts specifically for companies. It is also known as commercial banking and occurs when a bank, or division of a bank, only deals with businesses. In the past, investment banks and retail/commercial banks had to be separate entities under the Glass-Steagall Act, but changes to the law made it so a single bank can deal with business banking, retail banking and investment banking. The Glass-Steagall Act is also known as the Banking Act of 1933, and was introduced to manage speculation. Parts of the act were repealed in 1999, making it no longer illegal for an investment bank to also engage in business/commercial and retail banking.

Services offered by banks

Business banks provide a wide range of services to companies of all sizes. In addition to business checking and savings accounts, business banks offer a range of financing options and cash management solutions. The options are-

Bank Financing: It is a primary source of capital for business expansion, acquisitions and equipment purchases, or simply to meet growing operating expenses. Depending on a business'

needs, business banks offer fixed term loans, short and long term, as well as lines of credit and asset-based loans. Banks are also a main source of equipment financing, either through fixed loans or equipment leasing.

Cash Management: It is also referred to as treasury management, cash management services help businesses achieve greater efficiency in managing the cash coming into the business, or receivables; cash going out of the business, or payables; and cash on hand, or liquidity. Utilizing the latest digital technology, business banks set up specific processes for businesses that help them streamline their cash management, resulting in lower costs and more cash on hand. Usually, banks provide businesses with access to Automated Clearing House (ACH) and electronic payment processing for accelerating the transfer of money in and out of the business. As well as they allow for the automatic movement of money from idle checking accounts into interest-bearing savings accounts, so surplus cash is put to work while the business checking account has just what it needs for the day's payments. Businesses have access to a customized online platform that links their cash management processes to their checking and savings account for a real-time view of their cash in action.

Why you need it ???

1. It keeps the corporate veil intact to protect your personal assets

Many small business owners form an LLC (Limited Liability Company) or Corporation because it helps shield their personal assets from things that might happen in the business. In order to keep that personal liability protection, you need to properly maintain your LLC/Corporation and that includes keeping a sharp line between business and personal finances. Maintaining a business banking account is an important step to ensure that your business is its own entity and separate from you, the business owner. **In case** your business is ever sued, the plaintiff may try to pierce your corporate veil by showing that you haven't maintained your Corporation/LLC to the letter of the law. In this case, they can go after your personal assets. This is why it's

absolutely critical for LLCs and corporations to keep business finances completely separated from the personal.

2. Separate account helps avoid tax time woes

A combined personal/business account is messy, which makes it harder to organize your books come tax time. You may find yourself wading through all of your past year's transactions, including trips to the grocery store, to find business expenses to write off. Having separate accounts rationalizes recordkeeping – saving you time and ensuring you won't miss any legitimate deductions.

3. A banking account boosts business legitimacy

When running a business, having a dedicated business banking account can send the right signals as you scale your operations and evolve as a business owner. As a side note, if you're running business as a sole proprietorship, you don't legally need a separate bank account for your business. In addition, having a business banking account can help make your case to the IRS that you are indeed running a business and are entitled to deduct your business expenses should you ever be audited.

Wondering how to open one??

it's a relatively simple process. You can open a business account at the same bank where you already have a personal account. Or, if you belong to a professional group or organization, such as a group for writers, veterans, or performers, check if they offer access to business checking services through a specialized credit union. This can be a great option. No matter where you choose to open your business account, you'll need some documentation:

- Your company's EIN (or Federal Tax ID number). If you don't already have an EIN for your business, you'll need to get one from the IRS. You shouldn't use your personal social security number to open a business account.
- If your business is structured as an LLC or Corporation, then you'll most likely need your Articles of Organization/Articles of Incorporation that's signed and stamped from the state. You may also need to show your Operating Agreement.
- In some cases, you may also need to get a certificate of good standing from the state. This documentation essentially says that your business is up to date on its state taxes and other requirements.
- If your business is structured as a sole proprietorship, you'll need less documentation, since sole proprietors are considered more like consumers than a business. In this case, you'll most likely need a Tax ID, social security number, as well as a DBA (Doing Business As) registration if you're using a business name that is different than your personal name.

As you grow your business, it's important to give it the proper legal and financial foundation. Opening a separate bank account won't take too much time, and will help keep your books organized and ensure your business and personal lives remain separated. In addition, beginning a banking relationship with an institution will help form your business' credit history should you ever want to take out a business loan or line of credit in the future.

Insurance

What is insurance???

We all know, that it is a means of protection from financial loss as well as a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. There are several types of insurance required for a small business-

1. General Liability Insurance: Every business needs to have liability insurance. The policy provides both defense and damages if you, your employees ,your products or services cause or are alleged to have caused Bodily Injury or Property Damage to a third party.

2. Property Insurance: Should be considered if you own your building/office or have business personal property, including office equipment, computers, inventory or tools. It will protect you if you have a fire, vandalism, theft, smoke damage etc. You may also want to consider business interruption/loss of earning insurance as part of the policy to protect your earnings if the business is unable to operate.

3. Business owner's policy (BOP): A business owner policy packages all required coverage a business owner would need. Often, BOP's will include business interruption insurance, property insurance, vehicle coverage, liability insurance, and crime insurance . Based on the company's specific needs, you can alter what is included in a BOP. Typically, a business owner will save money by choosing a BOP because the bundle of services often costs less than the total cost of all the individual coverage's.

4. Commercial Auto Insurance: It can protect vehicles that carry employees, products or equipment. With commercial auto insurance it is possible to insure your work cars, SUVs, vans and trucks from damage and collisions. If you do not have company vehicles, but employees drive their own cars on company business you should have non-owned auto liability to protect the company in case the employee does not have insurance or has inadequate coverage. Many times the non-owned can be added to the BOP policy.

5. Worker's Compensation: Acts as an insurance to employees who are injured on the job. This type of insurance delivers wage replacement and medical benefits to those who are injured while working. In exchange for these benefits, the employee gives up his rights to sue his employer for the incident. As a business owner, it is very important to have worker's compensation insurance because it protects yourself and the company from legal complications.

6. Professional Liability Insurance: this type of insurance is also known as **Errors and Omissions Insurance**. The policy provides defense and damages for failure to or improperly rendering professional services. Usually general liability policy does not provide this protection, so it is important to understand the difference. Professional liability insurance is applicable for any professional firm including lawyers, accountants, consultants, notaries, real estate agents, insurance agents, hair salons and technology providers.

7. Directors and Officers Insurance: this type of insurance protects the directors and officers of a company against their actions that affect the profitability or operations of the company. If a director or officer of your company, as a direct result of their actions on the job, finds him or herself in a legal situation, this type of insurance can cover costs or damages lost as a result of a lawsuit.

8. Data Breach: If the business stores sensitive or non-public information about employees or clients on their computers, servers or in paper files they are responsible for protecting that information. If a breach occurs either electronically or from a paper file a Data breach policy will provide protection against the loss.

11. Life Insurance: Life insurance protects an individual against death. If you have life insurance, the insurer pays a certain amount of money to a beneficiary upon your death. You pay a premium in exchange for the payment of benefits to the beneficiary. This type of insurance is very important because it allows for peace of mind. Having life insurance allows you to know that your loved ones will not be burdened financially upon your death.

12. Personal Automobile Insurance: Another very important type of insurance is auto insurance. Automobile insurance covers all road vehicles (trucks, cars, motorcycles, etc.). Auto insurance has a dual function, protecting against both physical damage and bodily injury resulting from a crash, and also any liability that might rise from the collision.

13. Personal Umbrella Insurance: You may want some additional coverage, on top of insurance policies you already have. This is where personal umbrella insurance comes into play. This type of insurance is an extension to an already existing insurance policy and covers beyond the regular policy. This insurance can cover different kinds of claims, including homeowner's or auto insurance. Generally, it is sold in increments of \$1 million and is used only when liability on other policies has been exhausted.

Why you need it?

Usually small business owners feel business insurance is an expense they cannot afford, or is a luxury for more established businesses. Although it is true business insurance can be expensive, it is an expense every business, regardless of the industry, size or length of time in existence, needs to include in its budget for the reasons below-

Catastrophic loss

Business insurance protects a business from closing due to a catastrophic loss. For example- Fires, floods, hurricanes and tornadoes have been the end of many businesses in Texas, as elsewhere. When a company carries insurance against these types of losses, closure and loss are only temporary instead of permanent. Entrepreneurs should always consider business interruption insurance, a rider on their business insurance policy, to ensure continued cash flow for the duration of a closure due to a natural disaster.

Liability

If your product has a defect that injures a customer and you do not have insurance, this could spell the end of your business. If a company car is involved in an accident and someone is injured, that could be disastrous as well. Business liability insurance covers accidents that occur on the business premises, product defects and mishaps that occur during normal business operations on and off premises.

Theft

A new business is a big target for thieves. New computers, furniture and other office equipment is worth more at a pawn or chop shop than older equipment. Replacement insurance protects a business in the event equipment is stolen, replacing the missing items and paying for repairs from damage caused by the invasion.

Litigation

We live in a litigious society. businesses are sued by individuals and other businesses for a variety of reasons, legitimate and otherwise. Even the most frivolous lawsuit can be costly to

defend; and in the event a business ends up on the losing end of a lawsuit, the awarded damages could exceed the business's capabilities to pay. Depending on the business entity structure, not only the business assets, but also the owner's personal assets could be at risk. Business liability insurance, malpractice insurance or professional liability insurance will cover at least part, if not all, of any damages.

Personal Injury or illness

Business owners should have personal insurance as well. Medical insurance will ensure medical bills incurred due to an illness or injury will not wipe out a business's assets. Considering Texas has some of the highest medical costs in the country--costs per person are over 24 percent higher than the national average--going uninsured could potentially bankrupt a Texas business owner if he were to become ill.

Level of coverage

How much insurance to carry will depend on your industry, the business structure and the amount of assets your business has. The location of the business within Texas, such as coastal or rural, and whether the building is leased or owned will also be a factor. For example, a law firm partnership that owns the building in which it is housed might need more insurance than a jewelry designer operating out of her home.

Budget

In this business era, it is vital for an organisations to maintain an appropriate budgetary control system to carry out its business in an efficient & effective manner as well as to survive within the industry. Moreover, cost and expense target should be set so that company can obtain competitive advantage over others. It is typically created by using spreadsheet and it provides a concrete, organized, easily comprehensible breakdown of how much money you have coming in and how much you are letting go. With a budget there are no surprises or wondering whether you have the fund . Usually, the followings things need to be included when you are preparing budget for your company-

- Income Statement
- Cash Flow.
- Balance sheet.

Budgetary targets Estimation of possible expenditure for the entire year-

XXX budget for the financial year 2015					
	2014	2015	2016	Variance	%
	Actual (BDT)	Actual (BDT)	Budgeted (BDT)		
Revenue	8,076,995,037	8,576,180,229	9,000,000,000	42,381,9771	4.70
Cost of sales	(4,945,486,549)	(4,950,794,376)	(5,045,125,356)	94,330,980	1.89
Gross profit	3,131,508,488	3,625,385,853	3,954,874,644	32,948,8791	8.33
Administrative, Selling & Distribution expenses	(2,096,017,729)	(2,100,321,523)	(2,500,456,859)	(40,409,3175)	16
Other administrative expenses	(20,00,000)	(25,00,000)	(31,00,000)	(6,00,000)	19
Profit before tax(EBIT)	1,033,490,759	1,522,564,330	1,451,317,785	91,795,616	6.32
Taxation@ 27.5%	(284,209,959)	(373,868,596)	(399,112,391)	(25,243,794)	6.32
Profit after tax	749,280,800	1,148,695,734	1,052,205,394	66,551,822	6.32

Note: Explanation for the estimated budgeted amount should be included compared to the previous years.

For example-

Revenue

Over the two-year period revenue of this company has an annual growth of 5-6%. Considering the past trends and other external factors, revenue is expected to grow minimum 5% for the year 2016.

Master budget preparation -

Income statement also known as profit and loss statement is one of the major financial statement used by businesses all over the world.

XXX budgeted Income statement for the financial year 2015					
	2013	2014	2015	Variance	%
	Actual (BDT)	Actual (BDT)	Budgeted (BDT)		
Revenue	8,076,995,037	8,576,180,229	9,000,000,000	42,381,9771	4.70
Cost of sales	(4,945,486,549)	(4,950,794,376)	(5,045,125,356)	94,330,980	1.89
Gross profit	3,131,508,488	3,625,385,853	3,954,874,644	32,948,8791	8.33
Administrative, Selling & Distribution expenses	(2,096,017,729)	(2,100,321,523)	(2,120,321,623)	(20,000,000)	16
Other administrative expenses	(20,00,000)	(25,00,000)	(31,00,000)	(6,00,000)	19
Profit before tax	1,033,490,759	1,522,564,330	1,183,453,021	308,888,691	6.32
Taxation@ 27.5%	(284,209,959)	(373,868,596)	(325,449,580)	(84,944,390)	6.32
Profit after tax	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	6.32

Cash flow statement is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities.

XXX budgeted Cash flow for the financial year 2015			
	2013	2014	2015
	Actual(BDT)	Actual(BDT)	Budgeted(BDT)
Beginning cash balance	292,396,800	252,327,876	321,327,876
Cash inflow			
Collection from customers	8,035,999,651	8,125,456,999	8,225,456,989
Total cash available	8,328,396,451	8,377,784,875	8,546,784,865
Less: Expenses			
Direct material	3,000,000	3,500,000	4,000,000
Direct labor	2,500,000	2,700,000	3,000,000
Manufacturing overhead	2,700,000	3,000,000	3,500,000
Administrative, Selling and distribution expenses	2,096,017,729	2,100,321,523	2,120,321,623
Purchase of property plant and equipment	179,084,891	200,045,454	230,065,454
Tax	317,250,000	350,456,000	370,456,000
Total disbursements:	(2,600,552,620)	(2,660,022,977)	(2,731,343,077)
Excess or deficiency over disbursements	5,727,843,831	5,717,761,898	5,815,441,788
Financing			
Borrowings	378,670,132	350,670,132	325,759,132
Payments	--	--	--
Interests	4,951,020	5,100,020	5,351,450
Total financing	383,621,152	356,121,152	331,110,582
Ending cash balance	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>

Balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders.

XXX budgeted Balance Sheet for the financial year 2015			
	XXXX	XXXX	XXXX
	Actual (BDT)	Actual (BDT)	Budgeted (BDT)
Non-current assets:			
Property, Plant & Equipment	998,104,774	1,019,917,140	1,100,145,456
Current assets:			
Account receivables	455,472,117	537,794,063	1,256,452,798
Inventories	2,159,099,409	2,502,760,872	2,802,145,545
Cash and cash equivalents	292,396,800	252,327,876	300,396,800
Total Asset	3,905,073,100	4,312,799,951	5,459,140,599
Equity:			
Reserves and Surplus	2,434,223,893	2,839,422,690	3,981,233,712
Total Equity	2,434,223,893	3,249,422,690	3,981,233,712
Liabilities:			
Deferred liability	173,453,000	169,650,306	176,650,402
Creditors for goods, expenses & other finance	1,297,396,207	1,303,726,955	1,301,256,485
Total Liabilities	1,470,849,207	1,473,377,261	1,477,906,887
Total Equity & Liabilities	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>

Comparing the budgeted and actual cost

	2015	2015	Variance
	Budgeted (BDT)	Actual (BDT)	
Revenue	8,276,995,037	8,576,180,229	299,185,192
Cost of sales	(4,945,486,549)	(4,950,794,376)	5,307,827
Gross profit	3,331,508,488	3,625,385,853	293,877,365
Administrative, Selling & Distribution expenses	(2,096,017,729)	(2,100,321,523)	(4,303,794)
Other expenses	(2,100,000)	(2,500,000)	(400,000)
Profit before tax	1,033,490,759	1,359,522,169	326,031,410
Taxation@ 27.5%	(284,209,959)	(373,868,596)	(89,658,637)
Profit after tax	749,280,800	985,653,573	236,372,773

Practice test for you-

- Gather information about best suitable bank and the procedure needs to be followed for opening an account for your business.
- Make sure to back up your business by insurance.
- Prepare a master budget for your business.