

UNDERSTANDING SMALL BUSINESS Financials

A PRACTICAL GUIDE FOR
SMALL BUSINESS OWNERS
IN NSW

WHY FINANCIALS MATTER

Running a small business is not just about making sales. It is about understanding whether those sales are profitable, whether cash is arriving in time to pay bills, and whether the business is building financial strength over time.

For NSW business owners, financial literacy is especially important because small businesses make up the vast majority of businesses in the state. The NSW Small Business Commissioner defines small businesses as actively trading incorporated or unincorporated businesses employing fewer than 20 people, and reports that NSW has about 893,000 small businesses, representing 97% of all NSW businesses.

[\(NSW Small Business Commissioner\)](#)

This guide explains the financial reports and numbers business owners should understand, without assuming accounting knowledge.



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THREE FINANCIAL REPORTS EVERY OWNER SHOULD KNOW

PROFIT AND LOSS STATEMENT

"Am I making money?"

A profit and loss statement, also called an income statement, shows your sales and expenses over a period of time. It tells you whether the business made a profit or a loss during that month, quarter, or year. Business.gov.au notes that a profit and loss statement lists sales and expenses and can help business owners set sales targets and price goods or services appropriately. ([business.gov.au](https://www.business.gov.au))

A simple profit and loss statement includes:

Sales or revenue	Money earned from selling goods or services
Cost of goods sold	Direct costs involved in delivering the product or service
Gross profit	Sales minus direct costs
Operating expenses	Rent, wages, insurance, marketing, software, utilities and admin costs
Net profit	What remains after expenses

The key lesson: sales are not the same as profit. A business can have strong revenue but weak profit if costs are too high, pricing is too low, or jobs are being underquoted

This guide is general information, not legal or tax advice.

THREE FINANCIAL REPORTS EVERY OWNER SHOULD KNOW

BALANCE SHEET

"What is my business worth right now?"

A balance sheet shows what the business owns and owes at a specific point in time. Business.gov.au explains that a balance sheet lists assets and liabilities, helping owners understand net assets, working capital and liquidity.

A simple balance sheet includes:

Assets	Bank balance, stock, equipment, vehicles, money owed by customers
Liabilities	Loans, credit cards, unpaid supplier bills, GST, PAYG, superannuation, wages payable
Equity	The owner's interest in the business after liabilities are deducted from assets

The key lesson: profit does not always mean financial strength. A business may show a profit but still have high debt, unpaid tax, slow-paying customers, or not enough working capital.

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THREE FINANCIAL REPORTS EVERY OWNER SHOULD KNOW

CASH FLOW STATEMENT

"Will I have enough cash to pay the bills?"

Cash flow is the movement of money in and out of the business. Business.gov.au describes a cash flow statement as one of the most important tools for managing finances because it helps identify payment cycles, seasonal trends, future shortages and surpluses. (business.gov.au)

Cash flow matters because bills often arrive before customers pay. A business can be profitable on paper and still run out of cash.

For example:

Situation	Result
You invoice a customer for \$20,000	Revenue may appear in your accounts
The customer pays in 45 days	Cash is not yet in the bank
Wages, rent, suppliers and GST are due now	Cash flow pressure builds

The key lesson: profit is an accounting result; cash is what keeps the doors open.

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THE NUMBERS OWNERS SHOULD CHECK EVERY MONTH

A small business owner does not need to become an accountant, but they should understand the numbers that drive the business.

GROSS PROFIT MARGIN

Gross profit margin shows how much money is left after the direct cost of delivering the product or service.

Formula:

$Gross\ profit \div Sales \times 100$

Example:

Sales	Direct costs	Gross profit	Gross margin
\$10,000	\$6,000	\$4,000	40%

A falling gross margin may mean materials have become more expensive, staff are taking longer to complete jobs, discounts are too high, or pricing has not kept up with costs.

NET PROFIT MARGIN

Net profit margin shows how much profit is left after all expenses.

Formula:

$Net\ profit \div Sales \times 100$

Example:

Sales	Net Profit	Net Margin
\$100,000	\$8,000	8%

A business with an 8% net margin keeps 8 cents in profit for every dollar of sales.

BREAK-EVEN POINT

Break-even is the sales level needed to cover all costs.

A simple way to explain it:

$Break\text{-}even\ sales = fixed\ costs \div gross\ margin\ percentage$

Example:

Monthly Fixed Cost	Gross Margin	Break-even Sales
\$20,000	40%	\$50,000

This means the business must make \$50,000 in monthly sales before it starts generating profit.

DEBTOR DAYS

Debtor days show how long customers take to pay.

If debtor days are increasing, the business may be doing the work but not collecting the money quickly enough. This is one of the most common cash flow problems for small businesses.

Practical steps include issuing invoices immediately, setting clear payment terms, following up overdue invoices weekly, and requiring deposits or progress payments where appropriate.

WORKING CAPITAL

Working capital is the money available to run day-to-day operations.

Formula:

$Current\ assets - current\ liabilities$

Positive working capital means the business is more likely to meet short-term obligations. Negative working capital may mean the business is relying on overdrafts, credit cards, delayed supplier payments, or owner funds.

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PROFIT VERSUS CASH FLOW

Many small business owners confuse profit with cash. They are related, but they are not the same. A business can make a profit and still have poor cash flow if:

Cause	Why it hurts cash
Customers pay late	Money is owed but not available
Stock is over-purchased	Cash is tied up on shelves
Equipment is bought upfront	Cash leaves before the asset generates income
Loan repayments are high	Principal repayments reduce cash but may not appear as an expense in the profit and loss
GST and PAYG are not set aside	Tax bills arrive later and create pressure

A good habit is to keep separate bank accounts or internal reserves for GST, PAYG withholding, superannuation, income tax and major upcoming costs.

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PRICING: THE FINANCIAL DECISION MANY OWNERS UNDERPLAY

Pricing is not just a marketing decision. It is a financial survival decision.
When setting prices, owners should consider:

Cost type	Examples
Direct costs	Materials, subcontractors, direct labour, freight, merchant fees
Overheads	Rent, admin wages, insurance, software, vehicles, utilities
Owner's wage	What the owner needs to be paid for their work
Profit margin	The return needed to make the business sustainable
Tax and super	GST, PAYG, income tax, payroll tax if applicable, superannuation

A common mistake is pricing only to cover direct job costs and forgetting overheads. Another mistake is treating the owner's unpaid labour as "profit". A healthy business should be able to pay the owner a fair wage and still generate profit.

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TAX, SUPER AND COMPLIANCE OBLIGATIONS IN NSW

This section is general information only. Business owners should confirm obligations with a registered tax agent, BAS agent, accountant or relevant regulator.

GST

Businesses generally need to register for GST when GST turnover is \$75,000 or more. Once registered, a business must charge GST on taxable sales, issue tax invoices, claim GST credits where eligible, and lodge activity statements or annual returns. The ATO also notes that businesses have 21 days to register once they meet the threshold. ([Australian Taxation Office](#)).

A useful rule for owners is: GST collected is not your money. It should be set aside so it is available when the BAS is due.

BAS AND PAYG

A business activity statement, or BAS, is used to report and pay obligations such as GST, PAYG withholding and PAYG instalments, depending on the business's circumstances. The ATO describes BAS as the way businesses complete, lodge and pay GST or PAYG instalment notices. ([Australian Taxation Office](#)).

Owners should review BAS obligations before spending cash that may be needed for tax.



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SUPERANNUATION

From 1 July 2025, the super guarantee rate is 12% for salary and wages paid to eligible workers. The ATO says this rate applies to salary and wages paid on or after 1 July 2025, even if part of the pay period relates to time before that date.

Super should be treated as a regular payroll cost, not a quarterly surprise.

PAYROLL TAX IN NSW

NSW payroll tax applies when a business pays wages in NSW and total Australian wages exceed the annual tax-free threshold. For 1 July 2025 to 30 June 2026, Revenue NSW lists the annual threshold as \$1,200,000 and the payroll tax rate as 5.45%. Businesses must register when NSW wages are paid and total Australian wages exceed the relevant monthly threshold. ([Revenue NSW](#)).

This is especially important for businesses growing their team, operating across states, or using related entities, because grouping and interstate wages can affect the threshold.

EMPLOYEE WAGES, PAY SLIPS AND RECORDS

Employers must keep accurate employee records and issue pay slips. Fair Work Ombudsman guidance says employee records must be accessible, legible, in English, kept for 7 years, and not false or misleading. Pay slips must be issued within one working day of pay day and include required details such as gross and net pay, deductions and super contributions. ([Fair Work Ombudsman](#)).

Owners should also check current award rates, penalty rates, overtime, allowances and minimum wage changes. Fair Work states that from 1 July 2025, the National Minimum Wage is \$24.95 per hour or \$948.00 per week before tax for adult employees not covered by an award or enterprise agreement.

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RECORD KEEPING: THE FOUNDATION OF GOOD FINANCIALS

Good records help owners make decisions, prove income and expenses, manage cash flow, and meet tax, super and employer obligations. Business.gov.au says businesses must keep records of transactions related to tax, super and registrations, including income, sales, expenses, assets, bank records, GST records where registered, and employee or contractor records. ([business.gov.au](https://www.business.gov.au))

Most business records need to be kept for 5 years, while some company and employee records must be kept for 7 years.

Area	Records to keep
Sales	Invoices, receipts, POS reports, online sales records
Expenses	Supplier bills, receipts, bank and credit card statements
Payroll	Timesheets, payslips, leave records, super records
GST and BAS	Tax invoices, GST reports, BAS lodgement records
Assets	Purchase documents, loan documents, depreciation records
Debtors and creditors	Who owes you money and who you owe money to

Digital systems can make this easier. Business.gov.au notes that accounting software can help record transactions, calculate GST, update ledgers, prepare financial statements and generate invoices. ([business.gov.au](https://www.business.gov.au))

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WARNING SIGNS IN THE NUMBERS

Small business financial problems usually show up in the numbers before they become a crisis.

Watch for:

Warning sign	What it may mean
Sales are rising but cash is tight	Margins may be too low, customers may be paying late, or expenses are growing too fast
Gross margin is falling	Jobs may be underquoted or direct costs may have increased
Tax debt is building	GST, PAYG or income tax has not been set aside
Supplier payments are slipping	Working capital may be weak
The owner is not paying themselves	The business model may not be sustainable
Stock is increasing faster than sales	Cash may be trapped in inventory
Bank balance falls after every BAS or payroll cycle	Cash flow forecasting may be inadequate

The earlier these issues are identified, the more options the owner has.

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MONTHLY FINANCIAL ROUTINE FOR OWNERS

A simple monthly routine can prevent many problems. At the end of each month, review:

Task	Question to ask
Profit and loss	Did we make a profit this month?
Gross margin	Are jobs, products or services priced correctly?
Cash flow	Will we have enough cash for the next 4–8 weeks?
Debtors	Who owes us money, and what is overdue?
Creditors	Who do we owe, and when is payment due?
Tax and super	Have we set aside GST, PAYG, super and income tax?
Payroll	Are wages, awards, super and payslips correct?
Budget versus actual	Are costs higher than expected?
Owner drawings	Is the owner taking too much or too little from the business?

This does not need to be complicated. A one-page dashboard can be enough.

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QUESTIONS TO ASK YOUR ACCOUNTANT OR BOOKKEEPER

Business owners do not need to do everything themselves, but they should know what to ask. Useful questions include:

1. Which products, services or jobs are most profitable?
2. What is our break-even sales figure each month?
3. Are we putting aside enough for GST, PAYG, super and income tax?
4. Are our wages and contractor arrangements correctly classified?
5. Are we at risk of NSW payroll tax?
6. Are our prices high enough to cover overheads and owner wages?
7. What are our debtor days, and how can we improve collections?
8. Do we have enough working capital for the next quarter?
9. Are there expenses that have increased faster than sales?
10. What should I review every month before making growth decisions?

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PRACTICAL EXAMPLE

Imagine a NSW trade business with the following monthly figures:

- Sales = \$120,000
- Materials and subcontractors = \$72,000
- Gross profit = \$48,000
- Overheads = \$38,000
- Net profit = \$10,000

At first glance, the business made a \$10,000 profit. But the owner also needs to check:

Question	Why it matters
Have customers paid?	If invoices are unpaid, there may be no cash in the bank
Is GST set aside?	GST collected may be payable on the BAS
Are wages and super fully allowed for?	Super and leave are real employment costs
Are loan repayments due?	Loan principal affects cash flow
Is the owner being paid?	Profit may be overstated if owner labour is unpaid
Are upcoming bills known?	Insurance, tax, rent or supplier payments may be due soon

This is why reviewing only the profit figure is not enough.

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