

# UNDERSTANDING YOUR BUSINESS FINANCES

Healthy habits toolkit



UNLOCK YOUR  
NUMBERS 

# WELCOME

Welcome to the Healthy habit toolkit. We'll guide you step by step through small business finance with bite-sized content that helps you understand YOUR numbers and build financial confidence.

## Using the toolkit

1. Download the toolkit
2. Use it on any device or print it off if you prefer
3. Work through the activities to build the financial habits, skills and mindsets that will help your business succeed



### Look out for...



#### **Habit builder**

Activities that help you track your business's financial health and make informed decisions



#### **Mindset**

Activities that help you build the mindsets you need to stay focused and tackle challenges head-on



#### **Tell me more**

Additional resources and real-world examples from other small business owners

## Reaching out for support

The information provided is for general educational purposes only and should not be considered financial, legal, or tax advice. Please consult with a professional before making financial decisions.

If you need support or advice along the way:

- Talk to an accountant or bookkeeper for financial advice and help with planning your next steps. You can apply for free mentoring through the [\*\*Xero For Good Ambassador Programme\*\*](#) to help apply general financial insights to your business. If you don't have an accountant or bookkeeper and are seeking specific advice, you can search for one in the [\*\*Xero advisor directory\*\*](#)
- Explore [\*\*resources to keep you and your business healthy\*\*](#)
- Access free smart business guides from [\*\*GOV.UK\*\*](#)
- Check out our [\*\*frequently asked questions\*\*](#)
- [\*\*Access services to help if you are experiencing financial difficulties\*\*](#)

If you're reading a printed version of this toolkit, you can find the full URLs for all the internet pages listed above in the appendix at the end.



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# UNDERSTANDING YOUR BUSINESS FINANCES

In this topic, we'll cover the skills, knowledge and mindset you need to manage your business finances with confidence. You'll learn how to track your income and expenses, separate business and personal finances, and build routines for a clear picture of your financial health.

**Work through the Healthy habits toolkit and take your first steps to financial confidence.**

**Choose where to start:**



 Use the interactive buttons and topic menu to move through the toolkit or scroll down to read the pages in order.



# THE POWER OF MINDSET

Running a business isn't just about knowing the numbers – it's about having the right mindset. Your mindset shapes how you set goals, tackle challenges and stay motivated. It can mean the difference between getting stuck and moving forward.

For more about the power of mindset, check out:

- [What is a mindset](#)
- [Mindset and success: how your thinking shapes your achievements](#)



## Building your mindset

Build a mindset that helps you balance staying focused, holding yourself accountable and pushing toward your goals – while also knowing when to adapt, learn from setbacks and give yourself some slack when things don't go as planned.

### Beliefs that move you towards your goals:

Select any of the statements you believe to be true from the five statements below.

Success comes from balancing focus and discipline with flexibility

There's always room to learn and improve

Setbacks aren't failures – they're lessons

Small, consistent actions create the biggest impact

Progress means checking if your efforts are working and tackling challenges head-on

Are there any statements you don't believe are true?

- Reflect on why that is
- Do some research to find two things that challenge your perspective



## Take your first step

What could you do differently to build the mindsets and beliefs you need to be successful?



To build a strong mindset, define your goals, understand what it takes to achieve them, and make smart choices that align with your goals to ensure your hard work pays off.



# YOUR JOURNEY TO FINANCIAL CONFIDENCE

Think about what you want from this course, how building your financial skills and confidence will help you get to know your numbers and what impact that could have on you and your business.

## Setting your goals

**How would you describe your financial skills and confidence today?**



Select one of the three options below.

**not very confident**

**confident**

**very confident**

**What could your first step to building your skills and confidence be?**

## Turning your goals into reality

### Planning for progress

Be honest with yourself – what will it take to make that goal a reality?

- What challenges might you face?
- What support will help you along the way?
- What do you need to learn?
- How will you make time for it?

### Adjusting your approach

Challenges will come up, so check if your efforts are paying off or if you need to adjust your approach.

- How will you measure your progress?
- How will you know when it's time to make a change?
- What information will help you make those decisions?



Set goals with your budget in mind. Figure out how you'll track progress, prepare for overspending, and decide how long you'll work toward breaking even or making a profit before adjusting your approach.

For more on business goal setting, check out:

- [Setting up a business](#)
- [How to write a business plan](#)



# KEEPING GOOD RECORDS

Tracking your income and expenses gives you a clear picture of your business. It helps you plan for costs and see if you're making a profit. Whether you prefer pen and paper or digital bookkeeping tools, the key is to find a system that's simple, accurate, and easy to keep up with.

## Where are you now?

### Think about your current process:



- What do you do with your receipts?
- If you needed to show an accurate record of your income and expenses, how long would it take you?
- Does your process give you a clear picture of how your business is performing?

### Record your income and expenses daily for a week.



- How long did it take you?
- What time worked best for you?
- How would this help you track your numbers?

## How to keep good records

- Set aside time each day or week to record your business transactions – putting it off makes it feel like a bigger task later
- Record everything – sales, cash, funding, expenses
- Don't skip small expenses – they add up over time
- Choose a method or tool that works for you – accounting software, or a spreadsheet
- Organise your receipts – keep copies, we suggest saving them digitally
- Use digital tools – if you're planning to grow, start with digital tools early to simplify and streamline record-keeping
- Use a separate business bank account – this keeps all your business income and expenses in one place



Regularly check that your record-keeping helps you understand your numbers. If it's not working, adjust your approach to stay on top of your finances.

# Find out how other people track their income and expenses

## Track income and expenses using pen and paper

If you're just starting out, you might use pen and paper to keep records. A cash book that you can buy with pre-made columns can help. You could also use a double-page layout – recording weekly sales on one side, and expenses on the other.

This might work for now, but as your business grows, you may need spreadsheets or accounting software for more features.

Use a separate business bank account – this keeps all your business income and expenses in one place.



## Track income and expenses using spreadsheets

Moving from paper to a spreadsheet can make tracking income and expenses easier, more organised and faster, with automatic calculations and better insights into your finances. A spreadsheet could include.

- Transaction dates
- A description of what an expense or invoice is for
- Categories that group similar transactions, for example, sales, rent, utilities, advertising
- The amount of each transaction (for example, income is positive, expenses are negative)
- VAT – if you're registered for VAT, track the VAT you pay and claim back

## Track income and expenses using accounting software

There are many accounting software options available to help track income and expenses. These tools vary in cost and complexity, so the best choice depends on your business size and needs. Many software packages also let you capture receipts and documents digitally – they may also have the capability to automatically read and sort receipts into expense categories, keeping your records organised and easily accessible.

Find out more about the [IRD's acceptable digital record keeping](#).

# SEPARATING YOUR FINANCES

Separating business and personal finances gives you a clear view of your business's financial health. Mixing them can feel overwhelming, making it harder to track income, expenses, and profits – or decide on the right actions to take.

## Plan your next step

Select any actions you have already completed from the five options below.



Set up a business account

Identify all income and expenses related to your business

Use your business account for all business expenses

Pay all business income into this account

Review your business account regularly to track your progress and make adjustments



A separate business account helps you see if you're using personal funds to support your business and if that's sustainable. It's also often required when applying for funding, grants, rebates, or other financial support. Setting it up early gives you control over your finances and allows you to make informed choices.

# WORKING WITH FINANCE EXPERTS AND ADVISORS

Financial experts like accountants or bookkeepers can help you complete specific tasks and gain a clearer understanding of your business's financial health.

The better they understand your business and the support you need, the more effectively they can help you.

## Think about what that could look like for your business:

- What support might you need and who can help?
- What do you want to know more about and how will it help you make sense of your numbers or plan your next steps?



## Getting the most out of your finance expert...

- Set expectations about the support you need and how they can help you
- Check which financial tasks need to be completed when (for example, tax filings, reporting cycles)
- Get familiar with your income, expenses and overall financial position
- Keep and share accurate records of your income and expenses to give a clear picture of your business
- Plan how you will work together – including being clear on fees, when and how you will check in or share information
- Be open to sharing two-way feedback and ideas



# UNDERSTANDING HOW YOUR BUSINESS WORKS

Your business has financial cycles for when money flows in and out. Review your numbers regularly to stay on track, spot patterns and plan ahead.

## Build a healthy finance habit

Spend 5 minutes a day tracking your numbers – the more you understand, the more control you have over your business.

### Track your numbers



1. Set an alarm or time in your calendar for 5 minutes every day over the next 30 days
2. Use that time to complete one small action to get to know your numbers better – use actions on the next page to guide you
3. Take note of some of your actions and learnings as you go

### Reflect on what you've learned and what you'll do next



- What new insights did you gain about your business?
- How will you use this information to plan ahead?
- What changes would have the biggest impact on your business finances?



# Small, consistent actions create the biggest impact!



## Daily

Check your bank balance each day.

Look for:

- Are there any sudden or unexpected changes to your bank balance?



## Weekly

Check that your bank account reflects what you expected to happen this week.

Look for:

- Can you see the income you expected?
- Are there any big payments due?
- Do you have enough money to cover them?



## Monthly

Check how your income and expenses are tracking.

Look for:

- Have all invoices been paid for the month?
- Are there any major or unexpected expenses due?
- Do you need to follow up on any payments or bad debts?
- Did you make a profit?

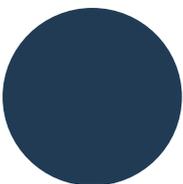


## Quarterly

Compare your numbers against last quarter.

Look for:

- Were your numbers different from last quarter?
- Did you expect this change?
- What might have caused it?
- What do you need to do about it?



## Annually

Step back, look at the big picture and plan your next steps.

Look for:

- Did you make a profit?
- If you didn't, can you identify why and what are your next steps?



Check if you have any compliance or tax obligations on a monthly, quarterly and annual basis.

# LEARNING THE JARGON

Get comfortable understanding and using common financial terms.

## Income and expenditure

- **Income:** The money earned from sales, services, grants or funding
- **Expenses:** Money spent to run your business. There are different types of expenses:
  - **Fixed costs:** Expenses that stay the same each month (for example, rent, insurance premiums)
  - **Variable costs:** Expenses that change based on business activity (for example, materials, utilities like electricity and gas)
- **Profit:** The money left after subtracting expenses from income
- **Profit and loss account (P&L):** A financial report showing income, expenses and whether you made a profit or loss
- **Forecast/budget:** An estimate of future income and expenses based on trends and data
- **Reconciliation:** The process of matching financial records with bank statements or accounts to ensure accuracy



## Assets and liabilities

- **Assets:** Anything your business owns that has value (for example, cash, equipment, inventory)
- **Liability:** Debts or financial obligations your business owes to someone else (for example, loans, supplier payments)
- **Bad debts:** Amounts that are unlikely to be received by your business
- **Equity:** The owner's share of the business after liabilities are deducted from assets
- **Balance sheet:** A financial statement summarising your business assets, liabilities and equity at a given point in time

## Cash flow

- **Business transaction:** Any financial activity, such as payments received or expenses paid, goods and services bought or sold on credit
- **Invoice:** A document sent to customers requesting payment for goods or services
- **Provisional tax:** An Income tax payment(s) you make in advance during the year to avoid or reduce your year end tax bill
- **Value Added Tax (VAT):** A tax on goods and services consumed. Setting money aside and planning for this payment when it's due is important for cash flow
- **Cash flow:** The movement of money in or out of your business
- **Cash flow forecast:** A prediction of future cash moving in and out of your business to help manage finances
- **Cash flow statement:** An historical report tracking actual cash movement in and out of your business over a period

# APPENDIX

## **Access business finance and support**

<https://www.gov.uk/browse/business/finance-support>

## **Frequently asked questions**

<https://unlockyournumbers.xero.com/en-gb/contact>

## **GOV.UK small business guides**

<https://www.gov.uk/browse/business>

## **How to write a business plan**

<https://www.gov.uk/write-business-plan>

## **Keeping your pay and tax records**

<https://www.gov.uk/keeping-your-pay-tax-records>

## **Mindset and success: how your thinking shapes your achievements**

[linkedin.com/pulse/mindset-success-how-your-thinking-shapes-achievements-mohd-abbas/](https://www.linkedin.com/pulse/mindset-success-how-your-thinking-shapes-achievements-mohd-abbas/)

## **Recording income and expenses**

<https://www.gov.uk/simpler-income-tax-cash-basis/income-andexpenses-under-cash-basis>

## **Setting up a business**

<https://www.gov.uk/set-up-business>

## **Wellbeing support to keep you and your business healthy**

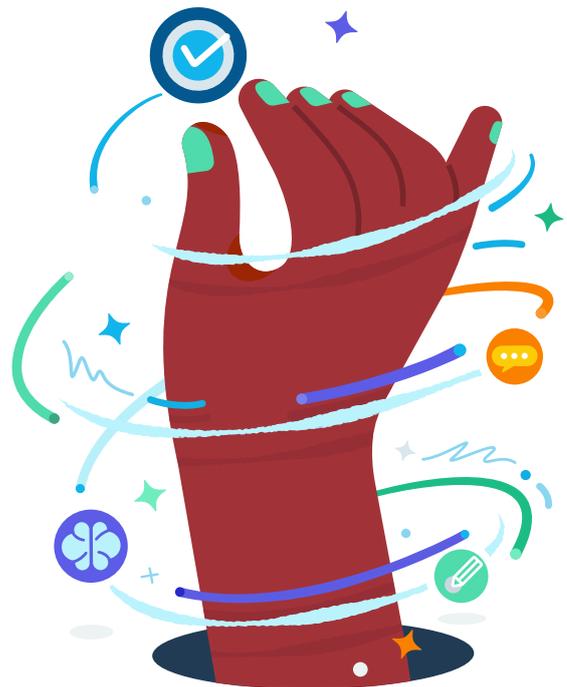
<https://www.fsb.org.uk/resources/content-hubs/workplace-wellbeing>

## **What is a mindset?**

[verywellmind.com/what-is-a-mindset-2795025](https://www.verywellmind.com/what-is-a-mindset-2795025)

## **Xero For Good Ambassador Programme**

<https://unlockyournumbers.xero.com/en-gb/join-mentorloop>



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