



MANAGING PERSONAL FINANCES

Personal finances include the income and expenses and the assets and liabilities of the individual entrepreneur and his household. Now learn how to balance them.

For now it's sufficient to say that personal finances include the income and expenses and the assets and liabilities of the individual entrepreneur and his household. Within those parameters, individual personal finance includes managing cash and money, setting short- and long-term goals, and putting plans in place to achieve those goals. Here are some important pieces of the personal financial puzzle and this is how they relate to the operations and finances of the business:

1. Cash & money management

Just as in the business, the key to a financially healthy and secure household lies in managing day-to-day money flows – income and expenses. Here we talk about the use of personal budgets and banking and credit to manage family finances and to achieve longer-term goals.

2. Income from business

Every entrepreneur has to decide when, how, and how much to be paid from the business. This key decision impacts personal finances and is also important for the financial health of the business. The amount and timing of such payments should be right for both the entrepreneur and the business. Also, it should generally – but not always – be done in a way to minimise tax impact.

The amount and regularity of income from the business must be accounted for in the personal financial budget. "Payment" may be in forms besides cash – benefits, retirement savings, or use of assets. However entrepreneurial compensation is structured, it must be thought through carefully.

3. Management & growth of personal wealth

We mentioned income, but income most surely doesn't translate directly to wealth. Just ask the thousands (millions?) of entrepreneurs and other individuals with substantial incomes but little to show for them. The slogan is "Make it, keep it, grow it" – but many never get past "make it." Why? Poor money management– lack of awareness, commitment and control – gets in the way of keeping it, and poor or inattentive use of investing and savings vehicles gets in the way of growing it.

4. Risk management

Just as in business, your personal life involves risks, including loss of income, health problems, liability, and loss of property. Risk management isn't just about insurance, although insurance is an important tool used to manage risk. Entrepreneurs and their families incur the same risks as other people, but business owners may face some additional risks – and may also have some other alternatives to help manage them.

5. Benefits

If you're a corporate or public service employee, your fringe benefits – insurance coverage, retirement, bonuses, discounts, use of facilities, etc. – are usually fairly well defined upfront or at least defined as a set of choices. When you're an entrepreneur, the sky's the limit, at least within the law. The business can provide your benefits; if it is large enough, it can take advantage of group plans and rates. Good entrepreneurial personal finance means choosing the right combination of benefits to get you the most personally, while not compromising the business and while minimising total taxes.

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