Top Mistakes When Starting Your Own Business

1. Customers, without them there is no business. Too many businesses start without a market or a good sense of understanding who that market is. Furthermore, a new business owner has to be willing to go out and find business and sell their product/service every day.
2. Lack of financial support. Grants are seldom if ever available to start a business and financing will require cash equity. It is never a good idea to finance a new business on credit cards.
3. Although your new business will take up a lot of your time, don't forget to plan days off. Plan time with your family and even find ways to include them in running the business.
4. Overestimating family/friendship support. Family and friends will always tell you your ideas are great and if you are starting a business with a friend or family member, always treat it as you would a business relationship.
5. Not planning your cash flow. Cash flow will make or break a business, always plan for payments and know your balances. Be sure to price your product/service appropriately.
6. Not recognizing your competition. Know who they are, what they are charging and how they are delivering.
7. Hiring employees. Put this off as long as possible to save on costs. When you do, make sure you keep up with worker's compensation and payroll taxes.
8. Not paying taxes. Know that you are responsible for collecting and then paying sales taxes and other business taxes or you will be assessed large fees or even prosecution.
9. Lack of product/service knowledge and understanding. Be the expert in your business.
10. Not asking for help. Ask the experts and develop your team of resources for the management and growth of your business.
11. Letting your passion cloud your judgment on whether you have a viable idea or a suitable market.
12. Starting a business without considering all of the above points and not knowing when to get out or transfer it over to new management.

The only goal is for the owner to make more than double the income from owning and operating the business, as he or she would make working in the business for someone else.

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Financial Terms

Accounts Payable - Accounts payable is a small business's obligations to pay debts owed to lenders, suppliers, and creditors. It is a short-term liability account used to record debts from purchasing goods or services on credit.

Accounts Receivable - Accounts receivable is the money owed to a small business by others for goods or services rendered. Accounts receivable is the amount owed to a company which result from goods and/or services being provided to the company on credit. The term *trade receivable* is also used in place of accounts receivable. These accounts are labeled as assets because they represent a legal obligation for the customer to pay a business the money owed for their short-term debt.

Income Statement - The income statement, also called a profit and loss statement, presents the financial results of a business for a stated period of time. It quantifies the amount of revenue generated and expenses incurred by a company along with any resulting net profit or loss.

Gross Profit - This business finance term and definition can be calculated as total sales (income) less the costs (expenses) directly related to those sales. Raw materials, manufacturing expenses, labor costs, marketing, and transportation of goods are all included in expenses. Gross profit is calculated prior to deducting selling, general and administrative expenses.

Cash Flow - Cash flow refers to the amount of operating cash which a business receives and disburses through a period of time, typically a month, quarter of year. A positive cash flow must be maintained in order for a business to remain in operation. Cash inflows typically come from operations (cash paid), financing activities (debt incurred) or investment activities (gain on invested funds). Cash outflows can originate from these same resources- operations (expenditures), financing (loan payments), and investments (purchase of fixed assets).

Balance Sheet - The balance sheet is essential information that gives a "snapshot" of the company's financial position at a specific moment in time. The report is a summary of the business assets and liabilities and net worth.

Assets - Assets are defined as anything that has value—both tangible or intangible—and is owned by the business. Typical items listed as business assets are cash on hand, accounts receivable, buildings, equipment, inventory, and any items that can be turned into cash.

Liability - A liability is a legal obligation to repay or otherwise settle a debt. Liabilities are considered either current (payable within one year or less) or long-term (payable after one year) and are listed on a business's balance sheet. A business's accounts payable, wages, taxes, and accrued expenses are all considered liabilities.

Equity - Equity is the difference between what a business is worth (assets) and what a business owes (liabilities). Equity in a business is how much of the worth actually is the business' if it were to be sold, as opposed to any creditors. The basic accounting equation is Assets = Liabilities + Owner's Equity.

Line of Credit - A line of credit is an agreement between a lender and a business in order for the business to have funds available to be drawn on when capital is needed. This line of credit is considered a short-term funding option, with a maximum amount available. It is typically secured by assets of business such as accounts receivable or inventory. Long term assets should not be purchased on a line of credit, only short term assets.

Working Capital - Working capital consists of the financial resources necessary for maintaining the day-to-day operation of the business. Working capital is the business's cash on hand or instruments that can be converted to cash quickly.

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