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How to create your China budget and decide on the right registered capital for your China investment

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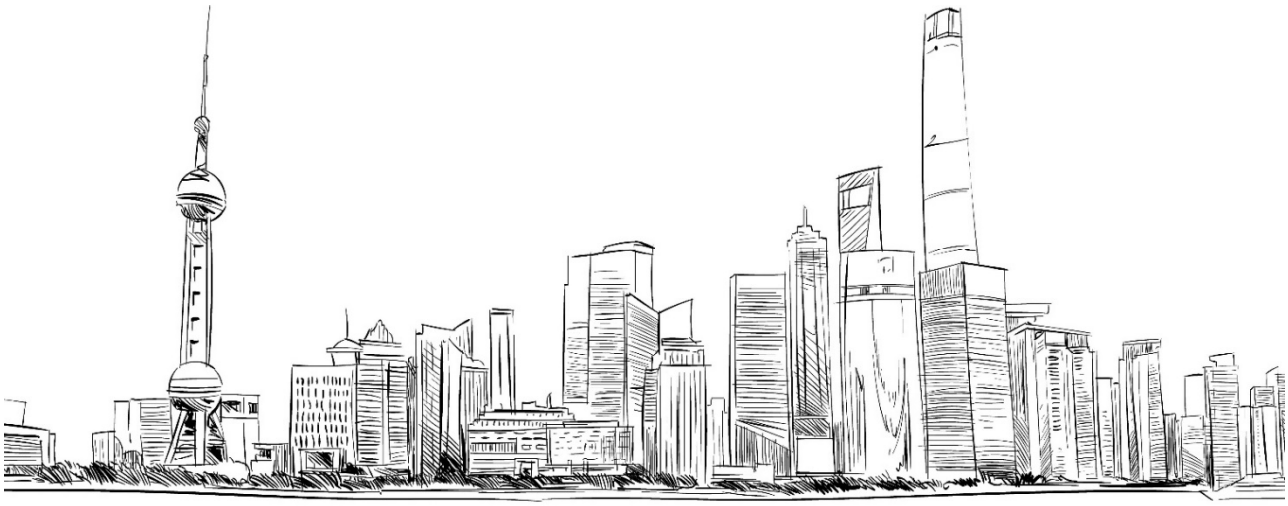

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*Budgets can be seen as **imposing constraints** that are hard to live with and **establishing goals** that are hard to meet.*

Why is it important to create a budget for your China business?

The issue of not creating a budget means that you have an Inability to plan

- A business that doesn't know where its money is coming from or where it is going to isn't in a position to expand, take advantage of investment opportunities or even make long-term commitments to suppliers and customers.
- It can lose existing business if the unforeseen happens – like the power being turned off or a shipment of goods being delayed.
- Not having financial records in order can mean denial of operating loans, the purchase of equipment or the ability to bid on government contracts.

Benefits of budgeting for Year 1 of your operation

1. ***Gives you control over your money*** *– A budget is a way of being intentional about the way you spend and save your money. It is said that with budgeting, you control your money and not your money controls you. Budgeting saves you the stress of suddenly having to adjust to lack of funds because you did not initially plan how to spend them.*
2. ***Keeps you focused on your money goals*** *– You avoid spending unnecessarily on items and services that do not contribute to attaining your financial goals. If you are working with limited resources, budgeting makes it easier to make ends meet.*
3. ***Makes you aware what is going on with your money*** *– With budgeting, you are clear on what money is coming in, how fast it goes out, and where it is going to. Budgeting saves you from wondering every end of the month where your money went. A budget enables you to know what you can afford, take advantage of buying and investing opportunities, and plan how to lower your debt. It also tells you what is important to you based on how you allocate your funds, how your money is working for you, and how far you are towards reaching your financial goals.*
4. ***Helps you organize your spending and savings*** *– By dividing your money into categories of expenditures and savings, a budget makes you aware which category of expenditure takes which portion of your*

money. That way, it is easy for you to make adjustments. Budget also serves as a reference for organizing your payments, receipts, and financial statements. When all of your financial transactions are organized for tax time or creditor questions, you save time and effort.

5. ***Makes you decide in advance how your money will work for you.***

6. ***Enables you to save for expected and unexpected costs*** *– Budgeting allows you to plan to set aside money for emergency costs.*

7. ***Enables you to communicate with your significant others about money*** *– If you share your money, a budget can communicate how you use money as a group. This promotes teamwork on working for common financial goals and prevents conflict on how money is used. Creating a budget in tandem with your business partners will avoid conflicts and resolve personal differences on how your money is spent. Budgeting teaches partners spending responsibility and accountability.*

8. ***Provides you with an early warning for potential problems*** *– When you budget and take a "big picture" view, you will see potential money problems in advance, and be able to make adjustments before the problem appears*

9. ***Helps you determine if you can take debt and how much*** *– Taking debt is not necessarily a bad thing if the debt is necessary or you can afford it. Budgeting shows you how much a debt load you can realistically take without being stressed or if taking the debt load is worth it.*

10. ***Enables you to produce extra money*** *– In budgeting, you get to identify and eliminate unnecessary spending like late fees, penalties and interests. These seemingly small saving can add up over time.*

Gives you control over your registered capital - What is registered capital?

There are two numbers which need to be provided to the Ministry of Commerce: **the total investment amount and the registered capital amount**. The total investment reflects the total capital required to develop and run the company. The registered capital which is the capital amount used to start-up the business until the company has a positive cash-flow status. There are no minimum capital requirements in China. It is important for each company to calculate their projected budget and cash flow needs. You should invest sufficient funds to sustain the Company until you expect it to be cash flow positive. Too many investors spend too much time finding ways to minimize their capital investments, only to find out that business expenses are greater than anticipated. Operating in China is not cheap; office rent, and remuneration of experienced employees can rival that of any developed country.

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Tips for calculating your registered capital

The Ministry of Commerce and the Chinese tax bureau "like" to see companies that have registered capitals of more than RMB 1,000,000, but no business plan is required to be seen by any government bureau. So it is important to calculate how much capital you need during your start-up phase (3-5 year projection) and make this your registered capital.

How to create a budget for your China business – what should you consider?

1. Revenues – sales or revenue forecasts are typically based on a combination of sales history and how effective you expect your future efforts to be
2. Costs – typically, your business will have 3 kinds of costs:

   Fixed costs – items such as rent, salaries and financing costs
   Variable costs – including raw materials and overtime
   One-off capital costs – purchases of computer equipment or premises, for example

Fixed costs and overheads should be broken down as follows:

- ❑ Cost of premises, including rent, municipal taxes and service charges
- ❑ Staff costs – wages, social insurance, allowances
- ❑ Utilities – electricity, telephone, broadband
- ❑ Printing, postage and stationary
- ❑ Vehicle expenses
- ❑ Equipment costs
- ❑ Advertising and promotion
- ❑ Travel and subsistence expenses
- ❑ Legal and professional costs, including insurance, legal fees, accounting fees, etc

To forecast your costs, contact your suppliers. Using your sales and expenditure forecasts, you can prepare projected profits for the next 12 months. This will enable you to analyze your margins and other key ratios such as your return on investment.

Don't rush yourself

Your business budget isn't something you can haphazardly throw together in a few hours. To do it right, you'll need to take the time to partner with your management team and align the budget with the business strategy – even if it takes longer than you like!

Be conservative

Enthusiasm is great but not when results disappoint. When in doubt, it is a good idea to be more conservative and leave some "slack" and "wiggle room" in your projections and within your budget in case sales goals are not reached or are delayed, for example.

Start early

Businesses should begin the annual budgeting process by October of each year (following a fiscal year in China of January-December) to allow sufficient time to ensure the best detailed estimate is completed by year-end.

Monitor, re-evaluate and re-forecast

Once you complete the budgeting process, the biggest mistake you could make is to file it away only to pull it out again at the end of the following year. A budget should be monitored on a monthly basis, or sometimes even on a weekly basis for smaller companies. Budgets should be edited if circumstances change. Furthermore, budgets should always be compared to actual results to understand why there are differences. This will help monitor spending throughout the year and help management to make key decisions in relation to the business.

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