



# Good practice checklist for small business in the global financial crisis

think+create



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# Introduction

Good business practice adds value to a business, even in difficult times. A business that follows good practice benefits in two main ways:

- The business is more likely to be profitable, have better cash flow and operate with less financial risk, and
- The business may be easier to sell in the future, and possibly at a better price.

CPA Australia has developed this checklist to highlight good business practices that small businesses should undertake at all times, but is particularly relevant during the current economic downturn.

Implementing 'good business practice' revolves around identifying the critical tasks which must be done to keep the business in good shape, and having the discipline to ensure that those tasks are carried out consistently and regularly. Good business practice calls for at least an annual review; *better* business practice will see you reviewing critical areas quarterly, or even monthly.

Towards the end of the financial year is a good time to review your business. The end of the financial year gives you the opportunity to rule off on the past year and start afresh. Do not fall into the trap of rushing through these tasks purely to get them out of the way. Similarly, make sure you learn any lessons from the current year: avoid the mistakes and persist with successful strategies.

If you undertake the tasks detailed in this checklist regularly, the end of the financial year should not create undue pressure for you and you will be more likely to have the quality information you need to manage your business through tough times.

Please note that this checklist is broad and therefore not every step may be relevant to your business. Similarly, every industry will have special requirements, so different or additional steps might be needed as well. A checklist like this cannot be definitive. This one is intended to start you thinking about the specific actions needed to put your business on the right track, or keep it there.

## Using the checklist

### Making it happen

Below are some suggested ways to build relevant aspects of this checklist into your business practices and in your daily operations.

- In your regular meetings with staff, use the checklist as part of the agenda and allocate tasks so everyone knows what each person is responsible for. Then ask for regular reports on each task.
- Write the checklist tasks into your calendar so that you are reminded at the right times.
- Build the tasks into the job descriptions of relevant staff.

# Checklist

## Financial tasks

Tasks necessary to prepare financial statements should be performed regularly. Waiting until the end of the financial year to undertake many of these tasks will put you under pressure and significantly reduce the quality and usefulness of financial data. Delaying financial tasks can also deny you regular financial information, such as cash flow statements, which can be critical to helping you manage through a downturn. It is also important to note that a number of returns and forms have to be completed very soon after the close of the financial year, so you can do without extra pressure.

The financial tasks below are necessary to produce financial statements such as profit and loss statements and balance sheets. Such financial statements give you a wealth of information that is critical to you understanding how your business is performing in the downturn and highlight possible areas for improvement. You may want to buy a book on small business management, attend a course or seek advice from your CPA to learn how to read the story that financial statements tell you about your business. CPA Australia's publication, Financial Survival Guide for Small Business, [cpaaustralia.com.au/986\\_32224](http://cpaaustralia.com.au/986_32224), also has a wealth of information on how to read and use financial statements. Simply saying, 'I don't understand – there's enough cash in the bank today' is a recipe for business failure.

To prepare your financial statements, the following tasks should be undertaken

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Install financial software</b>		With new updates	Use the financial software to produce regular financial statements and reports.
<b>Enter all data promptly, and with accurate transaction dates</b>		Ongoing	Regularly check data entry for quality. If possible, separate 'cash handling' from 'data entry' to minimise potential for fraud.
<b>Regularly review working capital items:</b> <ul style="list-style-type: none"><li>• Review stock balances and reconcile to physical stock-take</li><li>• Work-in-progress (for construction firms, professional practices, etc)</li><li>• Debtors</li></ul>		At least quarterly	<ul style="list-style-type: none"><li>• Get rid of old/slow stock; write off dead stock; review purchasing policies; use a purchases budget</li><li>• Bill clients regularly or at milestones</li><li>• Refer bad debts to collection agents; review credit screening; renegotiate trading terms with consistently slow-payers; contact slow payers</li></ul>

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Reconcile major accounts in balance sheet, such as:</b>			
• Bank and investment accounts		At least monthly	• Have two people undertake the reconciliation. Those people should not be the same people as those that handle cash.
• Debtors' ledger		At least monthly	• Identify customers with large outstanding amounts and follow up.
• Creditors' ledger		At least monthly	• Reconcile suppliers owed money with list of approved suppliers.
• Equipment and fixed assets		At least quarterly	• Identify obsolete, unusable or written-off items; ask accountant to adjust balances and/or see if such assets can be turned into cash.
• GST		At least quarterly	• Make adjustments quickly through the next activity statement.
• Equity accounts (especially in partnerships) and shareholder loans		At least quarterly	• Operate these in accordance with the partnership agreement.
<b>Review payroll system, examining:</b>			
• Annual leave entitlements		Quarterly	• Encourage staff to take leave regularly – avoid large build-up of entitlements.
• Long-service leave entitlements		Quarterly	• Consider a cash reserve to fund leave liability.
• Superannuation		Monthly	• Comply with legislation regarding frequency of payment, choice of fund, and reporting to staff.
• PAYG withholding		Monthly	
• Fringe benefits tax		Quarterly	
• Payroll tax		Monthly	
<b>Translate foreign exchange gains/losses</b>		Year-end	Use foreign exchange rates from an official source, such as the Australian Taxation Office.
<b>Market-valuation of certain assets</b>		Year-end	Involve your accountant or a specialist valuer, as required.
<b>Prepare:</b>		Year-end	Involve your accountant.
• Profit and loss statement			
• Balance sheet			
• Cash flow statement			

## Strategic financial tasks

Financial tasks do not end at bank reconciliation or a balance sheet. There are other financial tasks that are critical in determining the future direction of your business, including any actions you wish to implement in response to the economic downturn.

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Set targets for financial performance</b>		At least annually	<ul style="list-style-type: none"> <li>Ask your CPA to help set targets relevant to your industry and your business.</li> <li>Incorporate those targets into your budgets and strategic plan.</li> </ul>
<b>Review and analyse the financial statements</b>		At least annually	<ul style="list-style-type: none"> <li>Compare key ratios from your financial statements, such as working capital ratio, stock turnover ratio or profit per employee to averages in your industry.</li> <li>Compare performance against financial targets and past performance.</li> </ul>
<b>Review actual performance against budget</b>		Monthly	Undertake variance analysis (ask yourself: What caused the gap between budget and actual? How can we overcome this problem?).
<b>Undertake sensitivity analysis</b>		Annually	Ask yourself: What if ... sales dropped 15 or 20 per cent? Or a major customer went broke? Or a major supplier stopped selling to us? What if... our chief sales staff resigned? Factor answers to such questions into your forecasts.
<b>Set sales or production targets</b>		Ongoing	Undertake a break-even analysis to determine what you need to sell before you make a profit. Ask your CPA to help you with a break-even analysis if you are uncertain.
<b>Prepare annual profit and loss budget</b>		Annually	<ul style="list-style-type: none"> <li>Make sure your budget reflects your strategic and financial targets.</li> <li>Incorporate any findings from the variance analysis of the last budget and the break-even analysis.</li> </ul>
<b>Prepare cash flow forecast</b>		At least annually	In the current environment, it is advisable to have your cash flow forecast show the projected cash flows for each month in the 12-month period, and that such forecasts be updated at least monthly.
<b>Review cash flow forecast in the light of actual results</b>		Monthly	Update cash flow forecast to reflect actual events and monitor ongoing cash positions.

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Review 'bank' loans, leases, credit cards or other finance:</b> <ul style="list-style-type: none"> <li>Review interest rates on your loans</li> <li>Provide historic and budgeted information to financiers</li> <li>Comply with repayment schedules</li> <li>Review debt covenants on loans</li> </ul>			<ul style="list-style-type: none"> <li>Profit and loss, balance sheet, cash flow statement, budgets.</li> <li>Notify your bank immediately if you are in breach of a covenant. If you are uncertain of your covenants, ask your bank.</li> </ul>

## Strategic management tasks

Late in each financial year (for example, two to three months before the end of financial year) is a good time to get your planning, budgeting and operational procedures up-to-date. Doing that lets you hit the ground running at the start of the new financial year.

During the rest of the year the other issues listed below should be reviewed. This regular reviewing of key tasks will help to ensure that such tasks reflect the prevailing economic conditions at the time.

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Create or update your strategic plan</b>	Owner and key staff	Three-year horizon, updated annually	<ul style="list-style-type: none"> <li>Have a strategic plan for the owners, as well as for the business. This ensures the business complements the owners' needs.</li> <li>Take time to review lessons learned from the current year and incorporate those lessons into your new strategic plan.</li> </ul>
<b>Review employment arrangements:</b> <ul style="list-style-type: none"> <li>Conduct performance reviews</li> </ul>	Team leaders	At least annually, plus regular informal feedback	
<ul style="list-style-type: none"> <li>Consider incentive systems or commission-based pay</li> </ul>	Owner and key staff		<ul style="list-style-type: none"> <li>Make them simple; pay promptly; link them to the controllable success factors for each role. Consider only paying commission when you have received cash from the sale or paying higher commissions for sales of higher margin products and services.</li> </ul>
<ul style="list-style-type: none"> <li>Staff to sign confidentiality agreements</li> <li>Consider if 'restraint of trade' contracts are needed for key staff</li> </ul>	Owner	Commencement of employment Commencement of employment	<ul style="list-style-type: none"> <li>Get legal advice to ensure they are enforceable.</li> <li>Get legal advice to ensure they are enforceable.</li> </ul>
<b>Review sales contracts or terms of trade</b>		Annually	Determine whether the sales contracts protect your business. In the current environment this could include shortening the terms of trade, implementing credit limits and seeking personal guarantees and security.

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Review suppliers' contracts or terms of trade</b>		Annually	In the current environment, determine if the terms of trade can be lengthened, review how goods are supplied to you (so that it better meets your needs), see if you can reduce the minimum quantity you can order, and look at payment discounts.
<b>Review financial commitments such as:</b>		Annually	
<ul style="list-style-type: none"> <li>• Office leases</li> <li>• Equipment leases</li> <li>• Securities over assets</li> <li>• Hedging contracts</li> </ul>			<ul style="list-style-type: none"> <li>• Exercise options to renew if premise meets your needs, if not begin planning a move.</li> <li>• Understand ownership/payout arrangements at end-of-lease.</li> </ul>
<b>Establish or review your 'policies manual'</b>		Annually	
<ul style="list-style-type: none"> <li>• Document your processes</li> <li>• Allocate specific tasks – consider fraud risk</li> <li>• Review staff authority to spend money</li> </ul>			<ul style="list-style-type: none"> <li>• Detailed, for use as a training and quality manual.</li> <li>• Separate 'record-keeping' from 'handling of assets'.</li> <li>• You may wish to authorise all payments yourself for a short period as part of a cost reduction and quality assurance exercise.</li> </ul>
<b>Review IT systems:</b>		Annually	
<ul style="list-style-type: none"> <li>• Properly-licensed software</li> <li>• Backups performed frequently and held offsite</li> <li>• Effective, economical telephone and internet</li> <li>• Staff training needed</li> </ul>		Monthly	<ul style="list-style-type: none"> <li>• Current versions being used; no unauthorised copies.</li> <li>• Appoint a 'champion' for each software product to enhance internal transfer of practical knowledge.</li> </ul>
<b>Intellectual property:</b>		Annually	
<ul style="list-style-type: none"> <li>• Renewals of trading names and domain names</li> <li>• Documented operating systems and procedures</li> </ul>			<ul style="list-style-type: none"> <li>• Important: makes your business easier to run in your absence.</li> </ul>
<b>Insurances regularly reviewed for:</b>		Annually	
<ul style="list-style-type: none"> <li>• Types of policy required</li> <li>• Suitable amount of cover in place</li> </ul>			<ul style="list-style-type: none"> <li>• Assets? Business interruption? Loss of attraction? Life insurance? Income-replacement?</li> <li>• Avoid under-insurance and over-insurance.</li> </ul>

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Seek ways of using less resources in the business:</b> <ul style="list-style-type: none"> <li>• Electricity, gas, petrol/diesel</li> <li>• Other resources</li> <li>• Use local suppliers if possible</li> <li>• Eliminate unproductive steps or processes</li> </ul>			Should be part of a cost reduction strategy.
<b>Review any outstanding legal disputes</b>	Owner or solicitor	At least quarterly	Keep disputes moving along. Consider viable ways to settle the dispute promptly.

## Regulatory requirements: lodging returns and forms

Keeping up-to-date with the lodgement and payment of your statutory obligations is considered an important measure of the financial health of a business by banks and other creditors. Therefore diarising the lodgement and payment due dates for each of the requirements below is beneficial.

✓ Activity	Person responsible	Due date/regularity	Some actions to consider
<b>Income tax return</b>			Provide information, including financial statements to your accountant for review; highlight large or unusual transactions.
<b>Business Activity Statement (BAS or IAS)</b>			If you have difficulties with these, ask your accountant to complete them or engage a bookkeeper recommended by your accountant.
<b>Australian Securities and Investments Commission annual report (companies only)</b>			Ask your accountant to prepare these.
<b>PAYG withholding payment summary annual report</b>			Perform a test reconciliation in the month before year-end to highlight any processing problems.
<b>PAYG statements for employees</b>		14 July	Reconcile totals to your ledgers first.
<b>Payroll tax</b>			Are you over the threshold level for payroll tax? If uncertain, speak to your accountant.
<b>Workers' compensation insurance</b>			
<b>Superannuation payments</b>			Pay monthly; produce notices for staff regularly.
<b>Fringe benefits tax return</b>			
<b>Solvency declaration – for companies only</b>		Does not need to be lodged.	
<b>Others (list)</b>			

## Personal affairs

The end of the financial year is also an important time to make sure your personal affairs are in order. Involve your accountant or legal adviser as required.

✓	Activity	Person responsible	Due date/regularity	Some actions to consider
	<b>Ensure trust distributions are properly made</b>		At least annually	
	<b>Review any loan agreements with your business</b>		Annually	
	<b>Review your will, particularly if there has been a change in your circumstances</b>	Your lawyer	Annually	
	<b>Review the structures you have in place to protect your personal assets</b>	Your lawyer	Annually	Economic downturn heightens the risk of your business failing. Therefore, to be safe, you should review the effectiveness of your asset protection strategies.

## Conclusion

Good business practices will help to ensure that your business is well run. A well run business will help to place your business in the best possible position to respond to the current economic downturn and move it in the direction you want it to go.

