

Good practice checklist for small business: Rebuild or wait and see?



CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies with more than 129,000 members of the financial, accounting and business profession in 110 countries.

For information about CPA Australia, visit our website cpaustralia.com.au

First published 2010
CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank Vic 3006
Australia
ISBN 978-1-921742-03-3

Legal notice

Copyright CPA Australia Ltd (ABN 64 008 392 452) ("CPA Australia"), 2010. All rights reserved.

Save and except for third party content, all content in these materials is owned by or licensed to CPA Australia. All trade marks, service marks and trade names are proprietary to CPA Australia. For permission to reproduce any material, a request in writing is to be made to the Legal Business Unit, CPA Australia Ltd, Level 20, 28 Freshwater Place, Victoria 3006.

CPA Australia has used reasonable care and skill in compiling the content of this material. However, CPA Australia and the editors make no warranty as to the accuracy or completeness of any information in these materials. No part of these materials are intended to be advice, whether legal or professional. Further, as laws change frequently, you are advised to undertake your own research or to seek professional advice to keep abreast of any reforms and developments in the law.

To the extent permitted by applicable law, CPA Australia, its employees, agents and consultants exclude all liability for any loss or damage claims and expenses including but not limited to legal costs, indirect special or consequential loss or damage (including but not limited to, negligence) arising out of the information in the materials. Where any law prohibits the exclusion of such liability, CPA Australia limits its liability to the re-supply of the information.

Contents

Introduction	2
Using the checklist	2
Checklist	3
Financial tasks	3
Strategic financial tasks	6
Strategic management tasks	8
Regulatory requirements: lodging returns and forms	11
Personal affairs of business owner	12
Conclusion	13



Introduction

Good business practice adds value to a business, in good times and in the tough times. A business that follows good practice benefits in many ways, primarily:

- the business is more likely to be profitable, have better cash flow and operate with less financial risk
- the business may be easier to sell and possibly at a better price
- the business may find it easier to access external finance, including bank finance, if needed.

CPA Australia has developed this checklist to highlight good business practices that small businesses should undertake at all times. These practices are particularly relevant during the so-called recovery, where businesses may be faced with increasing demand but struggle to expand to meet such demand because of difficulty accessing finance.

Implementing 'good business practices' involves identifying the critical tasks which must be done to keep the business in good financial shape, and having the discipline to ensure that appropriate 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.

The end of the financial year is a good time to review your business. It 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. 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 your business and you will be more likely to have the quality information you need on an ongoing basis to manage and grow your business, whatever the conditions that you face.

A checklist like this cannot be definitive, nor will every step be relevant to your business. Similarly, every industry is different, so there may be other tasks specific to your industry you should consider undertaking as well. This checklist is intended to start you thinking about the specific actions needed to put your business on the right track and keep it there.

If you need assistance with any part of this checklist, your accountant will be able to help.

Using the checklist

Below are some suggestions for building relevant aspects of this checklist into your business practices:

- In your regular staff meetings, use the checklist as part of the agenda and allocate tasks so everyone knows what element of the checklist each person is responsible for. 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.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<ul style="list-style-type: none"> Debtors 		At least quarterly	<ul style="list-style-type: none"> Refer bad debts to collection agents; review credit screening; renegotiate trading terms with consistently slow payers; contact slow payers. Identify and address any systemic issues with overdue accounts, such as poor follow-up of late payers.
	<p>Reconcile major accounts in balance sheet:</p> <ul style="list-style-type: none"> Bank and investment accounts Debtors' ledger Creditors' ledger Equipment and fixed assets GST Equity accounts (especially in partnerships) and shareholder loans 		<p>At least monthly</p> <p>At least monthly</p> <p>At least monthly</p> <p>At least quarterly</p> <p>At least quarterly</p>	<ul style="list-style-type: none"> Have two people undertake the reconciliation. Those people should not be the same people as those that handle cash. For high volume cash businesses, reconciliations should be done daily. Identify customers with large outstanding amounts and follow up. Reconcile suppliers owed money with list of approved suppliers. Do an asset stocktake to ensure you still have the assets that are on your books. Identify obsolete, unusable or written-off assets; ask accountant to adjust balances and / or see if such assets can be turned into cash. Don't over-invest in new capital equipment without an appropriate payback. Make adjustments quickly through the next activity statement. Operate these in accordance with the partnership agreement. Try to avoid large imbalances in the amounts contributed by or retained by each partner.
	<p>Review payroll system:</p> <ul style="list-style-type: none"> Annual leave entitlements Long-service leave entitlements Superannuation PAYG withholding Fringe benefits tax Payroll tax 		<p>Quarterly</p> <p>Quarterly</p> <p>Monthly</p> <p>Monthly</p> <p>Quarterly</p> <p>Monthly</p>	<ul style="list-style-type: none"> Encourage staff to take leave regularly; avoid large build-up of entitlements. Consider a reserve to fund leave liability. Comply with legislation regarding frequency of payment, choice of fund and reporting to staff.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<ul style="list-style-type: none"> <li data-bbox="161 454 408 483">Paid parental leave 		Quarterly	<p data-bbox="890 454 1484 719">The Australian Government is introducing an 18-week paid parental leave scheme for workers. Under the scheme, employers will make a payment to the employee on behalf of the Government. More information can be found at the Australian Government Family Assistance Office website www.familyassist.gov.au/news-and-updates/paid-parental-leave-scheme.html</p>
	Translate foreign exchange gains / losses		Year-end	<ul style="list-style-type: none"> <li data-bbox="890 739 1453 801">Use foreign exchange rates from an official source, such as the Australian Taxation Office. <li data-bbox="890 819 1453 882">Speak to your accountant about how you can manage your foreign exchange risk.
	Market-valuation of certain assets		Year-end	Involve your accountant or a specialist valuer, as required.
	Review forward orders		Quarterly	Reviewing forward orders will help you plan for any short-term need to expand or contract your business.
	Prepare a profit and loss statement		Monthly or quarterly	The profit and loss statement, balance sheet and cash flow statement can show any emerging problems in time for corrective actions. Involve your accountant in their preparation.
	Prepare a balance sheet		Monthly or quarterly	
	Prepare a cash flow statement		Monthly or quarterly	

Strategic financial tasks

Financial tasks do not end at the bank reconciliation or the balance sheet. There are other financial tasks that are critical in determining the future direction of your business.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	Set targets for financial performance		At least annually	<ul style="list-style-type: none"> • Ask your accountant to help you set targets relevant to your industry and your business. • Incorporate those targets into your budgets and strategic plan.
	Review and analyse the financial statements		At least annually; preferably quarterly or monthly	<ul style="list-style-type: none"> • Compare key ratios or 'rules of thumb' from your financial statements (such as working capital ratio, stock turnover ratio or profit per employee) to averages in your industry. Your accountant may be able to help you access these industry averages. • Compare performance against financial targets and past performance.
	Review actual performance against budget		Monthly	<p>Undertake variance analysis.</p> <p>Ask yourself: <i>What caused the gap between budget and actual? How can we overcome this problem?</i></p>
	Undertake sensitivity analysis		Annually	<p>Ask yourself: <i>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?</i></p> <p>Factor answers to such questions into your forecasts.</p>
	Set sales or production targets		Ongoing	<p>Undertake a break-even analysis to determine what you need to sell before you make a profit. Ask your accountant to help you with a break-even analysis if you are uncertain.</p>
	Prepare annual profit and loss budget		Annually	<ul style="list-style-type: none"> • Make sure your budget reflects your strategic and financial targets. • Incorporate any findings from the variance analysis of the last budget and the break-even analysis.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	Prepare cash flow forecast		At least annually	<ul style="list-style-type: none"> • 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. • The forecasts may forewarn you of future cash shortages that you will need to address (for example, through more cash sales, reduced expenses or external finance such as an overdraft facility). • If you decide to seek external finance for any purpose, go to your lender as soon as possible.
	Review cash flow forecast in the light of actual results		Monthly	Update cash flow forecast to reflect actual events and monitor ongoing cash positions.
	Review 'bank' loans, leases, credit cards or other finance: <ul style="list-style-type: none"> • Review interest rates on your loans • Provide historic and budgeted information to lenders • Comply with repayment schedules • Review debt covenants 		Annually Annually On-going On-going	<ul style="list-style-type: none"> • Profit and loss, balance sheet, cash flow statement, budgets. • Notify your bank immediately if you are in breach of a covenant. If you are uncertain of your covenants, ask your bank.

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. This will enable you to hit the ground running at the start of the new financial year. If there are significant changes in your business, it is suggested that such reviews be undertaken more regularly.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	Create or update your strategic plan	Owner and key staff	Three-year horizon, updated annually	<ul style="list-style-type: none"> • Have a strategic plan for the owners, as well as for the business. This ensures the business complements the owners' needs. • Take time to review lessons learned from the current year and incorporate those lessons into your strategic plan.
	Review employment arrangements: <ul style="list-style-type: none"> • Conduct performance reviews • Consider incentive systems or commission-based pay • Staff to sign employment agreement (including provisions for confidentiality obligations and ownership of intellectual property) • Consider if 'restraint of trade' contracts are needed for key staff 	Business owner / team leader Owner and key staff Owner	At least annually At least annually Commencement of employment Commencement of employment	<ul style="list-style-type: none"> • Don't wait until the formal feedback process. Provide regular informal feedback to staff. • Make them simple, pay promptly and link them to the controllable success factors for each role. • Consider only paying commission when you have received cash from the sale, and paying higher commissions for sales of higher-margin products and services. • Get legal advice to ensure agreements comply with the law. • Get legal advice to ensure they are enforceable and advisable.
	Review sales contracts and customer's terms of trade		Annually	Determine whether the sales contracts protect your business. This could include shortening the terms of trade, implementing credit limits and seeking personal guarantees and security.
	Review suppliers' contracts or terms of trade		Annually	<ul style="list-style-type: none"> • Determine if the terms of trade can be lengthened; review how goods are supplied to you (to better meets your needs); see if you can reduce the minimum quantity you can order; and look at payment discounts. • As a risk management measure, check alternative suppliers of critical items.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	Review financial commitments: <ul style="list-style-type: none"> • Office leases • Equipment leases • Securities over assets • Hedging contracts 		Annually Annually Annually Annually	<ul style="list-style-type: none"> • Speak to your accountant about what other forms of financing may be relevant to your business. • If premises meets your needs, exercise options to renew; if not, begin planning a move. • Understand ownership / payout arrangements at end-of-lease. • Make sure you know which of your assets is security for which loan, and that where a loan no longer exists, that the security is removed.
	Establish, update or review your 'Policies Manual': <ul style="list-style-type: none"> • Document your processes • Allocate specific tasks • Consider fraud risk • Review staff authority to spend money • Inform and educate staff about your policies 		Annually Annually Annually Annually Annually	<ul style="list-style-type: none"> • A policy manual may potentially make your business more valuable and easier to run in your absence. • Use such a document as a training and quality manual. • Separate 'record-keeping' from 'handling of assets' to minimise the risk of fraud or theft by employees. • Speak to your accountant about establishing appropriate internal controls. • You may wish to authorise all payments yourself, for a short period, as part of a cost reduction and quality assurance exercise. • Conduct random spot checks to ensure compliance with your policies. This may reduce the risk of fraud.
	Review and update IT systems: <ul style="list-style-type: none"> • Ensure you have the licenses you need to use your software • Backups performed frequently and held offsite • Staff training needs • Review disaster recovery plan documentation 		Annually Daily / weekly Annually Annually	<ul style="list-style-type: none"> • Ensure that current versions of software are being used, there are no unauthorised copies and the number of users your licence covers is sufficient for your needs. • Test whether your staff know how to restore the backups and ensure that the backups work. • Appoint a 'champion' for each software product to enhance internal transfer of practical knowledge.

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	Review your intellectual property: <ul style="list-style-type: none"> • Document how your intellectual property is used in your business • Renewal of trading names (including trademarks and business names) and domain names 		Annually Annually	<ul style="list-style-type: none"> • You may benefit from speaking to your lawyer to see if your intellectual property is adequately covered.
	Review your insurances: <ul style="list-style-type: none"> • Types of policy required • Review the amount of cover in place 		Annually Annually	<ul style="list-style-type: none"> • Does your insurance cover match your needs; for instance covering assets, business interruption, loss of attraction, life insurance, income-replacement, etc? • Avoid under- and over-insurance.
	Seek ways of using less resources in the business		Annually	<ul style="list-style-type: none"> • Should be part of a cost reduction strategy. • Consider how to operate your business if there was a disruption to the supply of electricity, gas or water. • Use local suppliers if possible. • Eliminate unproductive steps or processes.
	Review any outstanding legal disputes	Owner and solicitor	At least quarterly	Keep disputes moving along. Consider viable ways to settle the dispute promptly.
	Do you undertake activities (such as exporting) that may be eligible for a government grant?		Annually	Speak to your accountant about what grants, if any, you may be eligible for and the eligibility requirements.

Regulatory requirements: lodging returns and forms

Keeping up-to-date with the lodgment 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 lodgment and payment due dates for each of the requirements below is recommended.

✓	Regulatory requirement	Person responsible	Due date	Payment date	Some actions to consider
	Income tax return				Provide information, including financial statements, to your accountant for review; highlight large or unusual transactions.
	Business Activity Statement (BAS or IAS)				If you have difficulties with these, ask your accountant to complete them or engage a bookkeeper recommended by your accountant.
	Australian Securities and Investments Commission annual report (companies only)				Ask your accountant to prepare these.
	PAYG withholding payment summary annual report				Perform a test reconciliation in the month before year-end to highlight any processing problems.
	PAYG statements (group certificate) for employees		14 July		Reconcile totals to your ledgers first.
	Payroll tax				Are you over the threshold level for payroll tax? If uncertain, speak to your accountant.
	Workers' compensation insurance				<ul style="list-style-type: none"> • Determine your projected wages and salaries for the year. • Find out if there are any exclusions (e.g. directors) and, if so, are they adequately covered in another way (e.g. key man insurance)?
	Superannuation payments				Pay monthly and produce notices for staff regularly.
	Fringe benefits tax return				
	Solvency declaration (companies only)		Does not need to be lodged		

✓	Regulatory requirement	Person responsible	Due date	Payment date	Some actions to consider
	Staff salaries and conditions				Review staff salaries and conditions to ensure compliance with awards (where appropriate) and legal requirements.
	Government grants				If you are in receipt of government grants, ensure you meet your obligations under the grant.
	Others (list)				

Personal affairs of business owner

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
	Ensure trust distributions are properly made		At least annually	
	Review any loan agreements with your business		Annually	
	Review your will, particularly if there has been a change in your circumstances	Your lawyer	Annually	
	Review the structures you have in place to protect your personal assets	Your lawyer	Annually	This area of law is constantly evolving. Therefore, to be safe, you should review the effectiveness of your business structures and your asset protection strategies.

Conclusion

Good business practices will help to ensure that your business is well run. This will help to place your business in the best possible position to respond to changeable trading conditions and will help you move your business in the direction you want it to go.

If your business feels as though it is going through a strong recovery, then congratulations! Be cautious, however, about increasing fixed overheads too early. Try to support extra workload through overtime or with casual staff, until you are confident in the strength of your recovery. Avoid over-buying stock items or over-investing in capital equipment.

If your business is experiencing a moderate or even weak recovery, keep vigilant on key indicators such as cash flow forecasts and future sales activity. Indicators may include informal measures, such as the number of times the phones ring in the week. Also stay focussed on controlling costs.

If your business is still slow, look for ways of maximising each selling opportunity. Often it is as simple as 'asking for the order' or asking if the customer would '...like fries with that'. Smart sales techniques do not require extravagant and risky promotional strategies; simple sales tactics are low-risk and low-cost but can be enormously powerful.

Whatever the state of your business, look for services or products that are not 'earning their keep'. Indicators might include low sales or frequent problems with product support, or the product might tie up too much working capital relative to its profit level. Your financial system should be able to tell you whether there is little or no gross profit from a product. Once you know the problem, you can see whether it can be corrected or whether you need to reconsider selling that product or service.

Structural changes are best made in the good times, because the personnel performing those roles can be easily redeployed elsewhere for greater profit. If you need to make structural changes in less-robust times, then communicate openly with the affected people; make sure that you treat them with dignity and pay any entitlements.

Whether your business' recovery is strong, weak or patchy, use this checklist to make the most of any situation and enhance control of your business.



CPA 153729 07/2010