

GOOD PRACTICE CHECKLIST FOR SMALL BUSINESS

BE HEARD.
BE RECOGNISED.



Legal notice

Copyright © CPA Australia Ltd (“CPA Australia”) (ABN 64 008 392 452), 2015. All rights reserved. All trademarks and trade names are proprietary to CPA Australia and must not be downloaded, reproduced or otherwise used without the express consent of CPA Australia. You may access and display these materials on your computer, monitor or other video display device and make one printed copy of any whole page or pages for your personal use only. Other than for the purposes of and subject to the conditions prescribed under the Copyright Act 1968 (Cth) (or any other applicable legislation throughout the world), or as otherwise provided for herein, you may not use these materials in any manner without the prior written permission of the copyright owner.

CPA Australia and the author have used reasonable care and skill in compiling the content of these materials. However, CPA Australia makes no warranty as to the accuracy or completeness of any information contained therein nor does CPA Australia accept responsibility for any acts or omissions in reliance upon these materials. These materials are intended to be a guide only and no part is intended to be advice, whether legal or professional. All persons are advised to seek professional advice to keep abreast of any legal or other reforms and developments. 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 resupply of the information.

June 2015

INTRODUCTION

Good business practice adds value to a business. It involves identifying tasks that must be done to keep a business in good shape, and ensuring those tasks are carried out consistently and regularly.

This checklist helps Australian small businesses identify some of the tasks critical to good business practice. If you regularly undertake these tasks, you will be in a better position to manage and grow your business whatever conditions you face. Further, regularly undertaking these activities will reduce the pressure you may face at the end of financial year.

A business that follows good practice benefits in many ways, including:

- 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 in the future, and possibly at a better price
- the business may find it easier to access external finance, including bank finance, if needed
- the business may be better placed to respond to future challenges and opportunities.

A checklist like this cannot be definitive. It is intended to start Australian small businesses thinking about the specific actions needed to put their business on the right track and keeping it there.

Below are some suggested ways to build this checklist into your business practices:

- incorporate the activities from the checklist you believe are relevant to your business into the agenda of your regular staff meetings
- allocate relevant activities from the checklist to specific staff
- require regular reports on the implementation of each activity
- incorporate due dates for relevant activities and tasks into your calendar
- incorporate activities from the checklist into the job descriptions and key performance indicators of relevant staff.

If you need assistance

If you need assistance with implementing good practice in your business, please contact your CPA. If you do not have a CPA, you can find one at cpaustralia.com.au/findacpa

FINANCIAL TASKS

Tasks necessary to prepare financial statements should be performed regularly. Waiting until the end of the financial year or when your quarterly Business Activity Statement (BAS) is due will put you and your staff under unnecessary pressure, and may reduce the quality – and therefore the usefulness – of financial data to your decision making.

Delaying financial tasks will also deny you regular financial information such as cash flow statements, which can be critical to helping you manage the everyday ebb and flow of your business. 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.

The below financial activities are necessary to produce financial statements, such as profit and loss statements and balance sheets. Such financial statements give you information that is critical to helping you understand how your business is performing and highlighting possible areas for improvement. It is important to never become complacent in this area.

CPA Australia produce a range of publications on how to read and use financial information. These publications include *Achieving Financial Success*, *Business Evaluation Guide*, *Improving Business Performance*, *Dashboard Reporting Guide* and *Top Tips for Tough Times*, and can be found at cpaaustralia.com.au/professional-resources.

Financial tasks checklist

Task	Regularity
Install and/ or update financial software	With new updates
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Undertake a full review of your accounting software every few years. You may end up with a better software package that can help improve your business. • Ask potential software vendors to list what functions their software performs, including what reports they produce. • Ask potential vendors whether their software is in the 'cloud' (online) as this will help you avoid having to do updates and other tasks. • If considering moving to new software, enter real data from your business into your preferred software and play around before making a decision. 	
Enter all data promptly, and with accurate transaction dates	Ongoing
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Regularly check data entry for quality. • If possible, separate "cash handling" from "data entry" to minimise potential for fraud. • Where possible, implement a live feed between your bank and your system to reduce handling and transcription errors. • Consider using electronic workflow systems or apps such as Shoeboxed, Smart Receipts and One Receipt that help you digitise accounting records, including invoices, and transfer that data into your accounting system to reduce the need for manual data entry. 	
Review stock balances and reconcile to physical stocktake	Every six months
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Dispose of old/slow moving stock. • Write off excess stock. • Review purchasing policies to prevent over-spending on stock. • If stock is a high cost item, consider using software that tracks stock and is integrated with your accounting software. 	
Review work-in-progress (for construction firms, professional practices, etc.)	At least quarterly
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Bill clients regularly or at key milestones. • Regularly review work-in-progress for "bottlenecks". 	
Review debtors	Monthly
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Invoice as soon as your good or service is delivered. • Consider referring bad debts to collection agents. • Undertake a credit check of new debtors. • Renegotiate trading terms with consistently slow payers. • Contact slow payers early. • Reconcile payments promptly and regularly to identify and resolve discrepancies. • Make sure your sales staff are aware of the debtors position on all sales calls to assist with collection process. 	

Reconcile bank and investment accounts	At least weekly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Have two people undertake the reconciliation. These people should not be the same people who handle cash. • For high volume cash businesses, reconcile daily. 	
Reconcile debtors' ledger/ ageing report	At least monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Identify customers with large outstanding amounts and follow up. 	
Reconcile creditors' ledger/ ageing report	At least monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Reconcile suppliers owed money with list of approved suppliers. • Reconcile payments with other records, such as purchase orders. • Have someone other than the person who enter creditor invoices check what is due and payable. • Review that payments are in line with trading terms. • Check the bank account details of suppliers quarterly to reduce the risk of payment going to another account. 	
Reconcile equipment and fixed assets	At least quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Do an asset stocktake to ensure you still have the assets that are on your books. • Identify obsolete, unusable or written-off assets. Ask your CPA 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. Speak to your CPA before making such an investment. 	
Reconcile GST	At least quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Make adjustments quickly in the next activity statement. 	
Reconcile equity accounts (especially in partnerships) and shareholder loans	At least quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Operate equity accounts in accordance with the partnership agreement. • Try to avoid large imbalances in the amounts contributed by or retained by each partner. 	
Review annual leave entitlements	Quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Encourage staff to take leave regularly – avoid a large build-up of entitlements. 	
Review long-service leave entitlements	Quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Consider a reserve to fund leave liability. 	

Review superannuation entitlements of employees	Monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Comply with legislation regarding frequency of payment, choice of fund and reporting to staff. See https://www.ato.gov.au/Business/Employers/Payments-and-reporting/Superannuation-payments/ 	
Review PAYG withholding obligations	Monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Ensure employee declarations are up to date. Comply with legislation regarding frequency of payment of PAYG withholding to the tax office. See https://www.ato.gov.au/business/payg-withholding/ for more details 	
Review fringe benefits tax obligations	Quarterly
Review payroll tax obligations (payable to state governments)	Monthly
Review paid parental leave obligations	Quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> If you have an employee who is about to give birth or has just given birth, you may wish to opt-in to provide the Australian government's paid parental leave to your employee. See http://www.humanservices.gov.au/business/services/centrelink/paid-parental-leave-scheme-for-employers/opting-in). 	
Translate foreign exchange gains/losses	Year-end
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Use foreign exchange rates from an official source, such as the Australian Taxation Office. Speak to your CPA about how you can manage your foreign exchange risk. 	
Market valuation of certain assets	Year-end
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Involve your accountant, or a specialist valuer as required. 	
Review forward orders	Quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Review forward orders as it will help you plan for any short-term need to expand your business 	
Prepare profit and loss statement, balance sheet and cash flow statement	Monthly or quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> The profit and loss statement, balance sheet and cash flow statement can if prepared regularly, show emerging problems in time for corrective actions. Your CPA can assist with preparation. Use financial software to produce regular financial statements and 'dashboard' reports. 	

STRATEGIC FINANCIAL TASKS

Financial tasks do not end with the balance sheet. There are other financial actions that are critical to the future direction of your business.

STRATEGIC FINANCIAL TASKS CHECKLIST	
TASK	REGULARITY
Set targets for financial performance	At least annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Consider where you want your business to be in the next year and set targets in line with that. • Work with your CPA and/ or senior staff to help set targets relevant to your industry and your business. • Incorporate targets into your strategic plan, key performance indicators and budgets. • To help set targets for performance, look at how other businesses in your industry perform through industry benchmarks. • Review financial targets against strategic plan and operational budgets at least quarterly. • Alter targets where market or other circumstances dictate. • Consider incorporating non-financial activities in targets, for example measures of throughput, number of sales calls etc. • Use visual displays around the work place to ensure all staff are aware of the key targets and progress against those targets. 	
Review and analyse financial statements	At least annually, preferably quarterly or monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Compare key ratios from your financial statements, such as working capital ratio, stock turnover ratio or profit per employee to averages in your industry. You can get some basic industry benchmarks through www.ato.gov.au or your CPA may be able to help you get access to more detailed industry averages. • Compare performance against financial targets and past performance. 	
Review actual performance against budget	Monthly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Ask yourself what caused any gap between budget and actual? • Consider how best to overcome any problem. 	
Undertake sensitivity analysis	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Ask yourself, what if sales dropped 15 or 20 per cent? Or you lost a major customer? Or a major supplier stopped selling to you? What if your best sales staff resigned? Factor answers to such questions into your budget forecasts and risk management strategies. 	

Set sales or production targets	Ongoing
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Undertake a break-even analysis to determine what you need to sell before you make a profit. 	
Prepare profit and loss budget	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Make sure your budget reflects your strategic and financial targets. • Incorporate key findings from your review of your last budget, sensitivity analysis and the break-even analysis. • Ensure that budget estimates are realistic and have not been “massaged” to fit a desired result. 	
Prepare cash flow forecast	At least annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Have your cash flow forecast show the projected cash flows for each month in the 12 month period. • Address any future cash shortages through increasing cash sales, collecting outstanding debts, reducing expenses or through 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 and update cash flow forecast in light of actual results	Monthly
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Update cash flow forecast to reflect actual events and monitor ongoing cash position. 	
Review interest rates and conditions on your loans	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Look at what other lenders are offering and consider whether you should switch lenders. • If considering switching, consider the terms other lenders can offer, not just the interest rate. 	
Provide financial statements and budgets to lenders	Annually
Comply with repayment schedules	Ongoing
Review debt covenants/terms and conditions	Ongoing
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Notify your bank immediately if you are in breach of a covenant. • If you are uncertain of your covenants, read your loan agreement or ask your bank. 	

STRATEGIC MANAGEMENT TASKS

Late in each financial year is a good time to get your planning, budgeting and operational procedures up-to-date. Doing this lets you 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.

STRATEGIC MANAGEMENT TASKS	
TASK	REGULARITY
Create or update your strategic plan	Three-year horizon, updated annually
<p><i>Possible actions:</i></p> <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. • Involve key staff in the planning process. • Consider engaging an external expert to assist you with the planning process. • After setting your plan, develop an action plan with specific tasks and responsibilities. • Consider the opportunities of selling your products and services online. 	
Conduct performance reviews	At least annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Don't wait until the formal feedback process – provide regular feedback to staff. 	
Consider incentive systems or commission-based pay	At least annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Make incentive systems simple, pay promptly and link the incentives to 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. • Ensure that commission-based remuneration does not result in behaviour by sales staff that is not in the customers best interests. 	
Get staff to sign an employment agreement (including provisions for confidentiality obligations and ownership of intellectual property)	Commencement of employments
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Obtain legal advice to ensure employment agreements comply with the law. 	
Consider if 'restraint of trade' contracts are needed for key staff	Commencement of employments
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Obtain legal advice to ensure applicable contracts are enforceable and advisable. 	

Review sales contracts and customers' terms of trade	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Shorten your terms of trade. • Implement credit limits on customers. • Seek personal guarantees and other forms of security. 	
Review suppliers' contracts or terms of trade	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Negotiate a lengthening of their terms of trade. • 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. • Review payment discounts to see if early payment is beneficial. It may put unnecessary stress on your cash flow. • See if buying in bulk meets your needs and does not result in extra storage costs or wastage. • Consolidate ordering, for example buying once a month rather than once a week. • Consider the implications of the <i>Personal Properties Securities Act 2009</i>. It might require updating your invoices and/ or registering your interest in certain goods that you sell. See www.ppsf.gov.au • Identify alternative suppliers of critical items. 	
Review office leases	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Exercise options to renew your lease if your current premises meets your needs, if not, begin planning a move. 	
Review equipment leases	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Understand ownership/payout arrangements at end-of-lease and potential tax consequences. 	
Review securities pledged over your assets	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Make sure you know which of your assets is pledged as security for which loan and where a loan no longer exists, the security is removed. 	
Establish, update or review your documented policies and processes	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • A well-designed policy manual has the potential to make your business more valuable and easier to run in your absence. • Use your policy manual for training and quality assurance purposes. 	
Establish, update or review the allocation of tasks to staff	Annually
<i>Possible actions:</i>	
<ul style="list-style-type: none"> • Separate record-keeping duties from duties involving the handling of cash and other assets to minimise the risk of fraud. • Check that allocations are still relevant and appropriate. 	

Consider fraud risk	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Speak to your CPA about establishing appropriate internal controls that reduce the risk of fraud and ensure those controls are followed. 	
Review staff authority to spend money	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • For smaller businesses consider authorising all payments yourself for a short period as part of a cost reduction and quality assurance exercise. 	
Inform and educate staff about your policies	Commencement of employment
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Conduct random spot checks to both ensure compliance with your policies and to reduce the risk of fraud. 	
Review and update your disaster recovery plan	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Consider how to operate your business if there was a disruption to the supply of electricity, gas, water, internet etc. • Ensure staff contact details are up to date. 	
Review whether you have the licenses you need to use your software	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Ensure 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. 	
Review whether your back-ups are performed frequently and held offsite (whether in the cloud or in physical storage)	Daily/weekly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Test whether your staff know how to restore the back-ups and that the back-ups work. 	
Review your IT staff training needs	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Appoint a 'champion' for each software product to enhance internal transfer of practical knowledge. 	
Review your cybersecurity	Annually and ongoing
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Ensure all staff are trained in what is secure online behavior. • Appoint a specific staff member to keep all staff up-to-date with cybersecurity risks. • Do regular backups and ensure the backups work. • Consider engaging an external to review your cybersecurity. 	

Review how intellectual property is being used in your business	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Speak to your lawyer to see if your intellectual property is adequately covered. • Renew trading names (including trademarks and business names) and domain names. 	
Review your insurances	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Does your insurance cover match your needs, for instance insurance covering assets, business interruption, loss of attraction, life insurance, income replacement, etc? • Avoid under and over-insuring. Make sure your current assets are covered by insurance and that assets you no longer own are not on your insurance policy. 	
Seek ways of reducing resources the business uses	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Seek information on how you can reduce your use of electricity, gas and water and reduce waste. • Eliminate unproductive steps or processes. 	
Review any outstanding legal disputes	At least quarterly
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Keep disputes moving along. • Consider viable ways to settle disputes promptly. 	
Determine whether you undertake activities (such as exporting) that may be eligible for a government grant	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> • Speak to your industry association or CPA about what grants if any, you may be eligible for and the eligibility requirements. 	

REGULATORY REQUIREMENTS

Keeping up-to-date with the lodgment and payment of your statutory obligations is considered an important measure of the health of your business by banks, other creditors and potential investors. Therefore, we suggest diarising the lodgment and payment due dates for each of the requirements.

REGULATORY REQUIREMENTS CHECKLIST	
REGULATORY REQUIREMENT	ACTIONS TO CONSIDER
Income tax return	Provide information, including financial statements, to your CPA for review. Highlight large or unusual transactions.
Business Activity Statement (BAS or IAS)	If you have difficulties with your BAS or IAS, ask your CPA to complete it or engage a bookkeeper recommended by your CPA.
Australian Securities and Investments Commission annual report (companies only)	Ask your CPA to assist you prepare this.
PAYG withholding payment summary annual report	Perform a test reconciliation in the month before year-end to highlight any processing problems.
PAYG payment statements (group certificate) for employees	Reconcile to your accounts before lodging.
Payroll tax	Speak to your CPA if you are unsure whether you have a payroll tax obligation.
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 and, if so, whether they are adequately covered in another way.
Superannuation payments	Pay monthly or when you do your pay run.
Fringe benefits tax return	Even if not lodging a return, ensure that no relevant transactions are missed and that any employee contributions that should be made are made.
Solvency resolution (companies only)	For information on solvency resolutions go to http://asic.gov.au/for-business/running-a-company/annual-statements/
Staff salaries and awards conditions	Review staff salaries and conditions to ensure compliance with awards (where appropriate) and other legal requirements.
Government grants	If you are in receipt of government grants, ensure you meet your reporting obligations under the grant.

PERSONAL AFFAIRS OF THE BUSINESS OWNER

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

PERSONAL AFFAIRS CHECKLIST	
ACTION	REGULARITY
Ensure trust distributions are properly made before the end of financial year	At least annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> There have been considerable changes to the tax treatment of trusts. These changes could expose you to large unforeseen tax bills. Speak to your CPA about your trust. 	
Undertake tax planning	Annually (before year-end)
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Year-end presents a number of tax planning opportunities and risks. Speak to your CPA about tax planning opportunities. Don't invest in any year-end tax planning schemes until you speak to your CPA. 	
Review your loan agreement with your business	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> Given the ATO has a focus on this area, speak to your CPA about whether your shareholder loan agreement complies with the law and that company funds received by shareholders and their associates is correctly treated for tax purposes. 	
Review the structures you have in place to protect your personal assets	Annually
<p><i>Possible actions:</i></p> <ul style="list-style-type: none"> This area of law is constantly evolving, therefore you should review the effectiveness of your business structures and your asset protection strategies with your lawyer. 	
Review your will, particularly if there has been a change in your circumstances	Annually

CONCLUSION

Good business practices will help ensure your business is well run. A well-run business will help place your business in the best possible position to respond to whatever trading conditions you face, and help you move your business in the direction you want it to go.

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

Structural changes are best made in the good times. However, if you need to make structural changes in less positive periods, communicate openly with the affected people; make sure you treat them with dignity and pay them any entitlements.

Whether your business is strong, weak or patchy, this checklist will help you make the most of any situation and feel more in control of your business.