Financial best practice guide for small business

Great business starts with yes

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Checking off best financial practice

For many small businesses, the end of the financial year (EOFY) is stressful. Owners and staff frantically close the books and send their data to the tax office. They breathe a sigh of relief and repeat the process the next year. Good financial practice means SMBs meet their regulatory requirements. Best financial practice means that SMBs go beyond the 30 June scramble. Instead, they:

- **Review** critical business areas monthly or quarterly.
- **Regularly complete** essential and strategic financial tasks and collect data.
- **Harness data** to continually improve their operations.

For these businesses, year-end is just another task and not a pain point. The good news is that any SMB can improve its financial management. One way to do this is by creating checklists for key tasks. In this eBook, we'll give you easy-to-follow checklists to help you step up from 'good' to 'best' financial practice.

*The information in this eBook is offered as a guide only. Always speak with your key financial personnel, accountants and financial institutions for definitive financial or tax information.

Case study: Ending the EOFY nightmare

Big Apple Buddy is a shopping concierge service that helps Australians find and order the latest tech products released in America.

Founder and CEO Phillis Chan characterised her first EOFY as a “nightmare”.

“Not being organised meant that when it came to tax time, we were faced with a mountain of paperwork, accounts that wouldn't reconcile and missing expense receipts,” she said.

Now Chan stays organised during the year, completing key financial tasks each month, tracking expenses as they happen and keeping receipts filed to ensure a smooth close to the financial year.

> “For us, staying organised throughout the year means that preparing for end of financial year is no different from closing off each month.”

> “Not being organised meant... we were faced with a mountain of paperwork, accounts that wouldn't reconcile and missing expense receipts.”

Chapter 1: Preparing your business finances

Whether you're dealing with 10 or 100 employees, small business finances can quickly become complex if not managed correctly. In the checklists here, we've detailed some of the key tasks you can do to help you simplify your business's financial management.

We have divided the tasks into 'essential' and 'strategic'. Essential tasks are the core, yearly tasks that form the backbone of best financial practice. They differ across business functions but focus predominantly on the current financial year. Strategic tasks look to the future. They involve reviewing the past financial year, setting fresh financial goals and forecasting for the year ahead.

Not all of the steps will be relevant to your business. However, they give you a good starting point for better financial practice.

Checklist 1:
Essential finance tasks

✓	Activity	Timing	Actions to consider
	Choose a system for capturing your business's financial data (online or offline)	As early as possible. Ongoing (data entry).	• Using financial software to streamline data capture and automate financial reporting. • Practice accurate and timely data entry.
	Regularly review inventory	Quarterly (minimum)	• Reconcile stock levels to physical stocktakes. • Identify slow-moving stock and dispose of it if required.
	Set milestone payments for progress jobs		• It's easier to collect small payments from existing customers as you go rather than try to chase everything on 30 June.
	Reconcile your major bank and investment accounts	Monthly (minimum)	• If you're mainly a cash business, reconcile daily.
	Reconcile debtors and creditors	Monthly (minimum)	• Check on debtors (money you owe) and creditors (money owed to you). • Follow up with customers that have large outstanding debts.
	Reconcile equipment and fixed assets	Quarterly (minimum)	• It's time for an asset stocktake. Check that you still have the assets listed on your books. • Look to write-off unusable assets. Some of these could be turned into cash.

Checklist 1:
Essential finance tasks

✓	Activity	Timing	Actions to consider
	Reconcile GST	Quarterly (minimum)	• Are you collecting the correct amount of GST? Use the next BAS to make any necessary adjustments.
	Reconcile equity accounts and shareholder loans	Quarterly (minimum)	• Ensure that equity accounts are operated according to partnership agreements. Check if any disparities have emerged.
	Evaluate your payroll systems	Monthly: Superannuation, PAYG withholding, payroll tax Quarterly: Annual leave entitlements, long-service leave entitlements, fringe benefits tax (FBT)	• Encourage staff to regularly take leave. • Make sure you're complying with any updates to legislation.
	Prepare key financial statements	Monthly (minimum)	• These statements are the backbone of best financial practice, allowing you to identify problems and take corrective action. They are the balance sheet, cash flow statement, and profit and loss statement.

Checklist 2:
Strategic financial tasks

✓	Activity	Timing	Actions to consider
	Evaluate performance	Annually	• Compare your actual performance against past performance. • Where disparities emerge, try to find out what caused the gap and how it can be avoided in future.
	Set fresh targets	Annually	• Ensure you set targets across your business's key functions. For example: • Financial targets • Sales targets • Production targets
	Undertake financial forecasting	Annually	• Using past performance and forward targets, estimate monthly sales and forecast cash flow for the next year.

Chapter 2: Getting your personal finances in order

Separate personal finances

It's very important for business owners to clearly separate their business and personal finances, and ensure their personal finances are as well managed as their business's.

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Checklist 3:
Personal financial tasks

✓	Activity	Timing	Actions to consider
	Review your tax arrangements	Annually or at least before the EOFY	• Are your current tax arrangements working effectively? •Depending on your situation, you may want to consult with your accountant about potential opportunities and risks.
	Evaluate trust distributions	Annually or at least before the EOFY	• Identify any changes to trust taxation or speak to an advisor if you're unsure.
	Review personal asset protections	Annually	• Without the right protections, your personal assets could be at risk. Ensure you have appropriate protections in place.
	Review any loan agreements	Annually	• Have you lent money to your SMB? Check these arrangements and ensure they are above board and that you are adequately protected.

Chapter 3: Managing regulatory requirements

What and when

SMBs must meet their regulatory requirements. For one, it's a statutory obligation, but by meeting these requirements you can also demonstrate sound financial health to potential lenders and creditors.

The checklist below will help you understand which regulatory requirements need to be met and when.

Checklist 4:
Meeting regulatory requirements

✓	Activity	Timing	Actions to consider
	Income tax return	If you're doing your own tax return, it must be completed by 31 October. If you're using an accountant, you can lodge your return later.	• Key information should go to your accountant. • Highlight large or unusual transactions.
	Business Activity Statement (BAS)	Quarterly during financial year	• Make sure you reconcile BAS figures with your records. • Keep clear records throughout the year to make completing your BAS straightforward.
	PAYG withholding	Statements on PAYG tax withheld must be provided to employees and other payees promptly after the EOFY.	• Ensure your SMB is withholding the correct amount of tax from employees.
	Payroll tax	Payments are due after the end of each month to the relevant state revenue agency	• Check with your accountant if you're required to pay payroll tax. • The threshold differs between states.

Checklist 4:
Meeting regulatory requirements

✓	Activity	Timing	Actions to consider
	Superannuation payments	Quarterly during the financial year	• You must pay super to your employees at least four times a year into their chosen fund. • The quarterly payment due dates differ depending on the financial year.
	Staff salaries and conditions	Annually	• Ensure you're complying with relevant awards and regulatory requirements. This could include the national minimum wage which may change each year.
	Fringe benefits tax (FBT) return	Annually	• If you provide fringe benefits to employees, you will need to pay FBT. • Calculate the number of employees receiving fringe benefits, and the total value.
	Workers' compensation insurance	Annually	• Start by determining your projected wages and salaries for the year. • Find out if any workers may be excluded, and whether they are covered in another way.

Because laws and regulatory requirements often change, you are advised to always undertake your own research online and check the ATO for the latest key dates for lodging or paying.

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Best
financial practice

Better financial practice for improved financial outcomes

Armed with these checklists, you're ready to step up from 'good' to 'best' financial practice.

Stay on top of industry or legislative changes that could affect how you report or manage your finances. If you don't understand something, make sure you get the appropriate support from a financial advisor.

It also pays to avoid shortcuts. Keep to your checklists and time frames, entering all your business's financial data accurately and promptly, and encourage your staff to do the same.

Finally, make these checklists your own. They are offered as a guide only and aren't necessarily exhaustive for your business. Work with your key financial personnel and accountants to tailor them to your operation.

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