



# Good practice checklist for small business

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# Introduction

The end of the financial year is a good time to review your business. It gives you the opportunity to rule off the past year and start afresh. However, do not fall into the trap of rushing through the review of the current financial year; make sure you learn lessons from it, avoid making the same mistakes and persist with successful strategies. Good business practice is not just about getting your house in order, it is about setting up your business for the challenges and opportunities it will face in the future.

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

- 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

CPA Australia has developed this checklist to highlight good business practices that small businesses should undertake at all times.

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

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 to manage and grow your business, whatever conditions you face.

A checklist like this cannot be definitive. 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, please contact your CPA. If you do not have a CPA, you can find one at [cpaustralia.com.au/findacpa](http://cpaustralia.com.au/findacpa)

## Using the checklist

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

- Use the checklist as part of the agenda in your regular staff meetings 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 of requirements at the appropriate times.
- Build tasks from the checklist into the job descriptions and key performance indicators of relevant staff.

# Checklist

## Financial tasks

Tasks necessary to prepare financial statements should be performed regularly. Waiting until the end of the financial year (or even when your quarterly Business Activity Statement (BAS) is due) to undertake many of these tasks will put you under pressure and may reduce the quality, and therefore 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 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, so you can do without the extra pressure caused by delayed action.

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 in helping you understand how your business is performing and in highlighting possible areas for improvement. The following CPA Australia’s publications *Achieving Financial Success* ([cpaaustralia.com.au/financialsuccess](http://cpaaustralia.com.au/financialsuccess)), *Business Evaluation Guide* ([cpaaustralia.com.au/evaluationguide](http://cpaaustralia.com.au/evaluationguide)), *Improving Business Performance* ([cpaaustralia.com.au/improvingperformance](http://cpaaustralia.com.au/improvingperformance)), *Dashboard Reporting Guide* ([cpaaustralia.com.au/dashboardreporting](http://cpaaustralia.com.au/dashboardreporting)) and *Tips for Tough Times* ([cpaaustralia.com.au/businessstips](http://cpaaustralia.com.au/businessstips)) each have 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. Spaces are provided for you to insert information relevant to your business:

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<b>Install financial software</b>		With new updates	<ul style="list-style-type: none"> <li>• Ask your software vendor to list what financial statements and reports the software can produce.</li> <li>• Use the financial software to produce regular financial statements and reports.</li> <li>• Ask whether your financial software is Standard Business Reporting (SBR) compliant for BAS and other reporting.</li> </ul>
	<b>Enter all data promptly, and with accurate transaction dates</b>		Ongoing	<ul style="list-style-type: none"> <li>• Regularly check data entry for quality.</li> <li>• If possible, separate “cash handling” from “data entry” to minimise potential for fraud.</li> <li>• Where possible, “cut and paste” information from downloaded bank statements to reduce handling and transcription errors.</li> </ul>
	<b>Regularly review working capital items, including:</b> <ul style="list-style-type: none"> <li>• Stock balances and reconcile to physical stocktake</li> <li>• Work-in-progress (for construction firms, professional practices, etc.)</li> </ul>		Every six months          At least quarterly	<ul style="list-style-type: none"> <li>• Dispose of old/slow moving stock.</li> <li>• Write off excess stock.</li> <li>• Review purchasing policies to prevent over-spending on stock.</li> <li>• Bill clients regularly or at key milestones.</li> <li>• Regularly review work-in-progress for “bottlenecks”.</li> </ul>

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<ul style="list-style-type: none"> <li>Debtors</li> </ul>		At least quarterly	<ul style="list-style-type: none"> <li>Invoice as soon as your good or service is delivered.</li> <li>Consider referring bad debts to collection agents.</li> <li>Undertake a credit check of new debtors.</li> <li>Renegotiate trading terms with consistently slow payers.</li> <li>Contact slow payers early.</li> <li>Reconcile payments promptly and regularly to identify and resolve discrepancies.</li> </ul>
	<p><b>Reconcile major accounts, including:</b></p> <ul style="list-style-type: none"> <li>Bank and investment accounts</li> <li>Debtors' ledger/ageing report</li> <li>Creditors' ledger/ageing report</li> <li>Equipment and fixed assets</li> <li>GST</li> </ul>		<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"> <li>Have two people undertake the reconciliation. These people should not be the same people who handle cash.</li> <li>For high volume cash businesses, reconcile daily.</li> <li>Identify customers with large outstanding amounts and follow up.</li> <li>Reconcile suppliers owed money with list of approved suppliers.</li> <li>Reconcile payments with other records, such as purchase orders.</li> <li>Have someone other than the person who entered the creditors' invoices check what is due and payable.</li> <li>Review that payments are in line with trading terms.</li> <li>Check what bank account payments are being made to against staff bank account details.</li> <li>Do an asset stocktake to ensure you still have the assets that are on your books.</li> <li>Identify obsolete, unusable or written-off assets. Ask your CPA to adjust balances and/or see if such assets can be turned into cash.</li> <li>Don't over-invest in new capital equipment without an appropriate payback. Speak to your CPA before making such an investment.</li> <li>Make adjustments quickly through the next activity statement.</li> </ul>

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<ul style="list-style-type: none"> <li>Equity accounts (especially in partnerships) and shareholder loans</li> </ul>		At least quarterly	<ul style="list-style-type: none"> <li>Operate equity accounts in accordance with the partnership agreement. Try to avoid large imbalances in the amounts contributed by or retained by each partner.</li> <li>The Australian Taxation Office (ATO) will match BAS data with the annual tax return.</li> </ul>
	<p><b>Review payroll system, including:</b></p> <ul style="list-style-type: none"> <li>Annual leave entitlements</li> <li>Long-service leave entitlements</li> <li>Superannuation</li> <li>PAYG (PAYE) withholding</li> <li>Fringe benefits tax</li> <li>Payroll tax (payable to the state governments)</li> </ul>		<ul style="list-style-type: none"> <li>Quarterly</li> <li>Quarterly</li> <li>Monthly</li> <li>Monthly</li> <li>Quarterly</li> <li>Monthly</li> </ul>	<ul style="list-style-type: none"> <li>Encourage staff to take leave regularly – avoid a large build-up of entitlements.</li> <li>Consider a reserve to fund leave liability.</li> <li>Comply with legislation regarding frequency of payment, choice of fund and reporting to staff.</li> <li>Ensure employee declarations, logbooks, etc. are up to date.</li> </ul>
	<ul style="list-style-type: none"> <li>Paid parental leave</li> </ul>		Quarterly	<ul style="list-style-type: none"> <li>If you have an employee who is about to give birth or has given birth, visit the Australian Government's Family Assistance website for information on your obligations under the government's Paid Parental Leave scheme (<a href="http://www.familyassist.gov.au/payments/family-assistance-payments/paid-parental-leave-scheme/">http://www.familyassist.gov.au/payments/family-assistance-payments/paid-parental-leave-scheme/</a>).</li> </ul>
	<b>Translate foreign exchange gains / losses</b>		Year-end	<ul style="list-style-type: none"> <li>Use foreign exchange rates from an official source, such as the Australian Taxation Office.</li> <li>Speak to your CPA about how you can manage your foreign exchange risk. (<a href="http://cpaaustralia.com.au/foreignexchangerisk">cpaaustralia.com.au/foreignexchangerisk</a>)</li> </ul>
	<b>Market valuation of certain assets</b>		Year-end	Involve your accountant, or a specialist valuer, as required.
	<b>Review forward orders</b>		Quarterly	Review forward orders as it will help you plan for any short-term need to expand your business.
	<p><b>Prepare:</b></p> <ul style="list-style-type: none"> <li>Profit and loss statement</li> <li>balance sheet</li> <li>cash flow statement</li> </ul>		Monthly or quarterly	The profit and loss statement, balance sheet and cash flow statement can show emerging problems in time for corrective actions. Your CPA can assist with preparation.

## Strategic financial tasks

Financial tasks do not end with 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
	<b>Set targets for financial performance</b>		At least annually	<ul style="list-style-type: none"> <li>• Work with your CPA to help set targets relevant to your industry and your business.</li> <li>• Incorporate targets into your strategic plan, key performance indicators and budgets.</li> </ul>
	<b>Review and analyse financial statements</b>		At least annually; preferably quarterly or monthly	<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. Your CPA may be able to help you get access to such industry averages.</li> <li>• Compare performance against financial targets and past performance.</li> <li>• For more guidance, see CPA Australia's <i>Business Evaluation Guide</i> (<a href="http://cpaaustralia.com.au/evaluationguide">cpaaustralia.com.au/evaluationguide</a>) or speak to your CPA.</li> </ul>
	<b>Review actual performance against budget</b>		Monthly	Undertake variance analysis (ask yourself: What caused any 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 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.
	<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.
	<b>Prepare 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, sensitivity analysis and the break-even analysis.</li> <li>• Ensure that budget estimates are realistic and have not been "massaged" to fit a desired result.</li> </ul>



✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<b>Prepare cash flow forecast</b>		At least annually	<ul style="list-style-type: none"> <li>• Have your cash flow forecast show the projected cash flows for each month in the 12-month period. Such forecasts should be updated at least monthly.</li> <li>• Address any future cash shortages, for example, by increasing cash sales, collecting outstanding debts, through reducing expenses or external finance (such as an overdraft facility).</li> <li>• If you decide to seek external finance for any purpose, go to your lender as soon as possible.</li> </ul>
	<b>Review and update cash flow forecast in light of actual results</b>		Monthly	Update cash flow forecast to reflect actual events and monitor ongoing cash positions.
	<b>Review bank loans, leases, credit cards or other finance, ensuring you:</b> <ul style="list-style-type: none"> <li>• Review interest rates on your loans</li> <li>• Provide financial statements and budgets to lenders</li> <li>• Comply with repayment schedules</li> <li>• Review debt covenants/terms and conditions</li> </ul>		Annually  Annually/or as required  Ongoing  Ongoing	<ul style="list-style-type: none"> <li>• 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.</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 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.

✓	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 strategic plan.</li> <li>• Consider the opportunities of selling your products and services online.</li> </ul>
	<b>Review employment arrangements, ensuring you:</b> <ul style="list-style-type: none"> <li>• Conduct performance reviews</li> <li>• Consider incentive systems or commission-based pay</li> <li>• Get staff to sign an employment agreement (including provisions for confidentiality obligations and ownership of intellectual property)</li> <li>• Consider if 'restraint of trade' contracts are needed for key staff</li> </ul>	Team leaders  Owner and key staff  Owner	At least annually  At least annually  Commencement of employment  Commencement of employment	<ul style="list-style-type: none"> <li>• Don't wait until the formal feedback process. Provide regular feedback to staff.</li> <li>• Make incentive systems simple, pay promptly and link the incentives to the controllable success factors for each role.</li> <li>• Consider only paying commission when you have received cash from the sale and paying higher commissions for sales of higher margin products and services.</li> <li>• Obtain legal advice to ensure employment agreements comply with the law.</li> <li>• Obtain legal advice to ensure applicable contracts are enforceable and advisable.</li> </ul>
	<b>Review sales contracts and customers' terms of trade</b>		Annually	Determine whether your sales contracts protect your business. In the current environment you could protect your business by: 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	<ul style="list-style-type: none"> <li>• Negotiate a lengthening of your terms of trade.</li> <li>• Review how goods are supplied to you (so that it better meets your needs).</li> <li>• See if you can reduce the minimum quantity you can order.</li> <li>• Review payment discounts to see if early payment is beneficial. It may put unnecessary stress on your cash flow.</li> <li>• See if buying in bulk meets your needs and does not result in extra storage costs or wastage.</li> <li>• Consolidate ordering, for example buying once a month rather than once a week.</li> <li>• 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.</li> <li>• As a risk management measure, identify alternative suppliers of critical items.</li> </ul>
	<b>Review financial commitments, such as:</b> <ul style="list-style-type: none"> <li>• Office leases</li> <li>• Equipment leases</li> <li>• Securities over assets</li> </ul>		Annually  Annually  Annually	<ul style="list-style-type: none"> <li>• Speak to your CPA about what other forms of financing may be relevant to your business.</li> <li>• Exercise options to renew your lease if your current premises meets your needs, if not, begin planning a move.</li> <li>• Understand ownership/payout arrangements at end-of-lease and potential tax consequences.</li> <li>• Make sure you know which of your assets is security for which loan and that, where a loan no longer exists, the security is removed.</li> </ul>
	<b>Establish, update or review your "Policy Manual", ensuring you:</b> <ul style="list-style-type: none"> <li>• Document your processes</li> <li>• Allocate specific tasks</li> <li>• Consider fraud risk</li> <li>• Review staff authority to spend money</li> </ul>		Annually  Annually  Annually  Annually	<ul style="list-style-type: none"> <li>• A solid policy manual has the potential to make your business more valuable and easier to run in your absence.</li> <li>• Use your policy manual for training and quality assurance purposes.</li> <li>• Separate record-keeping duties from duties involving the handling of cash and other assets to minimise the risk of fraud or theft by employees.</li> <li>• Speak to your CPA about establishing appropriate internal controls. See CPA Australia's <i>Employee Fraud Guide</i> (<a href="http://cpaaustralia.com.au/employeefraud">cpaaustralia.com.au/employeefraud</a>).</li> <li>• For smaller businesses consider authorising all payments yourself for a short period as part of a cost reduction and quality assurance exercise.</li> </ul>

✓	Activity	Person responsible	Due date / regularity	Some actions to consider
	<ul style="list-style-type: none"> <li>Inform and educate staff about your policies</li> <li>Review allocated tasks</li> </ul>		<p>As new staff are appointed</p> <p>Annually</p>	<ul style="list-style-type: none"> <li>Conduct random spot checks to both ensure compliance with your policies and to reduce the risk of fraud.</li> <li>Check that allocations are still relevant and appropriate.</li> </ul>
	<p><b>Review and update IT systems, ensuring:</b></p> <ul style="list-style-type: none"> <li>You have the licences you need to use your software</li> <li>Back-ups are performed frequently and held offsite</li> <li>Staff training needs are met</li> <li>Disaster recovery plan documentation has been reviewed and updated</li> </ul>		<p>Annually</p> <p>Daily / weekly</p> <p>Annually</p> <p>Annually</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Test whether your staff know how to restore the back-ups and that the back-ups work.</li> <li>Appoint a 'champion' for each software product to enhance internal transfer of practical knowledge.</li> <li>Consider how to operate your business if there was a disruption to the supply of electricity, gas, water, internet etc.</li> <li>Ensure staff contact details are up to date.</li> </ul>
	<p><b>Review your intellectual property by:</b></p> <ul style="list-style-type: none"> <li>Documenting procedures on how your intellectual property is used in your business</li> <li>Renewing trading names (including trademarks and business names) and domain names</li> </ul>		<p>Annually</p> <p>Annually</p>	<p>Speak to your lawyer to see if your intellectual property is adequately covered.</p>
	<p><b>Review your insurances, including:</b></p> <ul style="list-style-type: none"> <li>Types of policy required</li> <li>The amount of cover in place</li> </ul>		<p>Annually</p> <p>Annually</p>	<ul style="list-style-type: none"> <li>Does your insurance cover match your needs, for instance insurance covering assets, business interruption, loss of attraction, life insurance, income replacement, etc?</li> <li>Avoid under 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>		Annually	<ul style="list-style-type: none"> <li>• Seek information from a number of sources, including your industry association, on how you can reduce your use of electricity, gas and water and reduce waste.</li> <li>• Energy efficiency will be a key to reducing the impact of the carbon tax.</li> <li>• Using local suppliers if possible.</li> <li>• Eliminating unproductive steps or processes.</li> </ul>
	<b>Review any outstanding legal disputes</b>	Owner and solicitor	At least quarterly	Keep disputes moving along. Consider viable ways to settle disputes promptly.
	<b>Determine whether you undertake activities (such as exporting) that may be eligible for a government grant</b>		Annually	Speak to your industry association or CPA about what grants, if any, you may be eligible for and the eligibility requirements.
	<b>Carbon tax</b> <ul style="list-style-type: none"> <li>• Long-term contracts</li> <li>• Electricity</li> <li>• Pricing</li> <li>• Asset purchases</li> <li>• Promotion</li> </ul>			<ul style="list-style-type: none"> <li>• Consider whether you have to wear the costs or pass them on. Can your supplier pass on the costs to you?</li> <li>• Consider conducting a full energy audit for savings, particularly if you are a heavy user.</li> <li>• Determine what impact the tax will have on your overheads and determine whether you want to pass them on to clients.</li> <li>• Be wary of making claims about the carbon tax, particularly on pricing. Make sure you have evidence to back up the claim.</li> <li>• Incorporate the carbon price and possible incentives into your investment decisions.</li> <li>• Promote anything you do to reduce your emissions. Customers and potential customers may be interested.</li> </ul>

## 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 your business by banks and other creditors. Therefore, diarising the lodgement and payment due dates for each of the requirements below is recommended.

✓	Regulatory requirement	Person responsible	Due date	Payment date	Some actions to consider
	<b>Income tax return</b>				Provide information, including financial statements, to your CPA for review; highlight large or unusual transactions.
	<b>Business Activity Statement (BAS or IAS)</b>				If you have difficulties with your BAS or IAS, ask your CPA to complete it or engage a bookkeeper recommended by your CPA.
	<b>Australian Securities and Investments Commission annual report (companies only)</b>				Ask your CPA 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 (group certificate) for employees</b>		14 July		Reconcile totals to your accounts first.
	<b>Payroll tax</b>				Speak to your CPA if you're unsure whether you're over the threshold for payroll tax.
	<b>Workers' compensation insurance</b>				<ul style="list-style-type: none"> <li>• Determine your projected wages and salaries for the year.</li> <li>• Find out if there are any exclusions and, if so, whether they are adequately covered in another way.</li> </ul>
	<b>Superannuation payments</b>				Pay monthly.
	<b>Fringe benefits tax return</b>				Even if not lodging a return, ensure that no relevant transactions are missed and that any employee contributions that should be made are made.
	<b>Solvency declaration – for companies only</b>		Does not need to be lodged		
	<b>Staff salaries and awards conditions</b>				Review staff salaries and conditions to ensure compliance with awards (where appropriate) and other legal requirements.
	<b>Government grants</b>				If you are in receipt of government grants, ensure you meet your obligations under the grant.

## Personal affairs of the business owner

The end of the financial year is also an important time to make sure your personal affairs are in order. Involve your CPA 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	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.
	<b>Undertake tax planning</b>		Annually (before year-end)	<ul style="list-style-type: none"> <li>Year-end presents a number of tax planning opportunities and risks. Speak to your CPA about tax planning opportunities.</li> <li>Don't invest in any year-end tax planning schemes until you speak to your CPA.</li> </ul>
	<b>Review your loan agreement with your business</b>		Annually	Given the ATO is auditing this area, speak to your CPA about whether your shareholder loan agreement complies with the law and that the company funds received by shareholders and their associates is correctly treated for tax purposes.
	<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	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 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, because personnel performing roles during “good times” can be more easily redeployed elsewhere for greater profit. However, if you need to make structural changes in less-robust times, then 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.