Why Relying On Your Profit & Loss Can Send You Broke plus 10 (or 11) Tips on How to Improve Your Cash Flow plus Is Your Bookkeeper Really Looking After You? plus much much more

A handy guide for the business owner who wants to know more about what is going on in their accounts

BOND BOOKKEEPING SOLUTIONS
Accounting & Bookkeeping Matters

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pure BOOKKEEPING

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About

Bond Bookkeeping Solutions specialises in the rescue & rehabilitation or establishment of accounting systems. We work with and train business owners to get the most out of their systems, plus how to accurately review their accounts through better understanding of reports and overall cash position.

At BBS we pride ourselves on making good accounting and bookkeeping advice accessible to every business owner.

Do you need advice or help with YOUR processes? We offer competitive fixed value pricing from the basics through to full-service packages for payroll, compliance, bookkeeping, and on-call advisory.

By way of an introduction, we're asking "Have you found your financial reports confusing?"

This guide is to assist you with understanding what it is you're looking at when you generate one of the 3 elementary reports all businesses should use. They are:

- The Profit & Loss Report
- The Balance Sheet
- The Cash Flow Statement (also known as the Statement of Cash Flows)

Introduction

For too many small business owners, bookkeeping is a necessary evil good only for keeping up to date with activity statement lodgement and other compliance requirements. Many business owners don't realise that the expertise of an appropriately qualified and experienced bookkeeper is a powerful resource that can change their destiny!

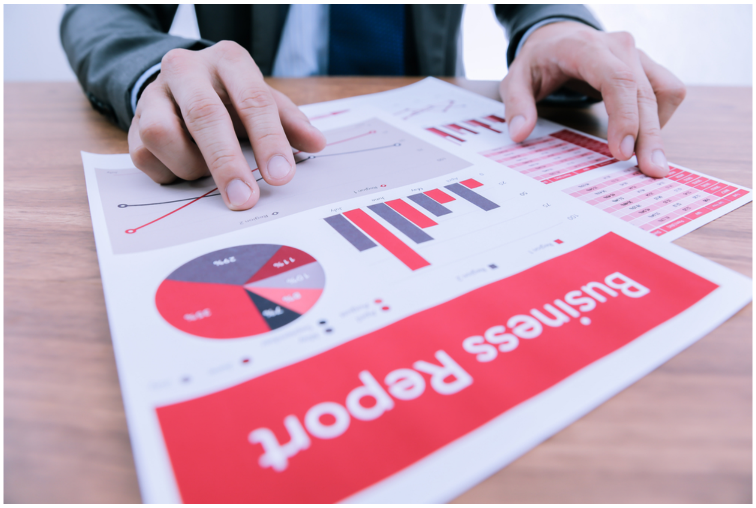
Big call? Over the top??

Not at all. The regular review of a business's financial reports can reveal emerging trends that may ultimately lead to the demise of the business and allow early corrective action to be taken long before crisis management becomes the last tool available to stave off disaster. When reviewed regularly, a business's financial reports may reveal opportunities to increase revenues, decrease costs and increase profitability. Increased profitability provides more opportunities - for growth - or to bring one closer to the day one chooses to retire. Simply put, more opportunities means more choices to shape the future.

To be of any value, of course, the bookkeeping and reporting must be up to date. It's somewhat "long after the horse has bolted" to wait until your accountant prepares your tax return (which can be months after the end of the financial year) to find out "how you went" for the year and what you should have done about it.

In recent years there has been a revolution in small business accounting options. Today's online "cloud" accounting systems make it even easier to keep your business accounting up to date and to get real time advice on demand with everyone on the same page.

This guide has been produced to provide the business owner with a basic understanding of what the financial reports from the systems they use for their day to day accounting can tell them. Alert to some of the basics but now aware of what they "don't know", they can then engage in more meaningful and value adding conversations with their accountant and other business advisors and gain the best advice available.



Disclaimer

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Therefore the authors shall not be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential or other damages.

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This publication has been based on the booklet Understanding Your Financial Reports produced by Pure Bookkeeping Pty Ltd.

The difference between Bookkeeping and Accounting

Make sure you are getting the best value from each

A bookkeeper records the information regarding the transactions and financial activities of a business. An accountant designs and monitors the record keeping system that the bookkeeper will use and establishes controls to make sure the system works well. An accountant verifies and analyses the information recorded by the bookkeeper and prepares reports, professional advice and other services to assist the business owner meet their statutory obligations and make progress towards their goals.

A bookkeeper accumulates, organises and records the transaction information of the business and files or stores the information in a way so that it is able to be easily retrieved and verified if need be.

Typical bookkeeping tasks include recording (posting) transactions, posting journals processing payroll, preparing and send invoices, paying bills, recording payments, reconciling banks accounts, preparing internal reports and perhaps draft financial reports for the manager or owner. Bookkeepers make sure the figures required by the accountant are complete and accurate and are made available for the preparation of statutory financial reports and tax returns etc.

Accountants stay up to date with the latest tax laws and provide advice on how to best manage a business's tax affairs. A bookkeeper (unless registered as a Tax Agent) is specifically prohibited from providing taxation advice. An accountant may additionally assist the business owner by preparing budgets, cash flow forecasts and by arranging regular meetings to review progress.

An accountant is dependent on the accuracy of the information provided by the bookkeeper so it is essential that your bookkeeper is suitably qualified and experienced and maintains regular communication with your accountant to ensure that the bookkeeping is being completed to the accountant's satisfaction.

This will eliminate the need for costly rework and assist the accountant create a complete financial picture for the business owner.

Why Keep Business Records?

Economics 101: We live in a world where our wants are unlimited but the resources to meet them are scarce. Good record keeping is an essential tool to help best manage this eternal conflict. For the business owner this conflict is expressed in the form of how do we maximise profits with the limited capital, property and human resources that we have available?

For too many small business owners, bookkeeping is a necessary evil required only to keep up with compliance requirements. This mindset tragically blinds those who hold it to a wide world of opportunities. The business owner who takes a proactive approach realises that good business record keeping is an essential resource to enable informed decision making involving a whole range of matters, including of course keeping on top of compliance.

Keeping good business records is about much much more than just managing your tax obligations yet it is an inability to manage these matters that leads to most business failures. Therefore we will start with these words about record keeping from the Australian Taxation Office. Here is a summarised version of what the ATO has to say:

Keeping good records is essential for people in small business. Maintaining good records of your transactions and tax invoices will help you to manage your cash flow and make sound business decisions. It will also make it easier for you to meet your tax obligations, and potentially save you time and money in the future.

Good record keeping

There are a number of reasons why you should keep good records of your business transactions. Good record keeping:

- *makes it easier for you to meet your tax obligations*
- *makes it easier for you to understand how your business is doing*
- *helps you make good business decisions.*

Record keeping is a legal requirement. By law you must keep business records for at least five years, either on paper or electronically. They must be in English or in a form that can easily be converted.

If you don't keep the right tax records, you can incur penalties. Poor record keeping is also one of the main reasons why some small businesses fail.

Tip

Allow time each week to keep your records up-to-date. This helps when it's time to do your tax as all the information is already there and you're not overwhelmed with paperwork. This frees up time to focus on making money instead of doing paperwork.

Business records you need to keep

Income tax records

You must keep records of all your sales (income) and expenses to prepare your business activity statements (BAS) and annual income tax return, and to meet other tax obligations. You also need to keep year-end and bank records.

Records that all businesses need to keep are listed below.

Income and sales records

Records of all sales transactions - for example, invoices including tax invoices, receipt books, cash register tapes and records of cash sales.

Expense or purchase records

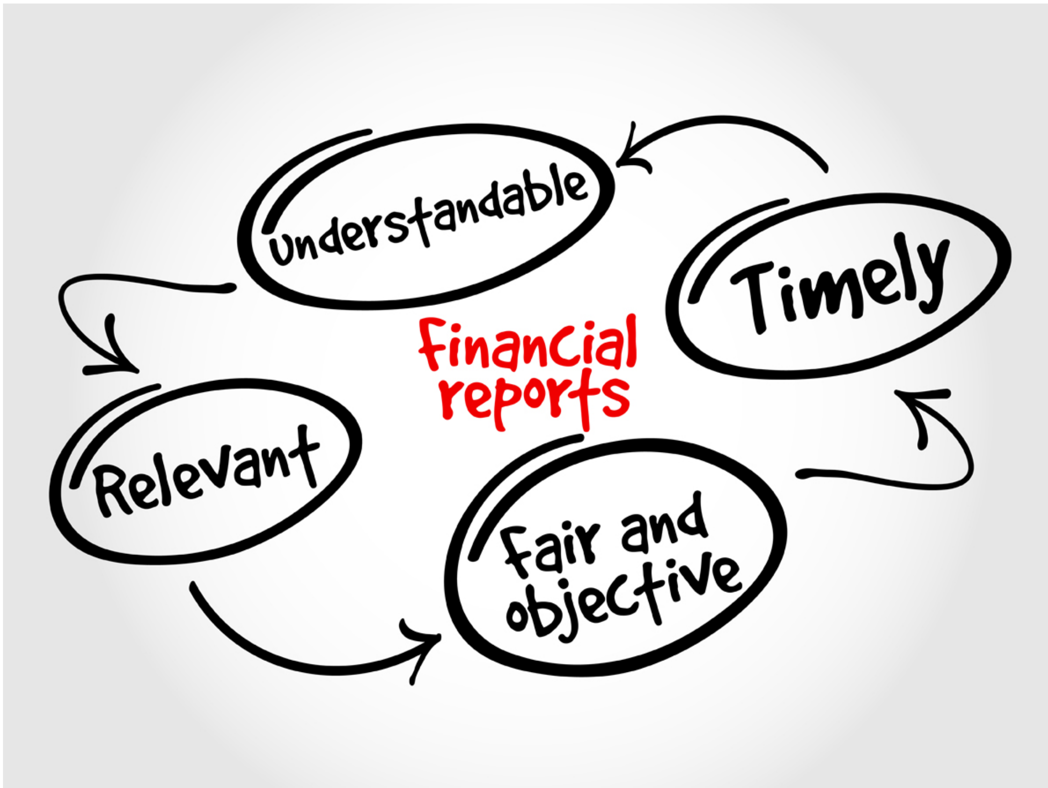
Records of all business expenses, including cash purchases. Records could include receipts, invoices including tax invoices, cheque book receipts, credit card vouchers and diaries to record small cash expenses. Records showing how you worked out any private use of something you purchased.

Year-end records

These include lists of creditors (who you owe money to) or debtors (who owe you money), and worksheets to calculate the decreasing value of your assets, also called 'depreciating assets', stocktake sheets and capital gains tax records.

Bank records

Documents you receive from the bank such as bank statements, loan documents and bank deposit books.



Other records you may need to keep

As well as general records, you may need to keep other records depending on your tax obligations or the type of expense. Other records you may need to keep are listed below.

Goods and services tax (GST) records

The main GST records you need to keep are tax invoices from your suppliers. Remember, you need a tax invoice to claim GST credits. You must keep any other document that records any adjustments, a decision or a calculation made for GST purposes.

Employees and contractors records

If you have employees or contractors, you will need to keep:

- *tax file number (TFN) declaration forms or withholding declaration forms*
- *records of wages, allowances and other payments you make to them*
- *superannuation records, including payments you make and records that show you have met your superannuation obligations*
- *records of fringe benefits you provided*
- *copies of any contracts you have with contractors.*

Fuel tax records

If you intend to claim fuel tax credits for your business, you must keep records that show that you:

- *acquired the fuel*
- *used the fuel in your business*
- *applied the correct rate when calculating how much you could claim.*

You must also keep records that show your business is carrying on activities that are eligible for fuel tax credits.

If you are claiming fuel tax credits of $300 or less in a financial year, you do not have to keep records of fuel purchases.

Record keeping evaluation tool

There may be other records in addition to those listed above that you will need to keep when you are running a business. To help you work out the record keeping needs for your business, refer to the record keeping evaluation tool available on the ATO website.

By law you must keep these records for at least five years, either on paper or electronically. They must be in English or in a form that can easily be converted.

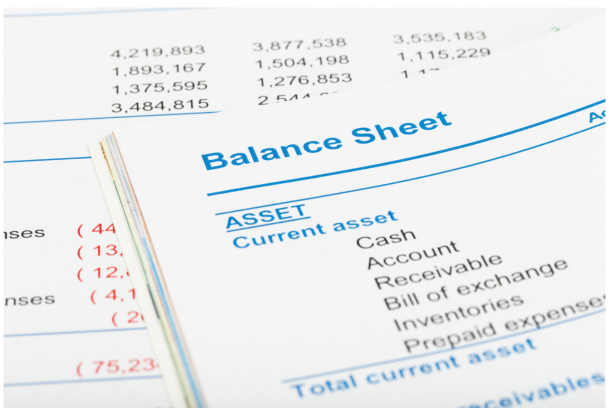
Remember - you can also claim the cost of record keeping software and services as a business tax deduction.

The Three Financial Reports

Accounting systems (both manual and computerised) are designed to enable the production of three types of financial reports. These reports are used together to present a complete picture of a business's finances. They are:

The Profit and Loss Report

The Profit and Loss Report shows how much profit (or loss) a business has made over a particular period of time by totalling all of the revenues then deducting all of the expenses to arrive at a result (positive or negative).



The Balance Sheet

The Balance Sheet is one of the most important pieces of financial information available to a business. It provides a list of all the business owns less all that it owes to arrive at the owner's equity (net worth) at that point in time.

The Cash Flow Statement

The Cash Flow Statement lists the inflows and outflows of cash throughout a particular period.

The Profit & Loss Report

The Profit and Loss Report shows how much revenue and expenses a company has generated over a certain period. The Profit and Loss Report is the most commonly used but also the most commonly misunderstood financial report.

The Profit and Loss Report is a summary of the financial performance of a business over a period of time (typically monthly, quarterly or annually.) It reflects the past performance of the business and is the report most often used by small business owners to track how well their business is doing.

As the name indicates the Profit and Loss Report (also known as a Statement of Financial Performance or an Income Statement) measures the profit or loss of a business over a specified period. A profit and loss statement summarises the income for a period and subtracts the expenses incurred for the same period to calculate the profit or loss for the business.

Producing regular profit and loss statements (at least quarterly or monthly) will enable you to:

- Answer the question, "How much money am I making, if any?"
- Compare your projected performance with actual performance
- Compare your performance against industry benchmarks
- Use past performance trends to form reasonable forecasts for the future
- Show your business progress (good or bad) and financial health over time
- Detect any problems regarding sales, margins and expenses within a reasonable time so adjustments may be made to recoup losses or decrease expenses
- Provide proof of income if you need a loan or mortgage; and
- Calculate your income and expenses when completing and submitting your tax return

To make sense of a Profit and Loss Report you will need to know the basis on which it has been prepared. This could be either Cash Basis or Accruals Basis.

Cash accounting tracks the actual money coming in and out of your business. In cash accounting, if you get an invoice for something, you don't record the cost in your books until you've paid the invoice. Similarly, when you send an invoice to a customer, you don't record the sale in your books until you receive the money from the customer.

For example, if you send an invoice on Tuesday, and don't receive the payment in your account until Thursday, you record the income against Thursday's date in your books. In accrual accounting, you record expenses and sales when they take place, instead of when cash changes hands. For example, if you're a builder and have sent an invoice for a project you've completed, you record the sale in your books even though you haven't received payment yet.

This way of accounting shows the amounts you owe to people and the amounts owing to you.

Cash accounting is:

- A simple system that keeps track of your business cash flow
- Generally suited to smaller businesses that mostly handle transactions in cash, for example a hairdresser's or a grocery store
- Provides a picture of how much money you have in your till and in your bank accounts
- It doesn't capture money that is owed to you or money you owe to others

Accrual accounting is:

- More complicated than cash accounting
- Better suited to businesses that don't get paid straight away
- A system that tracks your true financial position as it captures money that is owed to you and money you owe others
- Helpful if you are dealing with lots of contracts or large amounts of money.

Accrual accounting is more complicated than cash accounting so you'll need an in-depth understanding of bookkeeping methods or a professional to help you out.

Most computerised accounting packages produce a Profit and Loss Report using the Accruals Basis as the default but provide the option to switch to Cash Basis. Accruals Basis accounting is required by Australian and International Accounting Standards and is the preferred method as it provides a better understanding of the relationship between income and the costs associated with generating that income. However, for many small businesses, the added complexity may not be justified or even needed.

The Profit and Loss Report may be produced in a variety of forms to best suit the needs of the user.

Profit and Loss Year to Date for Month

A Profit and Loss Report in this simple form will show you how much revenue you have made for the month less what your expenses have been. You could add a column showing Year to Date to provide an indication of how the business performed for that month in relation to the year so far and to obtain an indication of how your annual profit is tracking.

This format suits businesses where month to month performance is relatively consistent but it would not be particularly useful for businesses subject to seasonal variations.

Example:

Profit and Loss Multi Period Spreadsheet

This report is useful because you can see a month by month comparison of the figures over a selectable period and includes a total for the period (and optionally, the year).

Example:

Profit & Loss
Demo Company (AU)
For the month ended 31 May 2015

Add Summary

	May-15	YTD
Income		
Sales	20,870.00	44,356.00
Total Income	**20,870.00**	**44,356.00**
GROSS PROFIT	**20,870.00**	**44,356.00**
Less Operating Expenses		
Advertising	2,272.73	4,102.91
Bank Fees	10.50	31.50
Cleaning	310.00	465.00
Consulting & Accounting	49.00	49.00
Entertainment	(200.00)	277.20
General Expenses	118.18	1,085.05
Light, Power, Heating	399.73	1,044.73
Motor Vehicle Expenses	433.04	743.95
Office Expenses	129.93	1,425.92
Printing & Stationery	30.09	180.45
Rent	2,573.86	5,573.86
Telephone & Internet	49.21	239.56
Travel - National	0.00	462.14
Wages and Salaries	20,100.00	40,200.00
Total Operating Expenses	**26,276.27**	**55,881.27**
NET PROFIT	**(5,406.27)**	**(11,525.27)**

Profit and Loss Multi Period Spreadsheet

A more useful form of the Profit and Loss Report is to show month by month comparisons. This format is useful because you can see how the business has performed month by month over a selectable period and includes a total for the period (and optionally, the year). It is also handy for spotting things that might have been missed or duplicated like a rent payment for example. Significant variations between each month that can't be quickly explained probably call for further investigation.

Profit & Loss

Demo Company (AU)
For the month ended 31 March 2015

	Mar-15	Feb-15	Jan-15	Total	YTD
Income					
Sales	21,220	8,745	12,686	42,651	45,151
Total Income	**21,220**	**8,745**	**12,686**	**42,651**	**45,151**
Less Cost Of Sales					
Purchases	764	-	-	764	764
Total Cost Of Sales	**764**	**-**	**-**	**764**	**764**
GROSS PROFIT	**20,456**	**8,745**	**12,686**	**41,887**	**44,387**
Less Operating Expenses					
Advertising	2,273	1,818	12	4,103	4,103
Bank Fees	311	-	11	321	332
Cleaning	155	155	155	465	465
Consulting & Accounting	49	49	-	98	98
Depreciation	-	-	-	-	1,359
Entertainment	(200)	-	477	277	277
Freight & Courier	(9)	-	-	(9)	(9)
General Expenses	118	-	967	1,085	1,085
Legal expenses	4,091	-	-	4,091	4,091
Light, Power, Heating	400	295	350	1,045	1,045
Motor Vehicle Expenses	568	-	176	744	879
Office Expenses	130	179	1,117	1,426	1,426
Printing & Stationery	20	46	114	180	180
Rent	2,574	1,500	1,500	5,574	5,574
Subscriptions	120	-	-	120	120
Superannuation	-	-	-	-	1,543
Telephone & Internet	49	33	158	240	240
Travel - National	220	-	263	483	682
Wages and Salaries	13,400	13,400	13,400	40,200	40,200
Total Operating Expenses	**24,268**	**17,474**	**18,700**	**60,443**	**63,689**
OPERATING PROFIT	**(3,812)**	**(8,729)**	**(6,014)**	**(18,555)**	**(19,302)**
Non-operating Income					
Interest Income	97	-	-	97	97
Total Non-operating Income	**97**	**-**	**-**	**97**	**97**
NET PROFIT	**(3,714)**	**(8,729)**	**(6,014)**	**(18,458)**	**(19,205)**

Profit and Loss (Compare with Budget)

A budget is an important tool for projecting what your business will be doing in the future and for keeping you on track with your business plan.

A budget is a summary of expected income and expenses for the period. Regular reviews of your budget against actual results will reveal whether your business is on track to achieve the goals you have set.

For business owners who are keen to develop their businesses, a Profit and Loss Report Compared with Budget will be particularly valuable. This report compares monthly performance against budget and shows at a glance where the business went well or where some review may be required.

Profit & Loss

Demo Company (AU)
For the month ended 31 March 2015

	Actual	Budget	Var AUD	Var %	YTD Actual	YTD Budget	Var AUD	Var %
Income								
Sales	21,220	20,000	1,220▲	6.1%▲	45,151	80,000	(34,849)▼	-43.6%▼
Total Income	**21,220**	**20,000**	**1,220**	**6.1%**	**45,151**	**80,000**	**(34,849)**	**-43.6%**
Less Cost Of Sales								
Purchases	764	-	764▲	0.0%	764	-	764▲	0.0%
Total Cost Of Sales	**764**	**-**	**764**	**0.0%**	**764**	**-**	**764**	**0.0%**
GROSS PROFIT	**20,456**	**20,000**	**456**	**2.0%**	**44,387**	**80,000**	**(35,613)**	**-45.0%**
Less Operating Expenses								
Advertising	2,273	1,000	1,273▲	127.3%▲	4,103	4,000	103▲	2.6%▲
Bank Fees	311	20	291▲	1452.5%▲	332	80	252▲	314.4%▲
Cleaning	155	170	(15)▼	-8.8%▼	465	680	(215)▼	-31.6%▼
Commission	-	800	(800)▼	-100.0%▼	-	800	(800)▼	-100.0%▼
Consulting & Accounting	49	400	(351)▼	-87.8%▼	98	1,600	(1,502)▼	-93.9%▼
Depreciation	-	-	-	0.0%	1,359	-	1,359▲	0.0%
Entertainment	(200)	500	(700)▼	-140.0%▼	277	2,000	(1,723)▼	-86.1%▼
Freight & Courier	(9)	200	(209)▼	-104.5%▼	(9)	800	(809)▼	-101.1%▼
General Expenses	118	200	(82)▼	-40.9%▼	1,085	800	285▲	35.6%▲
Insurance	-	100	(100)▼	-100.0%▼	-	400	(400)▼	-100.0%▼
Legal expenses	4,091	150	3,941▲	2627.3%▲	4,091	600	3,491▲	581.8%▲
Light, Power, Heating	400	300	100▲	33.2%▲	1,045	1,200	(155)▼	-12.9%▼
Motor Vehicle Expenses	568	180	388▲	215.6%▲	879	720	159▲	22.1%▲
Office Expenses	130	500	(370)▼	-74.0%▼	1,426	2,000	(574)▼	-28.7%▼
Printing & Stationery	20	55	(35)▼	-63.8%▼	180	220	(40)▼	-18.0%▼
Rent	2,574	1,500	1,074▲	71.6%▲	5,574	6,000	(426)▼	-7.1%▼
Subscriptions	120	-	120▲	0.0%	120	-	120▲	0.0%
Superannuation	-	-	-	0.0%	1,543	-	1,543▲	0.0%
Telephone & Internet	49	-	49▲	0.0%	240	-	240▲	0.0%
Travel - National	220	300	(80)▼	-26.7%▼	682	1,200	(518)▼	-43.2%▼
Wages and Salaries	13,400	14,000	(600)▼	-4.3%▼	40,200	43,400	(3,200)▼	-7.4%▼
Total Operating Expenses	**24,268**	**20,375**	**3,893**	**19.1%**	**63,689**	**66,500**	**(2,811)**	**-4.2%**
OPERATING PROFIT	**(3,812)**	**(375)**	**(3,437)**	**-916.0%**	**(19,302)**	**13,500**	**(32,802)**	**-243.0%**
Non-operating Income								
Interest Income	97	-	97▲	0.0%	97	-	97▲	0.0%
Total Non-operating Income	**97**	**-**	**97**	**0.0%**	**97**	**-**	**97**	**0.0%**
NET PROFIT	**(3,714)**	**(375)**	**(3,339)**	**-891.0%**	**(19,205)**	**13,500**	**(32,705)**	**-242.0%**

Important

The July to March reporting period is particularly important because after nine months of trading, it is possible to forecast the trend for the rest of the year. There is still time enough to put in place measures to enhance your tax or other business objectives. Therefore after this BAS period has been completed we recommend that you visit your accountant for a review and tax planning meeting.

Bonus: Common bookkeeping mistakes to watch out for

Is your bookkeeper really looking after you?

It is surprising how many business owners opt for price over quality when engaging people to look after the heart and soul of their business. Accountants report they spend up to 30% of their time (read 30% of their fees) fixing bookkeeping mistakes. When you engage with unqualified and inexperienced people, you will likely end up paying more in the long run after someone else has come in to fix up the mess left behind.

Most businesses would not know where to begin when reviewing their bookkeeping or their bookkeepers' work so here's a few things to look out for.

1. Ineffective reconciling

Bank accounts not reconciled for long periods of time

2. Duplication

Duplication of supplier of bills which results in double payments! In a similar vein, a list of credits owed to the business that hasn't been applied. Bookkeepers should at least, monthly, reconcile back to supplier statements. These mistakes would not happen if they follow this process

3. Unmonitored Cashflow

Some bookkeepers fail to regularly update bank and credit card reconciliations, payment processing, and more importantly, invoicing of debtors. When done regularly this will update the business owner with their current position and allow plans for contingencies and further business development

4. Payroll and superannuation

Many bookkeepers don't know how to set up the superannuation and entitlement calculations accurately in the accounting software, thus resulting in staff being paid much more than the statutory rate on their ordinary times earnings. As a result, they incorrectly assign accruing annual, personal and long-service leave entitlements – a very expensive mistake!

5. Incorrectly separating personal transactions from business transactions

It is crucial that bookkeepers separate these correctly.

6. Failing to account for GST correctly

This applies especially when dealing with GST on imports, insurance and motor vehicle registration that have both GST and GST-free components. We have seen bookkeepers who post these transactions incorrectly in the accounting software and then claim incorrect GST credits on the Business Activity Statement (BAS) lodged with the tax office

8. Incorrectly categorising income and expenses

Bookkeepers should review the profit and loss reports at least monthly. This report shows a comparison of incomes and expenses on a month by month basis. Check to see if any expected incomes or expenses are missing. An example would be the monthly rent, if you rent your premises and pay monthly. Check if there is one transaction missing when it should appear in every month. Keep in mind that the figures shown will be those without GST included

9. Tax and compliance obligations

Sometimes bookkeepers are not aware of compliance obligations and lodgement dates. It's amazing how many we've come across who aren't aware of how and when to complete these forms and lodgements

10. Not filing paperwork

Bookkeepers must file receipts and invoices for goods, services or other business acquisitions purchased by the business. This also applies to invoices or receipts you provide for sales and services rendered by the business. An Accredited Pure Bookkeeping Licensee will create simple filing systems that enable you and anyone else to easily find information when needed

Most accounting software packages have ways for you to review your files for accuracy. Check out our bonus Health Check procedure later in this publication.

When hiring a bookkeeper, always engage the assistance of someone who is qualified and reliable and keep in mind that this service is also tax deductible. Hiring an Accredited Pure Bookkeeping Licensee helps you focus on what you do best and that is growing your business while ensuring your record keeping is up to date.

The Balance Sheet

Why relying on your Profit and Loss Report can send you broke!

The Balance Sheet is the financial statement used to report on the financial position of the business to the owner and other stakeholders such as banks and investors.

The Balance Sheet is a statement of what a business owns (assets) and what it owes (liabilities), and the value of the owner's equity (or net worth of the business) at a specific point in time. The balance sheet is also known as a statement of financial position because it shows a summary of the business's financial position at a particular point in time.

The difference between the assets and liabilities is known as owner's equity. The balance sheet is so named because the equity must equal (balance) assets minus liabilities.

What is the Balance Sheet used for?

A Balance Sheet enables you to:

- quickly see the financial strengths and capabilities of your business
- review the level of assets, debt and working capital of your business
- compare the increase or decrease in value of your business over time
- see the relative liquidity of your business
- analyse your ability to pay all short-term and long-term debts as they come due; and
- review the composition of assets and liabilities, the relative proportions of debt and equity financing and the amount of retained earnings

A Balance Sheet helps a small business owner quickly get a handle on the financial strength and capabilities of the business and answer questions such as:

- Is the business in a position to expand?
- Can the business easily handle the normal financial ebbs and flows of revenues and expenses?
- Does the business need to take immediate steps to boost cash reserves?

The Balance Sheet can **identify and analyse trends**, particularly in the area of debtors /receivables and creditors/payables.

- Is the receivables cycle lengthening?
- Can receivables be collected more aggressively?
- Is some debt uncollectable?
- Has the business been slowing down payables to forestall an inevitable cash shortage?

Balance Sheets, along with income statements, are **the most basic elements in providing financial reporting to potential lenders** such as banks, investors, and vendors who are considering how much credit to grant the company.

Why is the Balance Sheet important?

Without the Balance Sheet, you are running your business wearing a blindfold.

Concentrating solely on the Profit and Loss is a mistake which can contribute to a business failing. It also leaves open too many questions. One of the most common is – I made a profit this month so why don't I have any cash in the bank?

Cash flow can be a huge problem for growing businesses. By examining the Balance Sheet you will be able to see how "healthy" the business is. It answers the question "where has my money gone?" and it shows if the business is adequately funded.

Balance Sheet Terminology
Assets

Assets are subdivided into current and long-term to reflect the ease of liquidating each class of asset. Cash, for obvious reasons, is considered the most liquid of all assets. Long-term assets, such as real estate or machinery, are less likely to sell overnight or have the capability of being quickly converted into a current asset such as cash.

Current Assets

Current assets are any assets that can be easily converted into cash within one calendar year. Examples of current assets would be cheque or money market accounts and accounts receivable that are due within one year's time.

Bank Accounts and Cash (2.1 below)

Money available immediately, such as in cheque accounts, is the most liquid of all short-term assets.

Accounts Receivable (Trade Debtors) (2.2 below)

This is **money owed to the business** for purchases made by customers

Demo Company (AU)
As at 31 March 2015

		31 Mar 2015	31 Dec 2014
Assets			
Bank			
Business Bank Account	2.1	(3,760)	2,294
Business Savings Account		(52)	15,081
Total Bank		**(3,811)**	**17,375**
Current Assets	2.2		
Accounts Receivable		16,007	2,750
Total Current Assets		**16,007**	**2,750**
Fixed Assets			
Computer Equipment		7,050	-
Less Accumulated Depreciation on Computer Equipment		(825)	-
Plant & Machinery		2,470	-
Total Fixed Assets		**8,695**	**-**
Non-current Assets			
Motor Vehicles at Cost		28,995	28,995
Less Accumulated Depreciation on Motor Vehicles		(1,359)	(1,359)

Fixed Assets (3.3 below)

Fixed assets include land, buildings, machinery and vehicles that are used in connection with the business.

Land

Land is considered a fixed asset but, unlike other fixed assets, is not depreciated, because land is considered an asset that never wears out.

Buildings

Buildings are categorised as fixed assets and are depreciated over time.

Computer Equipment

This includes office equipment such as copiers, fax machines, printers, and computers used in your business.

Plant & Machinery (3.4 below)

This figure represents machines and equipment used in your plant to produce your product. Examples of machinery might include lathes, conveyor belts or a printing press.

Motor Vehicles at Cost (3.5 below)

This would include any vehicles used in your business.

Accounts Receivable		16,007	2,750
Total Current Assets	3.3	**16,007**	**2,750**
Fixed Assets			
Computer Equipment		7,050	-
Less Accumulated Depreciation on Computer Equipment		(825)	-
Plant & Machinery	3.4	2,470	-
Total Fixed Assets		**8,695**	**-**
Non-current Assets	3.5		
Motor Vehicles at Cost		28,995	28,995
Less Accumulated Depreciation on Motor Vehicles		(1,359)	(1,359)
Total Non-current Assets		**27,636**	**27,636**
Total Assets		**48,526**	**47,761**

Total Fixed Assets

This is the total dollar value of all fixed assets in your business, less any accumulated depreciation.

Total Assets

This figure represents the total dollar value of both the short-term and long-term assets of your business.

Liabilities

Current Liabilities

This includes all debts and obligations owed by the business to outside creditors, vendors or banks that are payable within one year.

Accounts Payable (Trade Creditors) (6.1 below)

This comprises all short-term obligations owed by your business to creditors, suppliers, and other vendors. Accounts payable can include supplies and materials acquired on credit.

Loans

This represents **money owed on a short-term collection cycle of one year or less**. It may include Commercial Bills, mortgage obligations, and HP liabilities and can include Provisions for annual or long service leave.

GST Liabilities (6.3 below)

This includes the GST Collected less GST Paid and can include an ATO Payment Arrangement

Payroll Liabilities (6.4 below)

This includes **PAYG Withholding and SGC Liabilities** that are owed for employees but have not yet been paid.

Total Assets		**48,526**	**47,761**
Liabilities			
Current Liabilities	6.1		
Accounts Payable (Trade Creditors)		8,508	149
GST Liabilities	6.3	1,489	217
Historical Adjustment		19,212	19,212
Owner A Funds Introduced		550	-
PAYG Withholdings Payable	6.4	9,042	-
Superannuation Payable		1,543	1,543
Total Current Liabilities		**40,344**	**21,120**
Non-Current Liabilities			

Inter-Company Loans

This is used if multiple entities are owned by the one Director and money is loaned or bills paid by another entity.

Total Current Liabilities

This is the sum total of all current liabilities owed to creditors that must be paid within a one-year time frame.

Non-Current Liabilities (7.0 below)

These are any debts or obligations owed by the business that are due more than one year out from the current date.

Loans

This is the balance of a mortgage or other loan that **extends out beyond the current year**. For example, you may have paid off three years of a fifteen-year loan, of which the remaining eleven years, not counting the current year, are considered long-term.

Total Current Liabilities	**40,344**	**21,120**
Non-Current Liabilities 7.0		
Loans - Director	(1,231)	(1,231)
Loans - Other Persons	(377)	(377)
Motor Vehicle Finance	33,507	33,507
Unexpired Interest	(4,512)	(4,512)
Total Non-Current Liabilities	**27,387**	**27,387**
Total Liabilities	**67,731**	**48,507**
Net Assets 8.0	**(19,205)**	**(747)**
Equity		
Current Year Earnings	(19,205)	(747)
Total Equity	**(19,205)**	**(747)**

Net Assets (8.0)

The Net Assets (8.0) is the total after you subtract your Total Liabilities from the Total Assets. This is the Net Worth of the business i.e. the real value. Using the example above, the figures are summarised in the following table:

	Debit	Credit
Total Assets	$48,526	
Less Total Liabilities		$67,731
Equals Net Assets (Equity)		($19,205)

Equity

Equity is made up of the initial and ongoing investment in the business as well as any retained earnings that are reinvested in the business.

Owner's Equity

In the case of a Sole Trader this is the Owner's Capital (i.e. any money you have put into the business) and Owner's Drawings (any money you have taken out of the business).

Retained Earnings

This is an accumulated figure of the previous year's earnings.

Current Year Earnings (9.3)

If you look at your Profit and Loss for the same period ending as your Balance Sheet, you will notice that Net Profit on that report is shown as Current Year Earnings on the Balance Sheet.

Net Assets and Total Equity (10.0)

Total Equity and Net Assets are always the same. The Total Equity tells you how the Net Assets are funded. In this example the Net Assets (i.e. Total Assets minus Total Liabilities) are funded by Retained Earnings and Current Year Earnings. In the case of a Sole Trader it will also include money you have put into the business (Owner's Capital) and money you have taken out of the business (Owner's Drawings).

Using this example, the value of this business is negative i.e. the Total Liabilities (the cash owed) is greater than the Total Assets (the cash held).

Non-Current Liabilities			
Loans - Director		(1,231)	(1,231)
Loans - Other Persons		(377)	(377)
Motor Vehicle Finance		33,507	33,507
Unexpired Interest		(4,512)	(4,512)
Total Non-Current Liabilities		**27,387**	**27,387**
Total Liabilities		**67,731**	**48,507**
Net Assets		**(19,205)**	**(747)**
Equity	9.3	10.0	
Current Year Earnings		(19,205)	(747)
Total Equity		**(19,205)**	**(747)**

Bonus: A few places to get help for your business (mostly free)

Small Business Development Corporation

Small business is the lifeblood of the economy, or that's what they tell us, so every state has its Small Business Development Corporation or equivalent. Check out the website of your local small business centre (and those of other jurisdictions) for loads of free advice, checklists, templates and other tools for pretty much every facet of starting and running a business. Whether it's finding premises, marketing, employing people or financial matters, your state small business centre is a great place to start. In Western Australia, Small Business Centres distributed around the Perth metropolitan area provide free or low cost workshops on a wide range of business topics and offer low rent offices for start-ups.

www.business.gov.au

Similarly at a higher level, the federal government is keen to see small businesses succeed and again there is a wealth of useful free information available from this source. Some might argue this an example of state / federal government duplication but don't let that stop you from taking advantage of all the free help that is on offer! A particular benefit of this resource is that it will align you with federal obligations including those of the Australian Taxation Office, Fair Work Australia and the Corporations Act etc.

www.fairwork.gov.au

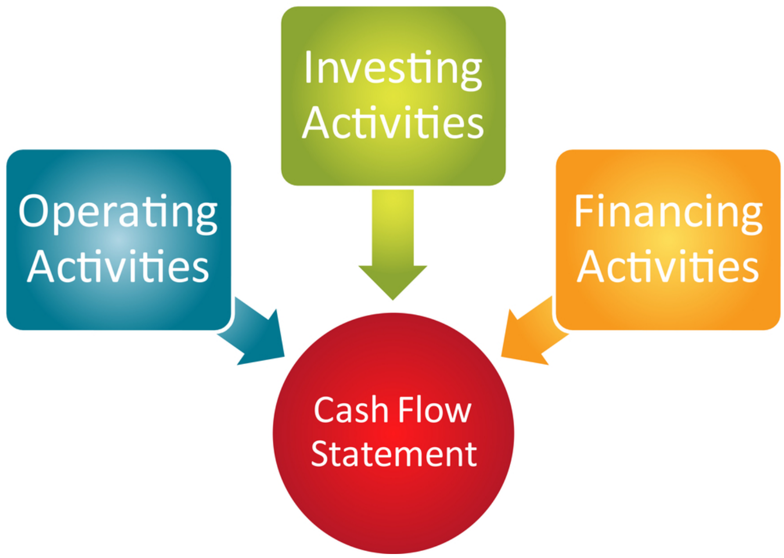
For employment related information, the National Employment Standards, when you have to pay overtime, how many days bereavement leave can your staff have, how to resolve disputes etc. etc. this is the place to start.

Your accounting software provider

Most accounting software providers supply articles and advice on more than just how to use their products. For example Xero provides a range of fresh and topical articles and guides accessed through www.xero.com/au/small-business-guides/

The Cash Flow Statement

The Cash Flow Statement is one of the most important tools in managing your finances. It tracks all the money flowing in and out of your business and can reveal payment cycles or seasonal trends that require additional cash to cover payments. This cycle or pattern can help you plan ahead and make sure you always have money to cover your payments.



It is the Cash Flow Statement which answers the perennial question – If I am making a profit, WHY do I not have any money in the bank? The Cash Flow Statement is an essential financial statement for the business person who really wants to understand what is going on.

Cash flow is divided into three categories:

- Cash flow from Operating Activities - cash inflows and outflows resulting from day-to-day business operations, including the collection of cash from sales and payment of expenses.
- Cash flow from Investing Activities - result from the purchase or sale of the business's non-current assets, that is, assets owned for longer than 12 months.
- Cash flow from Financing Activities - any financing activity that changes the size and composition of the business' long-term financing structure. This includes repayments of the principal on the business mortgage or capital contributions the business owner has made to the business.

Example: Simplified Cash Flow Statement

Demo Company (AU)
From 1 July 2014 to 31 March 2015

Summary

Note: For illustrative purposes only. Further Report Code Mapping is required to finalise this report

	Mar 2015	Jun 2014
Cash flows from Operating Activities		
Receipts from customers	30,609	-
Payments to suppliers and employees	41,743	-
Interest received	97	-
Cash payments from other operating activities	16,954	-
Total Cash flows from Operating Activities	**(27,992)**	**-**
Cash flows from Investing Activities		
Proceeds from sale of property, plant and equipment	2,184	-
Payment for property, plant and equipment	36,545	-
Total Cash flows from Investing Activities	**(34,361)**	**-**
Cash flows from Financing Activities		
Total Cash flows from Financing Activities	**-**	**-**
Cash flows from Other Activities		
Cash flows from other activities	58,541	-
Total Cash flows from Other Activities	**58,541**	**-**
Net increase/(decrease) in cash held	**(3,811)**	**-**
Opening cash balance	-	-
Closing cash balance	(3,811)	-
Movement in cash	**(3,811)**	**-**

Cash Flow Summary

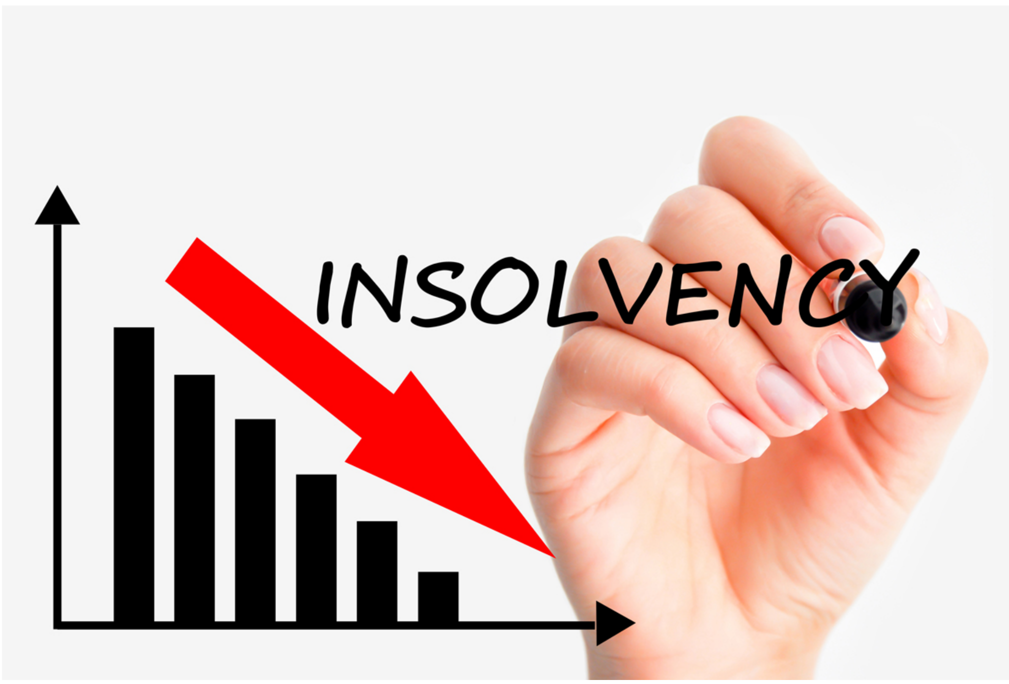
The Cash Flow Summary produced by Xero divides cash movements between Operating and Non-Operating. It provides a colour coded variance column to help the business owner analyse and understand cash movements for the period in review.

Example: Simplified Cash Flow Summary

Demo Company (AU)
For the month ended 31 March 2015
Excluding GST

	Mar 2015	Monthly Avg	Variance	YTD Actual
Income				
Interest Income	97	14	600.0%▲	97
Sales	7,950	4,373	81.8%▲	30,609
Total Income	**8,047**	**4,387**	**83.4%▲**	**30,706**
Less Operating Expenses				
Advertising	-	2	-100.0%▼	12
Bank Fees	311	47	555.7%▲	332
Cleaning	155	44	250.0%▲	310
Consulting & Accounting	98	14	600.0%▲	98
Depreciation	-	194	-100.0%▼	1,359
Entertainment	-	40	-100.0%▼	277
General Expenses	818	117	600.0%▲	818
Legal expenses	4,091	584	600.0%▲	4,091
Light, Power, Heating	301	135	122.7%▲	946
Motor Vehicle Expenses	568	126	352.4%▲	879
Office Expenses	130	204	-36.2%▼	1,426
Printing & Stationery	20	26	-22.8%▼	180
Rent	2,574	796	223.2%▲	5,574
Superannuation	-	220	-100.0%▼	1,543
Telephone & Internet	-	27	-100.0%▼	190
Travel - National	-	66	-100.0%▼	462
Wages and Salaries	13,400	5,743	133.3%▲	40,200
Historical Adjustment	-	(2,745)	100.0%▲	(19,212)
Owner A Funds Introduced	-	(79)	100.0%▲	(550)
PAYG Withholdings Payable	(3,014)	(1,292)	-133.3%▼	(9,042)
Superannuation Payable	-	(220)	100.0%▲	(1,543)
Total Operating Expenses	**19,451**	**4,050**	**380.3%▲**	**28,350**
Operating Surplus (Deficit)	**(11,404)**	**337**	**-3489.0%▼**	**2,356**

Plus Non Operating Movements				
Computer Equipment	(6,300)	(1,007)	-525.5%	(7,050)
Less Accumulated Depreciation on Computer Equipment	-	118	-100.0%	825
Plant & Machinery	-	(71)	100.0%	(500)
Motor Vehicles at Cost	-	(4,142)	100.0%	(28,995)
Less Accumulated Depreciation on Motor Vehicles	-	194	-100.0%	1,359
Loans - Director	-	(176)	100.0%	(1,231)
Loans - Other Persons	-	(54)	100.0%	(377)
Motor Vehicle Finance	-	4,787	-100.0%	33,507
Unexpired Interest	-	(645)	100.0%	(4,512)
Total Non Operating Movements	**(6,300)**	**(996)**	**-532.3%**	**(6,974)**
GST Movements				
GST Inputs	(1,509)			(2,415)
GST Outputs	799			3,222
Net GST Movements	**(711)**		**0.0%**	**807**
Net Cash Movement	**(18,415)**	**(660)**	**-2691.0%**	**(3,811)**
Summary				
Opening Balance	14,603			-
Plus Net Cash Movement	(18,415)			(3,811)
Closing Balance	(3,811)			(3,811)



Let’s not go there!

Bonus: 10 things To Do to Improve Cash Flow

As any small business owner knows, maintaining smooth cash flow requires juggling nearly every facet of a business, from staying on top of accounts receivable, to extending lines of credit, to managing inventory. The essence of successful cash flow management is regulating the money flowing in and out of your business. Increasing your cash flow reduces the amount of fixed capital that you need to support the given level of your business. An increased, consistent cash flow also creates a predictable business pattern, making it easier to plan and budget for future growth. Here are ten things you can do to improve your cash flow:

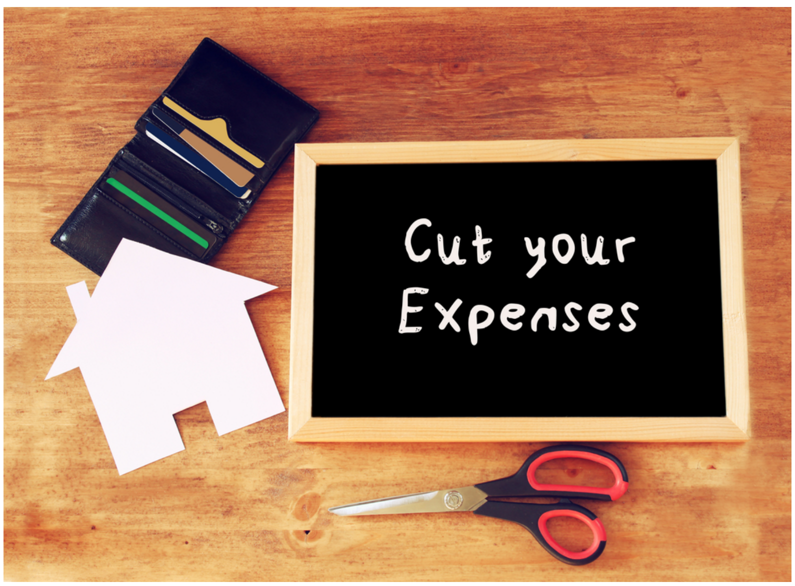
1. **Review your Cash Flow reports and forecasts regularly** so that you know where your cash is going and so you can plan ahead for periods when cash might be a bit tight. A cash flow forecast is the primary tool you need to use. By forecasting your inflows and outflows of cash, and the surplus or deficits you'll have left over, you'll be better equipped to adjust course and stay on track later when you can compare the actual figures with your forecasts. Contact us if you need help preparing a Cash Flow Forecast.

2. **Invoice immediately**. Any steps you can take to shorten your receivables will boost your cash flow. For instance, send out invoices immediately after the delivery of goods or services. Don't wait until the end of the week or the end of the month.

3. **Review your payment terms**. For example reduce your terms from 60 days to 30 days. Offer a small discount to customers who pay their bills early and charge a penalty to those who pay late. Monitor your receivables on a weekly or bi-weekly basis and follow-up with late payers immediately when appropriate. Set up the expectation that once you have delivered the goods or service, you expect to be paid promptly as agreed. Make sure that your invoices clearly state your payment terms (make it even clearer by showing a due date) and follow up immediately if you haven't been paid on time.

4. **Stretch out your payables**. Note the date due and arrange payment for then. Your suppliers' terms are an interest-free line of credit and you could be earning interest on that money in the meantime.

5. **Take advantage of early payment discounts**. If the effective return provided by the discount exceeds what you could earn elsewhere then it makes sense to pay early and keep the change.



6. **Balance your client base**. Many service and professional companies -- such as advertising or PR agencies, accountants, lawyers, real estate management firms, etc. -- work with certain clients on a project-by-project basis. Look for ways to convert some of these clients to a retainer relationship, where they pay you a set amount of money per month for a certain number of services. You might want to offer them some kind of incentive -- value-added services, a discount -- to encourage them to shift to a retainer. This might reduce your profit margin, but it will help make your cash flow more predictable.

7. **Check your pricing**. Have your prices kept up with your rising costs? Many small businesses hesitate to increase their rates because they're afraid they'll lose customers. However, customers actually expect their suppliers to institute small, regular price hikes. Also, be sure to check out your competition on a consistent basis. If they're charging higher prices, you should too.

8. **Spread the love around**. You can save money by splitting your business between suppliers. Closely examine where you need to pay for added service, and where you can save money by paying commodity prices. For example, you might want to buy your computer hardware from a value-added reseller who can help you choose the right system to meet your business needs, while you can purchase other items -- such as printer cartridges, cables, or off-the-shelf software from a discount wholesaler.

9. **Renegotiate your insurance and supplier contacts**. Are you getting the best possible deal on insurance, phone service and other regular business expenses? Review each of your insurance policies annually and get three quotes for each to ensure you're getting the most for your money. Keep a close eye on price sensitive services such as your long distance phone service or your Internet access service. Regularly examine these bills and call around to make sure you're getting the lowest available rate.

10. **Review your inventory**. Overstocking inventory can tie up significant amounts of cash. Regularly assess your inventory turns to make sure they are within industry norms and customer expectations. You can do this by calculating your inventory turnover ratio (cost of goods sold divided by the average value of your inventory). Avoid buying more than you know you need when suppliers lure you with big discounts as this can tie up cash. Periodically check your inventory for old or outdated stock, and either defer upcoming orders to use that stock or sell it at cost to improve your liquidity

11. **Put your spare cash to work**. Chances are your business cheque account pays you little or no interest whereas a high-interest savings or cash management account for business allows you to earn a competitive rate of interest on your cash on hand, but the funds are accessible whenever you need them. You earn interest every day on every dollar saved and you can withdraw the money whenever you need to. It makes no sense (cents?) to have any more than you need for day to day management sitting in your lazy cheque account.

Cash Flow Forecasting

The above-mentioned financial reports all have one weakness in common. They are all historical, that is they provide information about what has happened in the past. A significantly more valuable resource is a tool which can assist in predicting what is coming ahead. You have probably heard the expression, "Cash is King.'

Maintaining a Cash Flow Forecast is a valuable resource for the business owner who wants to be informed and remain in control of how cash is flowing in the business. It can warn of the possibility of upcoming cash shortages so that preventative action can be taken in good time or conversely a cash flow forecast can alert the owner to possible surpluses that can be used for investment or to pay off debt.

	This week	Next Month	Following Month
Cash Open Bal	15000	22900	17000
Expected Income	25000	22000	19500
Less			
Suppliers	9500	16000	13500
Wages	2500	5000	5000
Overheads	1800	2300	2300
Car Pmt	350	350	350
BAS PMT	1500	1500	1500
One Off	1450	2750	1900
Cash Closing Balance	22900	17000	11950

In the above example of a simplified Cash Flow Forecast, we can see that, based on current expectations, cash reserves will fall to around half current levels in two months. With this knowledge in advance the business owner can consider how they might be able to increase revenues or reduce costs ahead of time.

Ask your Accredited Pure Bookkeeping Licensee or accountant if you need assistance in developing and maintaining a Cash Flow Forecast.

Key Performance Indicators (KPIs)

KPIs distil the information provided by financial and operational reports as well as from other sources into single numbers which are understandable at a glance. Using KPIs can give you better business insight and keep you on track towards achieving your goals.

Effective key performance indicators could be organised into groups such as:

- Efficiency – reducing waste, return on inputs including staff
- Growth - Sales or equity
- Health - Debt to equity, forward cash flow
- Resilience - Risk management

The important thing about KPI reporting is that the KPI's you select are relevant to how your business operates and the goals you are wanting to achieve. For example, in a youth hostel daily overnight occupancy would be a useful KPI which at a glance states how effective marketing has been (or not).

Modern accounting software can be used to track some of these KPI groups. And if that software is cloud-based, you can keep an eye on your KPIs from anywhere and at any time.

Talk to your Accredited Pure Bookkeeping Licensee or accountant for more information about KPI based reporting.

Bonus: How to Health Check your Accounts

Why do a Health Check?

Outsourcing your bookkeeping makes sense. It enables you to spend time doing the important work of developing your business and ensuring that you are not overwhelmed by "the Bookkeeping Monster".

However, this is your business and you are ultimately responsible for its health. One of the most dangerous things you can do is abdicate this responsibility to your bookkeeper.

You have all heard the old saying of "garbage in/garbage out". There is no point in analysing your financial reports if they have been compiled from incomplete or inaccurate information.

You must be able to answer confidently that the figures are accurate and queries have been answered before generating the reports you need to create strategies to keep your business strong.

Doing a "Health Check" regularly and discussing this information with your Accredited Pure Bookkeeping Licensee, accountant, business coach or mentor is a must.

How often do I need to do a Health Check?

We recommend that a Health Check is done monthly, after the bank reconciliations have been completed and before printing off your monthly reports. At the very least, it should be done quarterly before the Business Activity Statement is lodged.

The following information is a guide so that you will be able to perform a mini Health Check on your own data files. It is not comprehensive, but it does cover key points to look for.

If you discover a problem during the Health Check, then further investigation is required. We suggest you discuss the options with your Accredited Pure Bookkeeping Licensee or accountant if you are unsure.

Steps to performing a Health Check:

Step	Task	OK	NOT OK	FIXED
1	Confirm all bank accounts are reconciled			
2	Review Trade Debtors. Confirm total is reconciled to Balance Sheet			
3	Confirm all Trade Debtors are “real” and collectable			
4	Review Trade Creditors. Confirm total is reconciled to Balance Sheet			
5	Confirm Trade Creditors are “real” and still payable			
6	Review “General”, “Miscellaneous” or “Sundry” accounts			
7	Check Superannuation liabilities are up to date			
8	Check PAYG liabilities are up to date			
9	Review Profit & Loss Report for anomalies			
10	Review Balance Sheet for anomalies			

Step 1 Confirm Bank Accounts & Credit Cards Reconcile

What to look for?

1. Ensure there are no unreconciled transactions. If there are unreconciled transactions, it can indicate that the transaction has been entered twice or the amounts were paid from another.

2. Ensure the Balance in Xero agrees with the Statement Balance which agrees with the balance on your bank statement. If a previously reconciled transaction has been deleted, then the bank account will no longer reconcile and future reconciliations will be impossible until that is resolved.

Bank Reconciliation Summary

Business Bank Account
Demo Company (AU)
As at 31 March 2015

Date	Description	Reference	Amount
31 Mar 2015	**Balance in Xero**		**2,279.27**
Plus Outstanding Payments			
30 Sep 2014	Alan Williams		1,608.00
Total Outstanding Payments			**1,608.00**
Plus Un-Reconciled Bank Statement Lines			
25 Mar 2015	SMART Agency	70135 70209	(4,500.00)
25 Mar 2015	City Limousines	1002-Part	100.00
25 Mar 2015	Jakaranda Maple Systems	DEPOSIT ADV	2,000.00
26 Mar 2015	MCO Cleaning		(170.55)
26 Mar 2015	e-Bank dep		1,000.00
27 Mar 2015	Parkside Kiosk		(14.30)
28 Mar 2015	ACL Conferences	Reg 8018922	(85.00)
29 Mar 2015	Parkside Kiosk		(10.50)
29 Mar 2015	Whitcoulls		(29.80)
29 Mar 2015	e-Bank dep		1,500.00
29 Mar 2015	Majestic Contracting	Sublet RM2031	450.00
29 Mar 2015	Wilson Online Periodicals	Sub 098801	(49.90)
29 Mar 2015	New World	EFT 000389991	(34.60)
30 Mar 2015	e-Cash dep		200.00
Total Un-Reconciled Statement Lines			**355.35**
31 Mar 2015	**Statement Balance**		**4,242.62**

In the above example there are a large number of unreconciled bank statement lines. These all need to be resolved before reliable information can be obtained regarding your accounts.

Bank Reconciliation Summary

Business Savings Account
Demo Company (AU)
As at 31 March 2015

Date	Description	Reference	Amount
31 Mar 2015	Balance in Xero		(51.72)
31 Mar 2015	Statement Balance		(51.72)

In the above example The Balance in Xero agrees with the Statement Balance so we can be confident that the bank account has been reconciled correctly.

Repeat this process for all bank accounts and credit cards.

Step 2 – Review Accounts Receivables

Produce an Aged Receivables Report (Reports Menu)

Aged Receivables

Demo Company (AU)
March 2015

	Current	February	January	December	Older	Total
Receivables						
Basket Case	915	-	-	-	-	915
Bayside Club	234	-	-	-	-	234
City Limousines	-	(61)	910	-	-	850
Cube Land	495	-	-	-	-	495
DIISR - Small Business Services	3,850	-	-	-	-	3,850
Marine Systems	396	-	-	-	-	396
Pinnacle Management	3,080	-	-	-	-	3,080
Total Receivables	**8,970**	**(61)**	**910**	**-**	**-**	**9,819**
	91.3%	-0.6%	9.3%	0.0%	0.0%	

What to look for?

- Review this report with copies of your sales invoices to ensure the transactions are “real” and your customers do owe you this money.
- Review all items in the columns beyond your trading terms and follow up for collection

- Xero will not allow you to post to the Accounts Receivable account so there will never be an "Out of Balance" amount

Problems when the figures aren't "real"

- You won't have accurate information to follow up with your debtors
- Payments may have been allocated against incorrect invoices
- Payments may have been processed as "Receive Money" instead of "Receive Payments" (which deposits them into the bank account, but does not allocate them against invoices) and this will affect your Profit and Loss

Step 3 – Reconcile Trade Creditors

Produce an Aged Payables Report (Reports Menu)

Aged Payables

Demo Company (AU)
March 2015

	Current	February	January	December	Older	Total
Payables						
Bayside Club	130	-	-	-	-	130
Bayside Wholesale	840	-	-	-	-	840
Capital Cab Co	242	-	-	-	-	242
Central Copiers	-	-	164	-	-	164
Heritage Trust	132	-	-	-	-	132
MCO Cleaning Services	171	-	-	-	-	171
Net Connect	54	-	-	-	-	54
PC Complete	2,167	-	-	-	-	2,167
PowerDirect	109	-	-	-	-	109
SMART Agency	2,500	2,000	-	-	-	4,500
Total Payables	**6,344**	**2,000**	**164**	**-**	**-**	**8,508**
	Current	**February**	**January**	**December**	**Older**	**Total**
Total Expense Claims	**-**	**-**	**-**	**-**	**-**	**-**
Total	**6,344**	**2,000**	**164**	**-**	**-**	**8,508**
	74.6%	23.5%	1.9%	0.0%	0.0%	

What to look for?

- Review this report with copies of your suppliers' bills to ensure the transactions are "real" and you do owe this money.
- Review all items in the columns beyond the agreed payment terms and follow up.

- Xero will not allow you to post to the Accounts Payable account so there will never be an "Out of Balance" amount

Problems when there figures aren't "real"

- You won't have accurate information so that you can plan your payments and manage Cash Flow
- Payments may have been allocated against incorrect bills
- Payments may have been processed as "**Spend Money**" instead of "**Pay Bills**" (which deducts them from the bank account, but does not allocate them against any bills) and this will affect your Profit and Loss

Step 4 – Reconcile Superannuation

Important: Ensuring that your superannuation is reconciled and paid up to date is an essential task that needs to be completed every month. Non-payment or late payment of superannuation liabilities can lead to fines and interest charges not to mention the additional time that is required to complete all the paperwork required by the ATO when they come asking.

In addition, if there is an insurance component attached to the employee's super payments which is not kept up to date, you could find yourself liable for a nasty insurance payout!

Payment of SGC Liabilities

Superannuation needs to be RECEIVED by the super fund by the 28th day after the end of the quarter so you will need to schedule your payment a few days before. If there is insurance involved, you may need to pay earlier.

Problems with non-payment or late payment of SGC

- There can be hefty fines and penalties
- If a staff member (especially a disgruntled former staff member) reports you to the ATO, this may result in serious consequences
- If demanded by the ATO, the calculation of interest and penalties that is required is time-consuming and costly

Reconciling the SGC

Even if you have a bookkeeper who is responsible for this task, it is important that you, the business owner, is familiar with the correct way of reconciling this account so that you can ensure that these steps are followed.

- Reconcile the Bank account
- Reconcile the 804 – Wages Payable (Payroll Clearing) account
- Print and save a PDF of the "**Payroll Employee Summary"** for the period
- Print and save a PDF of the "**Superannuation Accruals"** Report
- Print and save a PDF of the GL **"Account Transactions"** report for Superannuation Payable for the period
- Confirm the GL figures reconcile with the Payroll Employee Summary and the Super Accruals Report for the period
- Investigate and correct discrepancies

Payroll Employee Summary

Demo Company (AU)
From 1 March 2015 to 31 March 2015

Employee	Earnings	Deductions	Tax	Super	Net Pay	Reimb.
James Lebron	1,534.25	60.00	178.00	138.08	1,296.25	-
Odette Garrison	1,921.50	-	194.00	153.09	1,727.50	-
Oliver Gray	2,280.00	40.00	438.00	201.60	1,802.00	-
Sally Martin	2,280.00	100.00	416.00	205.20	1,764.00	-
Tracy Green	2,880.00	-	492.00	259.20	2,388.00	-
	10,895.75	**200.00**	**1,718.00**	**957.17**	**8,977.75**	**-**

Superannuation Accruals

Demo Company (AU)
From 1 March 2015 to 31 March 2015

Employee	Employee Group	Employee Number	Super Fund Name	Contribution Type	Payment Date	Due Date	Amount
James Lebron	None	1234	HESTA Super Fund	SGC	18 Mar 2015	28 Apr 2015	138.08
James Lebron	None	1234	HESTA Super Fund	Salary Sacrifice	18 Mar 2015	28 Apr 2015	50.00
Odette Garrison	None	1234123	HESTA Super Fund	SGC	11 Mar 2015	28 Apr 2015	45.36
Odette Garrison	None	1234123	HESTA Super Fund	SGC	18 Mar 2015	28 Apr 2015	56.70
Odette Garrison	None	1234123	HESTA Super Fund	SGC	25 Mar 2015	28 Apr 2015	51.03
Oliver Gray	None	12345	OnePath Corporate Super	SGC	18 Mar 2015	28 Apr 2015	201.60
Sally Martin	None	1231412	HESTA Super Fund	SGC	18 Mar 2015	28 Apr 2015	205.20
Sally Martin	None	1231412	HESTA Super Fund	Salary Sacrifice	18 Mar 2015	28 Apr 2015	100.00
Tracy Green	None	1267862	HESTA Super Fund	SGC	11 Mar 2015	28 Apr 2015	86.40
Tracy Green	None	1267862	HESTA Super Fund	SGC	18 Mar 2015	28 Apr 2015	86.40
Tracy Green	None	1267862	HESTA Super Fund	SGC	25 Mar 2015	28 Apr 2015	86.40
							1,107.17

Note that **Amount** equals SGC plus Salary Sacrifice

Superannuation Payable Transactions

Demo Company (AU)
From 1 Mar 2015 to 31 Mar 2015

Date	Type	Transaction	Reference	Debit	Credit
28 Feb 2015		**Opening Balance**			**1,543.00**
7 Mar 2015	MJ	Superannuation Payment #597 - Xero One Click Super		1,543.00	
14 Mar 2015	MJ	Superannuation Liability -#589 Payroll Expense Journal - PD54			540.29
28 Mar 2015	MJ	Superannuation Liability -#593 Payroll Expense Journal - PD55			566.88
Total				**1,543.00**	**1,107.17**
31 Mar 2015		**Closing Balance**			**1,107.17**

Step 5 – Reconcile PAYG Withholding

Important: Ensure PAYG is reconciled before lodging your monthly or quarterly Activity Statement.

Due Dates:

Monthly Instalment Activity Statement (IAS) – Lodgement is due by the 21st of the month after the reporting period.

Quarterly Business Activity Statement (BAS) Lodgement is due by 28th of the month after the reporting period.

Process

- Reconcile the Bank account
- Reconcile the 804 – Wages Payable (Payroll Clearing) account
- Print and save a PDF of the "**Payroll Employee Summary**" for the period
- Print and save a PDF of the GL for:
    - Wages
    - PAYG Withholding
    - Super Liability
- Confirm the GL figures reconcile with the "**Payroll Activity Report**" for the period
- Investigate and correct discrepancies
  (Hint – Save time, create and use a customised Report Pack)

Payroll Employee Summary

Demo Company (AU)
From 1 March 2015 to 31 March 2015

Employee	Earnings	Deductions	Tax	Super	Net Pay	Reimb.
James Lebron	1,534.25	60.00	178.00	138.08	1,296.25	-
Odette Garrison	1,921.50	-	194.00	153.09	1,727.50	-
Oliver Gray	2,280.00	40.00	438.00	201.60	1,802.00	-
Sally Martin	2,280.00	100.00	416.00	205.20	1,764.00	-
Tracy Green	2,880.00	-	492.00	259.20	2,388.00	-
	10,895.75	**200.00**	**1,718.00**	**957.17**	**8,977.75**	**-**

PAYG Withholdings Payable Transactions

Demo Company (AU)
From 1 Mar 2015 to 30 Apr 2015

Date	Type	Transaction	Reference	Debit	Credit
28 Feb 2015		**Opening Balance**			**6,028.00**
14 Mar 2015	MJ	PAYG Withholding - Payroll Expense Journal - PD54	#598		773.00
21 Mar 2015	MJ	Payment February Activity Statement - REF 225486	#608	6,028.00	
28 Mar 2015	MJ	PAYG Withholding - Payroll Expense Journal - PD55	#607		945.00
Total				**6,028.00**	**1,718.00**
30 Apr 2015		**Closing Balance**			**1,718.00**

Bonus: Tips on Some Things to Watch Out For

Early warning signs that things are not going to plan and corrective action may be required.

The following information, obtained from an insolvency practitioner (liquidator), may be useful in determining if your business could soon be struggling. If any of the items below apply to your business, first determine if it is just a "glitch" or whether a trend is developing.

It is better monitor these things on a regular basis (see Key Performance Reporting KPI section) and take corrective measures early rather than allowing trends to develop to the point where urgent crisis management is needed.

Different approaches can be used to solve these problems so talk to your business advisor or accountant if you need any help.

Early warning signs may include:

1. Your overdraft is near or at its limit for a significant period of time
2. You have difficulty meeting your suppliers' payment terms
3. Staff are spending time on telephone with suppliers about outstanding payments
4. Suppliers are threatening COD terms or stopping supply
5. Suppliers putting your business last for service priority
6. Cheques/payments are dishonoured by your bank
7. Suppliers issuing demands or threatening legal action
8. Creditors' balance increasing whilst debtors and inventory/WIP remaining static
9. Difficulty paying GST and payroll tax deductions to Tax Office
10. Hesitation to lodge GST returns due to funds being required elsewhere in business
11. Correspondence received from Tax Office about outstanding GST lodgements or overdue payments
12. Needing to sell capital assets to fund ongoing trading
13. Unable to place orders for stock due to cash constraints
14. Staff morale down due to perception of cash-flow difficulties
15. Higher than normal staff turnover as a result of above
16. Bank requiring more information or security in order to maintain credit facility
17. Putting off costs of maintenance on equipment which could cause an interruption to the running of your business
18. Your bank has suggested refinancing

19. You fall behind with Superannuation obligations for employees
20. You slip behind with insurances e.g. workers compensation, product and public liability
21. Accountants express concern over financial accounts prepared

Bonus Bonus: More Tips to Help Make your Business a Lean Mean Fighting Machine!

Customers

Watch out for credit-worthiness of customers. If you are a service based business, try to get up front deposits and progress payments. If you are a product based business, check previous payment history of your big customers and negotiate better payment terms from them.

Stock

Closely monitor stock requirements. Check sales figures for trends and allow for some decline in sales compared to previous periods. Don't get sucked into buying stock because of discounts unless you are absolutely certain you can turn stock over quickly. Think of stock or work-in-progress as cash piled up on the shelves! Work closely with good customers to predict their short and long term requirements.

Accounts Receivables

- Put someone in charge of Accounts Receivables and give them a system to work with. Give them targets to meet.
- Get regular reports from and meet weekly with the person who is doing your collections.
- Ensure your customers know what your 'Terms-of-business' are and that they are clearly stated on your invoices and statements.
- Provide as many ways as possible for customers to pay you.
- Make speedy follow up calls and offer arrangements to pay off larger sums if they can't be paid in whole immediately.
- Don't hesitate to call in a debt collector.
- Let your customers know you're serious about payment from day one.

Accounts Payables

Get the maximum terms possible from suppliers and know what business you're doing with suppliers monthly to get better terms. Be prepared to shop around for alternatives.

Costs and Overheads

A ***small*** reduction in costs can have as much impact on the bottom line as a ***big*** increase in sales and may be easier to achieve. Shop around and look for more effective ways to achieve the results.

Don't just 'slash and burn' when it comes to cost reduction. Get a copy of your last Profit & Loss statement and take the time to go through each line of the P&L asking what can be cut and what can't.

- Assess if you could manage with one less staff member
- Cut phone costs, rent and a lot of little things
- Look closely at all your overheads and ask yourself 'How does this cost contribute to the profit?
- Don't cut the wrong overheads e.g. marketing and good staff

Conclusion

We trust you have found this guide informative and useful. Please contact Bond Bookkeeping Solutions, your Accredited Pure Bookkeeping Licensee, if you need any assistance with understanding or implementing any of the ideas that have been discussed.

We wish you every success!

This Guide has been produced to assist the small business owner understand the basic financial reports as produced by typical small business accounting software and is subject to the copyright and disclaimers outlined above.

This edition has been provided free of charge by Bond Bookkeeping Solutions

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