BSBSMB406A
MANAGE SMALL BUSINESS FINANCES
ASSESSMENT SUMMARY

The assessment activities for *BSBSMB406A Manage small business finances* cover all aspects of the unit of competency required. To demonstrate competence in this unit, a participant must undertake all tasks and complete them satisfactorily and consistently. For Apprentices and Trainees, this includes employer completion of the Employer Record Book (ERB).

Participants must read all the information given before starting any assessment task. The assessment tasks are intended to be equitable, fair and flexible. If a participant has any questions or requires alternative arrangements to be made such requests should be directed to their Trainer/Assessor, who should note such arrangements in the 'Assessor Comments' on the affected assessment. If a participant feels they are not yet ready to be assessed, they should discuss their options with their Trainer/Assessor.

To satisfactorily complete the assessment, the participant is required to answer all questions correctly and demonstrate their skills to industry standards. If a participant does not answer some questions or perform some tasks, they will be deemed 'Not Satisfactory' for the task and 'Not Yet Competent' for the unit of competency. The Trainer/Assessor is able to provide the participant with additional information on interpreting the assessment outcomes and provide guidance on the participant's options. Should a participant still be deemed 'Not Satisfactory' they will have the opportunity to undertake a supplementary assessment or appeal the result.

By signing the cover page for each assessment item, the participant acknowledges they understand the assessment instructions and requirements and consent to being assessed. The participant also verifies and assures the RTO that the work submitted is their own work.

Participant Name	Ricky Bull

Task	Assessment Results	
Theory Exam	☐ Satisfactory	☐ Not Yet Satisfactory
Practical Assessment	☐ Satisfactory	☐ Not Yet Satisfactory
Outcome for Unit of Competency	☐ **Competent**	☐ **Not Yet Competent**

Assessor Name	
Assessor Signature	
Unit Competence Determination Date	Click here to enter a date.

ASSESSOR COMMENTS

Q1. What does a financial plan enable you to do in your business?

Answer

A financial plan enables you to: measure the business' success, control the finances of the busines, evaluate the success of the business to make profit or loss, forecast your profitability, financial needs and financial viability.

☐

Q2. List five (5) types of financial information you might need to profitably operate and extend your business in accordance with the business plan.

Answer

5 types of financial information that you might need to profitably operate and extend your business are: asset registers, bookkeeping/accounting/stock/job costing records, business activity statements, cash flow forecasts, financial budgets, ratios.

☐

Q3. Match the following specialists and the services they can provide to a business by writing the appropriate letter next to each number in the centre column.

Answer

	Specialist	Answers		Services
1	Accountant	1 - E	A	Provides assistance and direction across a variety of business areas, working closely with management.
2	Broker	2 - D	B	Works with clients to determine their borrowing needs and ability, selects a loan suited to their circumstances.
3	Financial advisor	3 - B	C	Provides advice and services in the form of investment and capital raising advice, insurance and income protection.
4	Legal advisor	4 - C	D	Keeps financial records for a business, traditionally in the form of ledgers and journals.
5	Mentor	5 - A	E	Can draft contract, provide advice of regulatory issues or protection of intellectual property.

☐

Q4. Briefly explain how personal net worth calculated. Give an example.

Answer

Personal net worth is the difference between what you own (asset) and what you owe (liability). For example; if you own a house valued at $500,000 but have a mortgage of $400,000 then your net worth is $100,000

☐

Q5. Identify the information required when calculating a budget.

Answer

Information required when calculating a budget are fixed costs, variable costs, expected income and time frame.

☐

Q6. Explain the process for preparing a cash flow forecast.

Answer

The process for preparing cash flow forecast is as follows.
1). Starting cash – money you have, to start
2). Cash in – income coming into the business
3). Cash out – expenses coming out of the business
4). Ending cash – the difference between income made and expenses paid.

☐

Q7. True or False (Tick your response): Cash flow forecasts are usually carried out at least once during a twelve month period.

Answer

☑	True
☐	False

☐

Q8. **Refer to the anticipated figures in the table below to calculate the break even sales amount. Determine whether this business is viable.**

Total sales	$180,000
Fixed costs	$ 64,800
Variable costs	$ 78,300
Total costs	$143,100

Answer

By doing the calculations of (Total sales – variable costs)/total costs, we conclude the contribution value is 56 cents in a dollar. Then dividing our fixed cost by our contribution value, we find that the breakeven value for this business is $115,714.29. Subtract that amount from the total sales and we can see that this business model profits $64,285.71 more than their breakeven figure, making it a viable business running at a profit.

☐

Q9. **Refer to the anticipated figures in the table below to calculate the break even sales amount. Determine whether this business is viable.**

Total sales	$ 800,000
Fixed costs	$ 559,800
Variable costs	$ 243,300
Total costs	$ 803,100

Answer

Using the same previous equations, we can work out that the contribution value is 69 cents in a dollar. Continuing on, we work out that the breakeven value for this business model is $811,304.35, which is $11,304.35 more than the total sales, making this business model not viable, as it runs at a loss.

☐

Q10. **The cost of goods sold (COGS) is the total expense associated with the goods sold in a reporting period.**

James has a business selling books on eBay. An inventory count at the beginning of November shows that he has $50,000 worth of inventory on hand. Over the month, he purchases another $14,000 worth of books. His inventory count at the end of November shows that he has $22,000 of inventory on hand.

Using the calculation for COGS (Beginning Inventory + Purchases - Ending Inventory = Cost of Goods Sold) determine the cost of goods sold for James' business.

Answer

$50,000 + $14,000 - $22,000 = $42,000
The COGS for James' business is $42,000

☐

Q11. **Identify the three (3) main methods of pricing products/services by writing the appropriate letter next to each number in the centre column.**

Answer

	Structure	Answers
1	Competition-based pricing	1 - C
2	Cost-based pricing	2 - A
3	Demand-based pricing	3 - B

	Taxation requirements
A	Adding together direct costs, indirect costs, profit margin and market price.
B	Consider how much customers are prepared to pay.
C	Charging a price as per market price.

☐

Q12. **Name three (3) individuals/parties who should receive financial budgets/projections.**

Answer

Three individuals/parties that should receive financial budget/projections are banks, creditors, and investors.

☐

Q13. **Provide three (3) reasons why you may need to raise business capital.**

Answer

Three reasons to raise business capitol are:
1). New technologies to increase production capacity
2). Developing and marketing new products and ideas
3). Entering new markets, such as geographical areas or new customer types.

☐

Q14. **Which of the following could be a potential financial backer? Tick all that apply.**

Answer

Choice	Possible Answers
☑	Banks
☐	Family and friends
☑	Private investors
☑	Shareholders

☐

Q15. **Which of the following are relevant when negotiating, securing and managing business capital? Tick all that apply.**

Answer

Choice	Possible Answers
☑	Contingency plans
☑	Necessary experience
☑	Tested business model
☑	Tested marketing approach

☐

Q16. **True or False (Tick your response): Tax obligations will differ depending on your business structure.**

Answer

☑	True
☐	False

☐

Q17. **Identify two (2) strategies that could be implemented to make sure your taxation liabilities are met when they are due.**

Answer

Two strategies that could be implemented are
1). Regular and accurate accounting procedures
2). PAYG installations

☐

Q18. **Tax obligations will differ, depending on the business's structure. Match the structures and their taxation requirements by writing the appropriate letter next to each number in the centre column.**

Answer

	Structure	Answers
1	Company	1 - B
2	Partnership	2 - C
3	Sole Trader	3 - A
4	Trust	4 - D

	Taxation requirements
A	Declare business income (or loss) in their personal income tax return and pay tax at individual tax rates.
B	A separate legal entity with its own income tax liability. No tax-free threshold.
C	Must lodge a tax return, but doesn't pay tax. Those involved pay tax on their share of the income according to individual tax rates.
D	Holds income for the benefit of others. Generally has no tax liability where the whole of the net income is distributed to adult resident beneficiaries. Each beneficiary pays tax on their share of the income according to individual tax rates.

☐

Q19. **What is a credit policy? Identify three (3) points that may be included in a credit policy.**

Answer

A credit policy is an option that encourages customers to speed up or increase the amount of their spending. A credit policy can also be a competitive advantage for some businesses in the marketplace. Three points that may be included in a credit policy are:
1). Payment options
2). Collateral
3). Credit limits

☐

Q20. **Explain how a credit policy can maximise cash flow.**

Answer

A credit policy can maximise cash flow, opening up a variety payment options to consumers, enabling more people to purchase goods and services without needing lump sums for payment.

☐

Q21. **Describe one (1) method you may use to address debtors in default.**

Answer

To address debtors in default, you may engage a debt collector to take reasonable steps to secure payment from consumers that are legally bound to pay moneys owed.

☐

Q22. **What purpose do Key Performance Indicators (KPIs) play in managing and monitoring a business?**

Answer

KPI's are used for a variety of areas to a business, such as financial performance, business development, product and service range and more. The purpose of KPI's is to monitor, record, reflect and improve in listed (and other) areas to ensure the overall success of a business.

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Q23. **True or False (Tick your response): Financial plans, strategies and objectives develop over time, so it is inappropriate to continue reporting on the same KPIs as in previous periods.**

Answer

☑	True
☐	False

☐

Q24. **Explain the seven (7) general characteristics of an effective KPI.**

Answer

Characteristic	Explanation
Non-Financial	Non-financial measures, not expressed in dollars
Timely	Measured frequently
Management Focus	Acted upon by management
Simplicity	All staff understand the KPI and what corrective action is required
Team Orientated	Responsibility can be assigned to a team who work closely together
Significant Impact	Has a noteworthy effect on the business's outcomes
Encourage Appropriate Action	Has been tested to ensure it has a positive impact on performance

☐

Q25. **Why should you consult with relevant stakeholders when developing financial procedures?**

Answer You should consult with relevant stakeholders to ensure that the procedures are relevant and understand.

☐

Q26. **Explain how you should communicate financial procedures to facilitate implementation of the business plan.**

Answer It is best to communicate financial procedures by putting them into writing and making them readily available to all.

☐

Q27. **True or False (Tick your response): The best way to maintain control of your business is to continuously monitor its financial performance targets.**

Answer

☑	True
☐	False

☐

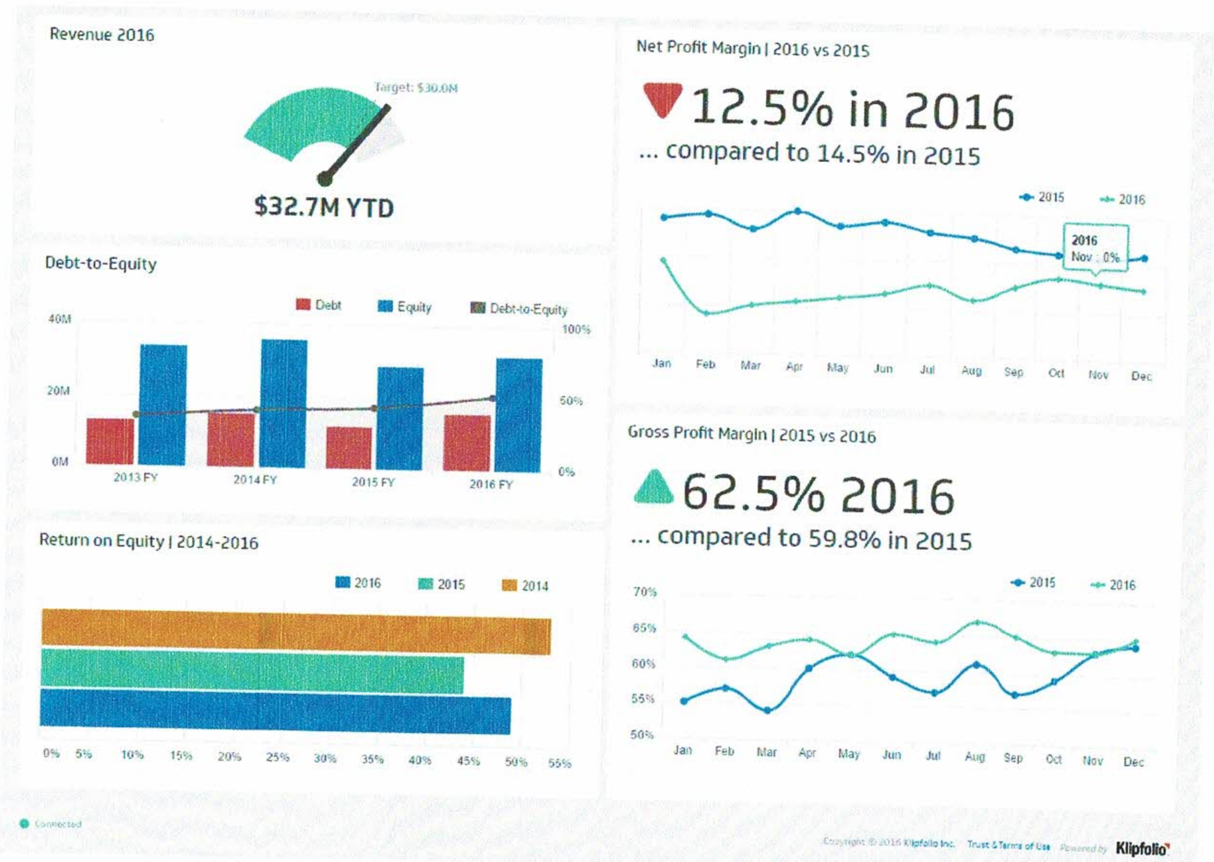
Q28. **Identify four (4) points that a financial report should be able to address.**

Answer

Four points a financial report should address are:
1). Is the business making a profit or suffering a loss, and how much?
2). How do assets stack up against liabilities?
3). What's the cash flow from the profit or loss for the period?
4). Does the business have enough capital for future growth?

☐

Refer to the following financial report to respond to Q29. to Q31.



Source: https://www.klipfolio.com/resources/dashboard-examples/executive/kpi-dashboard

Q29. **True or False (Tick your response): The target revenue in 2016 was met.**

Answer

☑	True
☐	False

☐

Q30. **True or False (Tick your response): The gross profit margin for 2016 is better than 2015.**

Answer

☑	True
☐	False

☐

Q31. **True or False (Tick your response): The net profit margin for 2016 is better than 2015.**

Answer

☐	True
☑	False

☐

Q32. **How is gross profit determined for a profit and loss statement?**

Answer

Gross profit is determined from sales minus cost of goods sold, minus any other expenses related to the production of a good or service.

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Q33. **Name six (6) expenses considered in a profit and loss statement.**

Answer

1). Accounting fees
2). Bank fees and charges
3). Credit card fees
4). Rent and rates
5). Vehicle expenses
6). Insurance

☐

Q34. **How is net profit calculated on a profit and loss statement?**

Answer Net profit is calculate by gross profit/net sales minus total expenses. ☐

Q35. **Name two (2) current assets and two (2) fixed assets that would be considered when compiling a balance sheet.**

Answer

Asset	Examples
Current	1). Cash 2). Inventory
Fixed	1). Property and land 2). Vehicles

☐

Q36. **Name two (2) long-term liabilities and two (2) short-term liabilities that would be considered when compiling a balance sheet.**

Answer

Liability	Examples
Long-term	1). Loans 2). Equipment finance
Short-term	1). Accounts payable 2). Income tax

☐

Q37. **How are net assets calculated on a balance sheet?**

Answer Net assets is calculated from total assets minus total liabilities. ☐

Q38. **True or False (Tick your response): You may be legally obligated to perform an annual stocktake based on the stock and size of your business.**

Answer

☑	True
☐	False

☐

Q39. **You should be able to track in item in your stock by which of the following details? Tick all that apply.**

Answer

Choice	Possible Answers
☑	Applicable tax
☑	Cost
☑	Point-of-sale details
☑	Quantity
☑	Selling price
☑	Source of supply
☑	Stock number
☑	Stored location
☑	Unique item number

☐

Q40. **Describe the effects that marketing strategies can have on the financial plan.**

Answer

A good marketing strategy can help reach your target audience, boost your customer base, and ultimately, increase the bottom line of your company. By targeting a wider (or niche) market audience, your business is gaining customers and in-turn, gaining revenue.

☐

Q41. **Describe the effects that operational strategies can have on the financial plan.**

Answer

Operating strategies drive a company's operations, the part of the business that produces and distributes goods and services. With an effective operations strategy you can optimise the use of resources, people, processes, and technology. In doing so, and utilising each of these areas, your business can/will save costs.

☐

Q42. There are some common financial ratios used which allow the financial position of a business to be compared over time. Three (3) of these are working capital, current ratio and quick ratio (or acid test ratio).

The equations and explanations for these follow in the table below:

Financial ratio	How to calculate It	What it tells you
Working Capital	= Current Assets - Current Liabilities	An indicator of whether the company will be able to meet its current obligations (i.e. pay its bills & meet its payroll, make a loan, etc.) If a company has current assets exactly equal to current liabilities. The greater the amount of working capital the more likely it will be able to make its payment on time
Current Asset Ratio	= Current Assets ÷ Current Liabilities	This tells you the relationship of current assets to current liabilities. A ratio of 3:1 is better than 2:1. A 1:1 ratio means there is no working capital
Quick Asset Ratio (Acid Test)	= (Cash + Temp. Investments + Accounts Receivable) ÷ Current Liabilities : 1	This ratio is similar to the Current Asset Ratio except that Inventory, Supplies and Prepaid Expenses are excluded. This indicates the relationship between the amount of assets that can be quickly turned to cash versus the amount of liabilities

Using the example company balance sheet on the following page, determine:

- **Working Capital**
- **Current Asset Ratio**
- **Quick Asset Ratio (Acid Test)**

Answer

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Item	Calculations
Working Capital	$89,000 (current assets) - $61,000 (current liabilities) = $28,000
Current Asset Ratio	$89,000 / $61,000 = 1.46 (1.459)
Acid Test	($2,100 + $10,000 + $40,500) / $61,000 = 0.86 (0.862_

Example Company
Balance Sheet
December 31, 2014

ASSETS

Current assets	
Cash	$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	89,000
Investments	36,000
Property, plant & equipment	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	(56,000)
Prop, plant & equip - net	337,000
Intangible assets	
Goodwill	105,000
Trade names	200,000
Total intangible assets	305,000
Other assets	3,000
Total assets	$ 770,000

LIABILITIES

Current liabilities	
Notes payable	$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	61,000
Long-term liabilities	
Notes payable	20,000
Bonds payable	400,000
Total long-term liabilities	420,000
Total liabilities	481,000

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	229,000
Less: Treasury stock	(50,000)
Total stockholders' equity	289,000
Total liabilities & stockholders' equity	$ 770,000

Q43. **Name and describe the two (2) types of benchmarks provided by the Australian Tax Office.**

Answer

Benchmark	Explanation
Performance	Performance benchmarks are financial ranges for your industry to help work out how you compare to other businesses in your industry and if you need to make any improvements.
Input	Input benchmarks show an expected range of income for tradespeople based on the labour and materials they use to undertake domestic projects.

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	They are developed from information provided to us by industry participants and trade associations.

Q44. **True or False (Tick your response): Comparing your ratios to the benchmark will give you a better idea of how your business is tracking and whether change might be required.**

Answer

☑	True
☐	False

☐

Q45. **Provide two (2) reasons that might cause you to alter your financial plan.**

Answer

Two reasons you may alter your financial plan would be
1). Due to a change in market
2). Change in business goals.

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PRACTICAL ASSESSMENT INSTRUCTIONS

- The following practical assessment will require the Participant to complete work related activities.
- The Assessor will conduct observations of the Participant's work to determine whether they display sufficient practical skills and knowledge.
- Please fill in the details below – providing your name, signature and date of assessment.
    - The Participant's signature acknowledges that the Assessor provided clear instructions and the Participant understood what was required to complete this assessment.
- The Assessor may substitute a Practical Task with an alternate task of equal value.
    - Alternate tasks must be fully documented by the assessor in the Assessor Comments area.

Participant name	Ricky Bull
Participant signature	
Date	26/02/2021
Assessor name	
Assessor signature	
Date	Click here to enter a date.

Task	Task outcome (Tick)	
	Satisfactory	Not Yet Satisfactory
Task 1	☐	☐

ASSESSOR COMMENTS

BSBSMB406A
MANAGE SMALL BUSINESS FINANCES

Practical Task 1

Description of task:
A suitable observer is to verify the participant's ability to implement, monitor and review strategies for the ongoing management of a small business's finances. The participant is to gather evidence of how they have completed each component of the Practical Task, which is to be submitted with this Practical Assessment sheet.

Evidence to be submitted may include:
- A cash flow forecast or budget
- Evidence of bookkeeping and transaction recording processes including accounting system/s used, for example MYOB, QuickBooks, Excel.
- Copies of transaction records
- Business loan agreements or Lease agreements
- Supplier account notices with trading terms
- Copy of invoice noting trading terms
- A letter from their accountant, etc. that acknowledges their association
- Copy of a Business Activity Statement
- A copy of a Profit and Loss Statement or Balance Sheet
- A copy of a financial plan if available

The observer is to provide detailed comments on the tasks completed by the participant. The assessor is to verify the observer's comments and provide the outcome for the practical task on the front cover of the Practical Assessment.

Resources required:
Business financial data, business plan.

Assessment of task

Name of participant:	Ricky Bull
Name of observer:	Grant Slatter
Role of observer (Confirm suitability to sign)	Site manager
Email address of observer	Grant.slatter@paynters.com.au
Signature of observer:	
Date:	26/02/2021

When completing the task, did the participant:	**Tick if satisfactorily completed. Provide comments if left unticked.**
1.A. Collate/prepare documentation of existing business financial information, including: • Balance sheets • Profit and loss statements • Stock records	☑
1.B. Identify financial information requirements and obtain specialist services, as required, to profitably operate the business in accordance with the business plan.	☑

1.C.	Produce financial budgets or projections, including cash flow estimates, as required for each forward period, and distribute to relevant people in accordance with legal requirements.	☑
1.D.	Verbally negotiate, secure and manage business capital to best enable implementation of the business plan to meet requirements of financial backers.	☑
1.E.	Develop and maintain strategies to enable adequate financial provision for taxation in accordance with legal requirements.	☑
1.F.	Develop, monitor and maintain client credit policies, including contingencies for debtors in default, to maximise cash flow.	☑
1.G.	Select key performance indicators to enable ongoing monitoring of financial performance.	☑
1.H.	Record and verbally communicate financial procedures to relevant people to facilitate implementation of the business plan, confirming audience understanding through questioning and listening.	☑
1.I.	Regularly monitor and report (verbally and in writing) on financial performance targets, and analyse data to establish the extent to which the financial plans has been met.	☑
1.J.	Monitor marketing and operational strategies for their effects on the financial plan.	☑
1.K.	Calculate and evaluate financial ratios according to own or industry benchmarks.	☑
1.L.	Assess financial plan to determine whether variations or alternative plans were needed, and changed as required.	☑

The Participant's performance was: ☑ **Satisfactory** ☐ **Not Satisfactory**

OBSERVER COMMENTS