

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	Ryan Readdy
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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.

BSBSMB406A

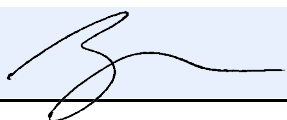
MANAGE SMALL BUSINESS FINANCES

THEORY EXAM INSTRUCTIONS

1. This exam will occur under standard assessment conditions.
 1. An oral examination may be allowed under certain circumstances, whereby the Participant's answers will be documented by a party other than the Participant. This must be acknowledged in writing (e.g. FT001 and Assessor Comments)
2. Participants must provide enough detail in their responses to demonstrate their knowledge and skills.
3. Please fill in the details below, providing your name, signature and date of assessment.
 1. Your signature acknowledges that this is your own work.
4. Assessors are to complete marking in pen of a different colour to the Participant.
5. If a Participant initially answers a question incorrectly but modifies their response, they must follow the instructions below:
 1. If a Participant changes their response in writing, they must put their initials next to the written change.
 2. If a Participant changes their response verbally, this must be noted on the exam paper by the assessor.

Participant name Ryan Readdy

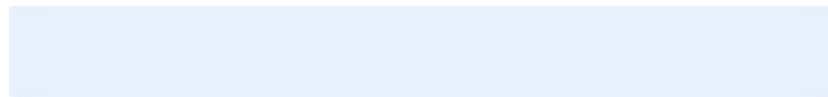
Participant signature



Date 17/10/2019

Assessor name

Assessor signature



Date [Click here to enter a date.](#)

Number of questions	Number of questions answered correctly	Task outcome (Tick)	
45		Satisfactory	Not Yet Satisfactory
		☐	☐

ASSESSOR COMMENTS

- **What does a financial plan enable you to do in your business?**

Answer

- Measure the business's success
- Control the finances of the business
- Evaluate the ability of the business to make a profit or loss
- Forecast profitability, financial needs and financial viability



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

Answer

1. Asset registers
2. Bookkeeping/accounting/stock/job costing records
3. Business Activity Statements
4. Cash Flow forecasts
5. Financial budgets



- **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 - D	A	Provides assistance and direction across a variety of business areas, working closely with management.
2	Broker	2 - B	B	Works with clients to determine their borrowing needs and ability, selects a loan suited to their circumstances.
3	Financial advisor	3 - C	C	Provides advice and services in the form of investment and capital raising advice, insurance and income protection.
4	Legal advisor	4 - E	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.



- **Briefly explain how personal net worth calculated. Give an example.**

Answer Personal net worth is the difference between what one owns and what one owes.

If one owns a house worth \$400,000.00 and has a mortgage on the house of \$300,000.00 then their Personal Net Worth would be \$100,000.00

☐

- **Identify the information required when calculating a budget.**

Answer 1. Time frame for the budget
2. Fixed costs, Variable costs, Expected income.

☐

- **Explain the process for preparing a cash flow forecast.**

Answer Determine existing cash balance.
Forecast the business's income for the period.
Forecast the business's expenses for the period.

Existing cash + Forecast Income – Forecast Expenses = Ending Cash

☐

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

Answer

☒	True
☐	False

☐

- **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 ☐

Contribution margin = (Total sales – Variable Costs) / Total Sales
 = (\$180,000 – \$78,300) / \$180,000
 = 0.565

Break Even Sales = Fixed Costs/Contribution margin
 = \$64,800 / 0.565
 = \$114,690

Since the Break Even Sales are \$114,690 which is far less than the expected sales of \$180,000 the business is viable.

- **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 ☐

Contribution margin = (Total sales – Variable Costs) / Total Sales
 = (\$800,000 – \$243,300) / \$800,000
 = 0.6959

Break Even Sales = Fixed Costs/Contribution margin
 = \$559,800 / 0.6959
 = \$804,772

Since the Break Even Sales are \$804,772 which is greater than the expected sales of \$800,000 the business is not viable.

- 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

COGS = Beginning Inventory + Purchases - Ending Inventory
Beginning Inventory = \$50,000
Purchases = \$14,000
Ending Inventory = \$22,000
COGS = \$50,000 + \$14,000 - \$22,000
= \$42,000



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

Structure		Answers	Taxation requirements	
1	2		A	B
1	Competition-based pricing	1 - C	A	Adding together direct costs, indirect costs, profit margin and market price.
2	Cost-based pricing	2 - A	B	Consider how much customers are prepared to pay.
3	Demand-based pricing	3 - B	C	Charging a price as per market price.



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

Answer

1. Creditors
2. Investors
3. Banks/Lenders



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

Answer

1. Starting a new business
2. Entering new markets
3. Moving to a new premises

☐

- 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

☐

- 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

☐

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

Answer

☒	True
☐	False

☐

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

Answer 1. Open a designated bank account to keep funds required for taxation purposes.
2. Regular and accurate accounting procedures.



- 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	Taxation requirements
1	Company	1 - B	A Declare business income (or loss) in their personal income tax return and pay tax at individual tax rates.
2	Partnership	2 - C	B A separate legal entity with its own income tax liability. No tax-free threshold.
3	Sole Trader	3 - A	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.
4	Trust	4 - D	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.



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

Answer A credit policy sets the terms and conditions of supplying goods/services on credit.

- Credit limit
- Payment terms
- Payment options



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

Answer By ensuring that moneys that are owed to the business are due/collected before the money for these goods/services are required to be paid by the business.

☐

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

Answer 1. By reducing or cancelling the credit terms that were offered to the debtor.

☐

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

Answer KPIs are predetermined measurements that reflect the critical success factors of a company. They can be used to determine the actual results of the business performance.

☐

- **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

☐

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

Answer

Characteristic	Explanation
Non-Financial	Non-financial measures, not expressed in dollars
Timely	Measured timely
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



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

Answer To ensure that the procedures are relevant and understood.



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

Answer The procedures should be put in writing and made available to relevant parties. Training programs may also be developed.



- **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

☐

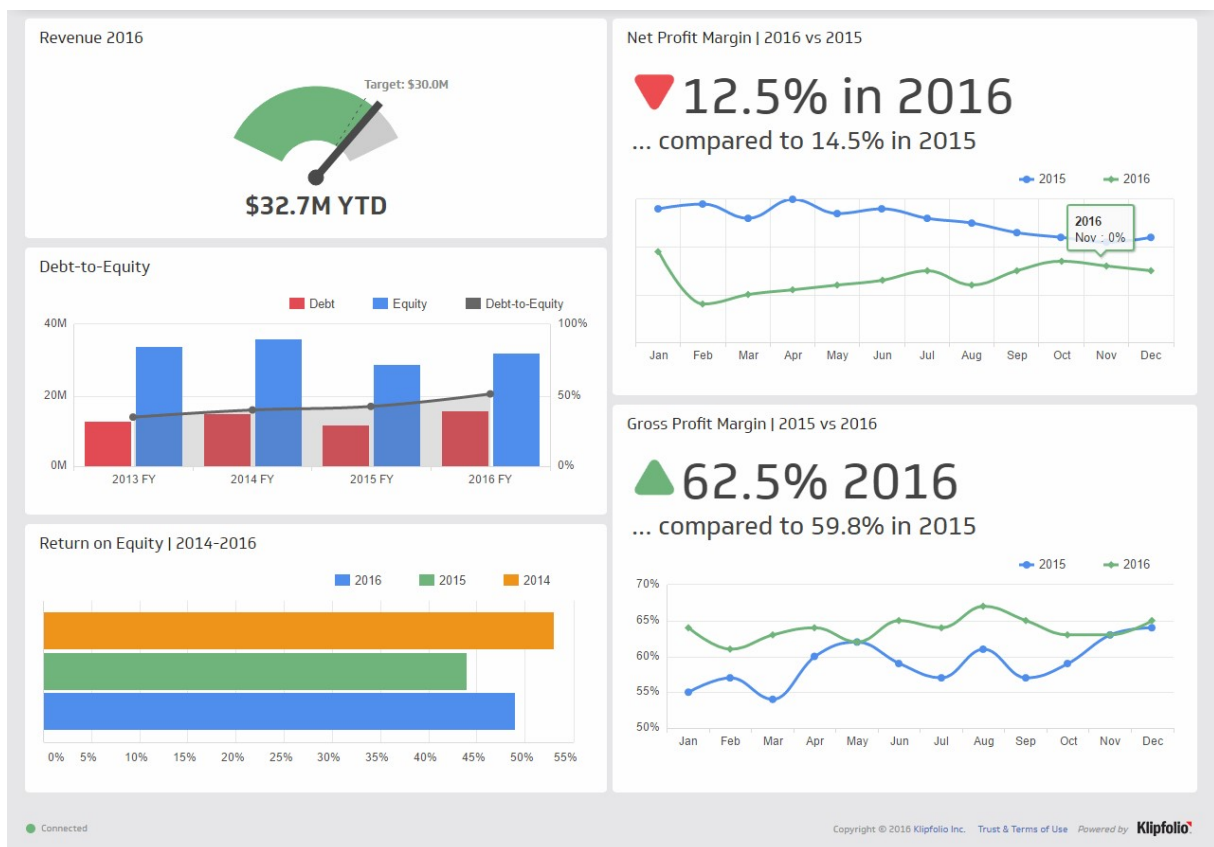
- **Identify four (4) points that a financial report should be able to address.**

Answer

- Is the business making a profit or suffering a loss, and how much?
- How do assets stack up against liabilities?
- Where did the business get its capital, and is it making good use of the money?
- Does the business have enough capital for future growth?

☐

Refer to the following financial report to respond to -to -



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

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

Answer

☒	True
☐	False

☐

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

Answer

☒	True
☐	False

☐

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

Answer

☐	True
☒	False

☐

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

Answer Gross Profit = Total sales – Cost Of Goods Sold

☐

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

Answer

1. Accountant Fees
2. Advertising and marketing
3. Bank fees and charges
4. Bank interest
5. Property Fees
6. Motor Vehicle Expenses

☐

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

Answer Net Profit = Gross Profit – Total Expenses

☐

- **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. Leasehold. 2. Vehicles

☐

- **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. Hire Purchase liabilities
Short-term	1. Credit Cards payable 2. Accounts payable

☐

- **How are net assets calculated on a balance sheet?**

Answer Net Assets = Total Assets – Total Liabilities

☐

- **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

☐

- 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

☐

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

Answer

Good marketing strategies can help one to develop the products and services within the business and to reach the target audience. This in turn may increase sales which will assist in reaching the goals of the financial plan.

☐

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

Answer

Operational strategies drive the company's operations which is the part of the business that delivers the good and services of the business. Through good operational strategies the business can optimise their use of resources, processes and technologies, thereby increasing the business financial performance.

☐

- 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:

6. Working Capital
7. Current Asset Ratio
8. Quick Asset Ratio (Acid Test)

Answer

Item	Calculations
Working Capital	$= \text{Current Assets} - \text{Current Liabilities}$ $= \$89,000 - \$61,000$ $= \$28,000$
Current Asset Ratio	$= \text{Current Assets} / \text{Current Liabilities}$ $= \$89,000 / \$61,000$ $= 1.459 : 1$
Acid Test	$= (\text{Cash} + \text{Temp. Investments} + \text{Accounts Receivable}) / \text{Current Liabilities} : 1$ $= (\$2,200 + \$10,000 + \$40,500) / \$61,000 : 1$ $= \$52,700 / \$61,000 : 1$ $= 0.864 : 1$



**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	<u>89,000</u>

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	<u>337,000</u>

Intangible assets

Goodwill	105,000
Trade names	200,000
Total intangible assets	<u>305,000</u>

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	<u>61,000</u>

Long-term liabilities

Notes payable	20,000
Bonds payable	400,000
Total long-term liabilities	<u>420,000</u>

Total liabilities

481,000**STOCKHOLDERS' EQUITY**

Common stock	110,000
Retained earnings	229,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>

Total liabilities & stockholders' equity

\$ 770,000

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

Answer

Benchmark	Explanation
Performance Benchmarks	Compares ones performance against other similar business within ones industry. There are two types of performance benchmarks; 1. Income tax (from information provided from tax returns. 2. Activity statements (from information provided from financial year activity statements.



Input Benchmarks	These show an expected range of income for tradespeople based upon the labour and materials they use to undertake domestic projects. They are developed from information provided by industry participants and trade associations.
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- **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

☐

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

Answer

1. Realisation via the Acid Test that whilst the company is viable, it may have a cash flow issue and be unable to easily service its current liabilities, and have to take action to reduce spending.
2. May decide that due to a positive Working Capital ratio that there is room for the business to make a new asset purchase.

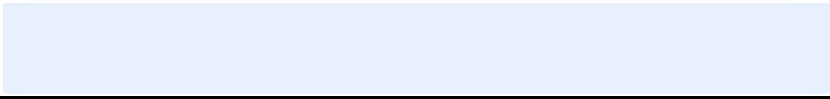
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BSBSMB406A MANAGE SMALL BUSINESS FINANCES

PRACTICAL ASSESSMENT INSTRUCTIONS

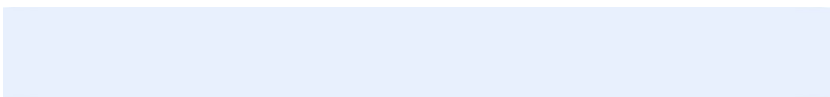
9. The following practical assessment will require the Participant to complete work related activities.
10. The Assessor will conduct observations of the Participant's work to determine whether they display sufficient practical skills and knowledge.
11. Please fill in the details below – providing your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

Participant name Ryan Readdy

Participant signature 

Date 17/10/2019

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:	Ryan Readdy	
Name of observer:	Luke Goldsbrough	
Role of observer (Confirm suitability to sign)	Chartered Accountant	
Email address of observer	luke@frederiks.com.au	
Signature of observer:		
Date:	30/10/2017	
When completing the task, did the participant:		Tick if satisfactorily completed. Provide comments if left unticked.
1. Collate/prepare documentation of existing business financial information, including:		
2. Balance sheets		
3. Profit and loss statements		
4. Stock records		☒
5. Identify financial information requirements and obtain specialist services, as required, to profitably operate the business in accordance with the business plan.		☒
6. 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.		☒

7.	Verbally negotiate, secure and manage business capital to best enable implementation of the business plan to meet requirements of financial backers.	☒
8.	Develop and maintain strategies to enable adequate financial provision for taxation in accordance with legal requirements.	☒
9.	Develop, monitor and maintain client credit policies, including contingencies for debtors in default, to maximise cash flow.	☒
10.	Select key performance indicators to enable ongoing monitoring of financial performance.	☒
11.	Record and verbally communicate financial procedures to relevant people to facilitate implementation of the business plan, confirming audience understanding through questioning and listening.	☒
12.	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.	☒
13.	Monitor marketing and operational strategies for their effects on the financial plan.	☒
14.	Calculate and evaluate financial ratios according to own or industry benchmarks.	☒
15.	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

Frederiks Accountants have been engaged by Ryan to provide professional accounting services and advice for his organisation since its inception in 2018. As part of this service we regularly meet with Ryan to discuss and review his business strategies and to monitor its performance.

Ryan's organisation uses the Xero online accounting platform that enables him to produce his financial reports and Business Activity Statements in accordance with legislative requirements. We are also connected to his Xero account which allows ourselves to remotely provide support to Ryan in achieving his financial plan.