

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	Nathan Wheeler
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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

- This exam will occur under standard assessment conditions.
 - 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)
- Participants must provide enough detail in their responses to demonstrate their knowledge and skills.
- Please fill in the details below, providing your name, signature and date of assessment.
 - Your signature acknowledges that this is your own work.
- Assessors are to complete marking in pen of a different colour to the Participant.
- If a Participant initially answers a question incorrectly but modifies their response, they must follow the instructions below:
 - If a Participant changes their response in writing, they must put their initials next to the written change.
 - If a Participant changes their response verbally, this must be noted on the exam paper by the assessor.

Participant name Nathan Wheeler

Participant signature Nathan Wheeler

Date 17/01/2021

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
		☐	☐

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

Answer A financial plan gives the opportunity to monitor your company as it grows. It keeps you on track financially and gives transparency to investors and various important members of the company.

**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 Asset Registers
Financial Budgets
Cash flow forecasts
Business Activity Statements
Break even analysis

**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 - 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.



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

Answer Personal net worth is calculated by measuring your assets against your liabilities. For example someone who has \$100,000 worth of assets and \$50,000 worth of liabilities would have a net worth of \$50,000.



Q5. Identify the information required when calculating a budget.

Answer Time frame of budget
Fixed costs, variable costs and expected income



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

Answer Cash flow refers to the movement of cash in and out of the business.
4 main things to consider when preparing a cash flow forecast-



1. starting cash – this can depend on a number of factors such as existing cash balance, capital, borrowings and government allowances.
2. Cash in – income from sales, interest (income from invested monies, shares and income from interest from bank accounts) and capital contributions and loans received.
3. Cash out – All expenses that are incurred over the cash flow forecast period this includes wages, salaries and accounts payable.
4. Ending cash – the difference between income received and expenses paid.

The formula used to estimate cashflow is

Starting cash + Cash in – Cash out = Ending cash

- 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

Contribution margin is

$$\frac{\$180,000 \text{ (total sales)} - \$78,300 \text{ (variable costs)}}{\$180,000 \text{ (total sales)}}$$

= 0.565

Break Even sales is

$$\frac{\$64,000 \text{ (fixed costs)}}{0.565 \text{ (contribution margin)}}$$

= \$113,274

We can determine that the anticipated total sales of \$180,000 is \$66,726 above the break even sales amount of \$113,274. Therefore, the business is viable.

☐

- 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

Contribution margin is

$$\frac{\$800,000 \text{ (total sales)} - \$243,300 \text{ (variable costs)}}{\$800,000 \text{ (total sales)}}$$

$$= 0.695$$

Break Even sales is

$$\frac{\$559,800 \text{ (fixed costs)}}{0.695 \text{ (contribution margin)}}$$

$$= \$805,467$$

We can determine that the anticipated total sales of \$800,000 is \$5,467 below the break even sales amount of \$805,467. Although the business could be considered viable in the long term as unknown factors that aren't disclosed in this question could affect the company's sales or costs, strictly based on the numbers in this instance, the business is not viable.



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

Beginning inventory - \$50,000
 Purchases - \$14,000
 Ending inventory - \$22,000

COGS Calculation

$$50,000 + 14,000 - 22,000$$

$$= \$42,000$$



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

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

Answer

Banks Creditors Investors	☐
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Q13. Provide three (3) reasons why you may need to raise business capital.

Answer

Developing and marketing new products and ideas Entering new markets New technologies to increase production capacity	☐
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**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

Regular and accurate accounting procedures
Designated bank accounts for taxation payments

☐

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	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

☐

4	Trust	4 - D	individual tax rates. 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 a set of guidelines that sets out payment and credit terms for customers. Along with the course of action that is taken out on defaulting payments and outstanding credit accounts.

3 points that would be included in a company's credit policy are

- Credit period
- Credit limits
- Collection policy

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

Answer ☐ A credit policy can encourage a customer to speed up or increase the amount they spend. If used correctly it can be used as a competitive advantage in the market.

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

Answer ☐ You could engage a debt collector to secure payment.

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

Answer

KPI's are used to measure performance of employees in the business. They can be used to monitor financial performance, business development, product and service range, provision of and the delivery of professional services and relationships within the organisation.

☐

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 outcome
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

Financial backers need to be informed of how their money is being spent and used. They have the right to know whether their money is going to return a profit.



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

Answer

It is best to put it in writing and make it readily available to all staff and stakeholders. If there procedures that require training development, that can be implemented at a nominated date.



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

☐

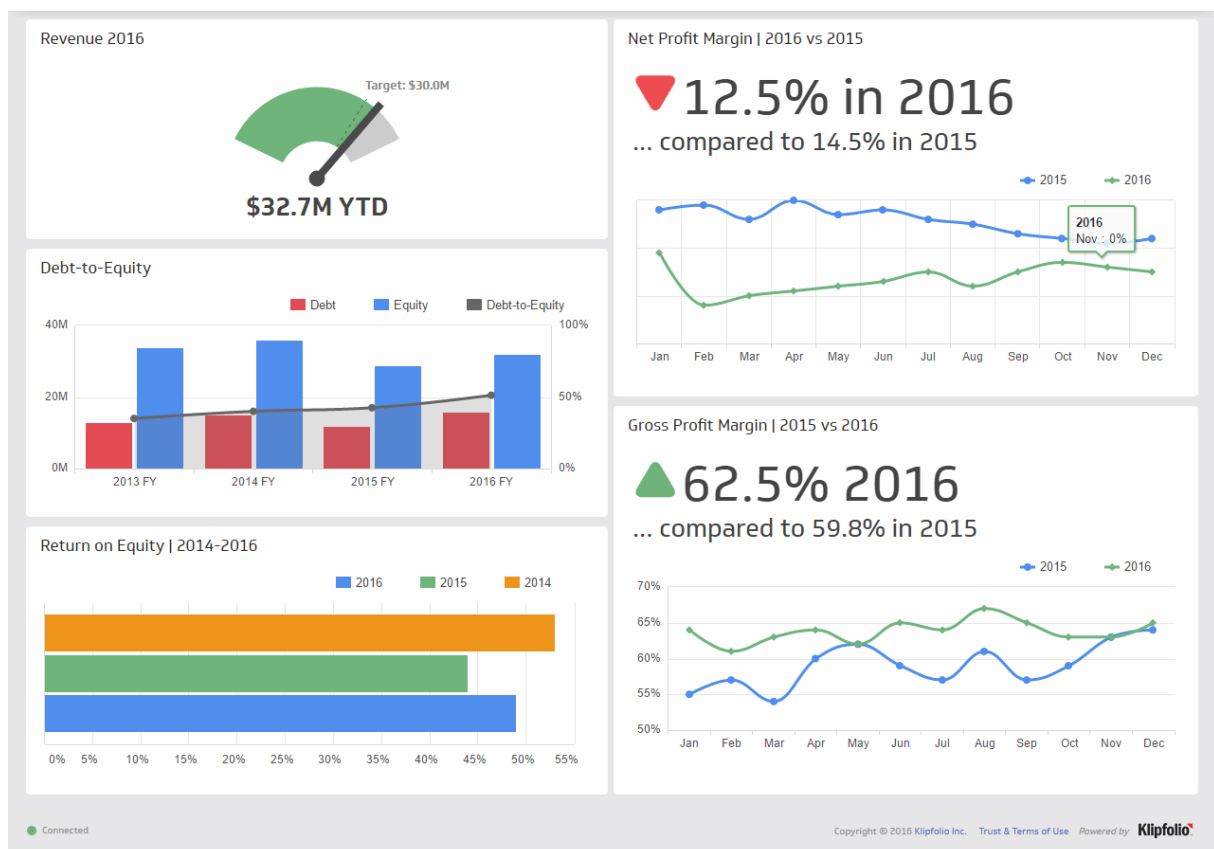
Q28. Identify four (4) points that a financial report should be able to address.

Answer

Is the business making a profit or a loss.
Asset value measured against liabilities.
Source of business capital and spendature.
Business capital and 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 = Total revenue – cost of goods sold or service provided

☐

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

Answer

Salary and wages
Interest expenses
Insurance
Rental expenses
Electricity
Travel expenses such as fuel

☐

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

Answer Net profit = Total revenue – 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	Cash and Cash equivalents Inventory and supplies
Fixed	Land Equipment

☐

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	Deferred tax liabilities Loans
Short-term	Accounts payable Income tax payable

☐

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

Answer Total Assets (fixed and current) – Total liabilities (short and long term) = Net Assets

☐

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

Marketing strategies can cause an increase in sales due to reaching target audiences and boosting customer base. The bottom line would be increased and therefore alterations to the financial plan are required.

☐

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

Answer

Costs affected with implementing good operational strategies such as good systems for costing and controls, HR for employing suitable candidates, dealing with suppliers are all associated with potential costs that can affect the financial plan.

☐

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

Item	Calculations
Working Capital	Working capital = Current assets – current liabilities 289,000 = 770,000 – 481,000
Current Asset Ratio	Current Asset Ratio = Current assets / Current liabilities 1.6 = 770,000 / 481,000
Acid Test	Acid test = (Cash + Temp. Investments + Accounts Receivable) ÷ Current Liabilities : 1 .47 = (2100 + 10000 + 40500) / 61000 : 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

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

Answer

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



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

Change in the market. Change in business goals.
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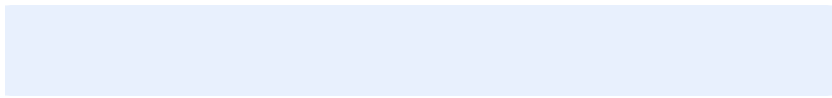
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BSBSMB406A MANAGE SMALL BUSINESS FINANCES

PRACTICAL ASSESSMENT INSTRUCTIONS

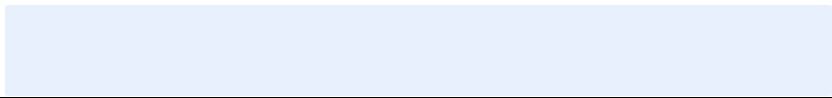
- The following practical assessment will require the Participant to complete work related activities.
- The Assessor will conduct observations of the Participant's work to determine whether they display sufficient practical skills and knowledge.
- Please fill in the details below – providing your name, 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 Nathan Wheeler

Participant signature 

Date 17/01/2021

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:	Nathan Wheeler
Name of observer:	Tom Wheeler
Role of observer (Confirm suitability to sign)	Company Director
Email address of observer	tom@twbuilders.com.au
Signature of observer:	
Date:	18/01/2021
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

Names of company in the evidence provided has been removed to maintain privacy of sensitive documentation.