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Liabilities

Liabilities represent financial sacrifices of future economic benefits such as the payment of monies to creditors and obligations to other parties such as the Australian Taxation Office (ATO). Most financial liabilities represent a legal obligation that the organisation has to another and can arise due to a past transaction or event such as a business loan. They are usually divided into two categories:

- current liabilities – liabilities due for settlement within the current accounting period (usually 12 months)
- non-current liabilities – liabilities due for settlement beyond the current accounting period.

Owner's equity

Owner's equity represents the owner's investment in the business and is a liability. Sometimes referred to as proprietorship or net worth, this equity is the proportion of assets owned by the owner rather than by creditors or lending institutions.

Owner's equity depends on the funds or capital contribution added by the owner to the business, and profit made is added to the equity. When an owner draws cash and inventory from the business, or the business makes a loss, the owner's equity decreases.

Revenues

The terms revenue and income are used interchangeably and refer to the earnings or proceeds from business activities. This can include:

- sales from services or products, known as inventory
- delivery fee income
- commissions from selling another organisation's products or services
- discounts received
- rent received from properties owned or sublet
- interest earned from investments such as deposits with financial institutions.

Expenses

Expenses are the costs incurred in developing, producing and selling products and services. Expenses include fixed and variable costs. Fixed costs usually remain the same regardless of activity or output, such as the wages associated with a senior manager or the rent of office or manufacturing facilities. Fixed costs generally only change as a result of price increases.

Variable costs are those that are directly related to the level of an activity or output volume. For example, if the organisation increases production, then the costs of direct materials and labour will also increase.

Review the suitability of accounting software

In reviewing the suitability of the software, you need to consider the following:

- Is the system ATO compliant, allowing the organisation to process and electronically lodge tax payments?
- Is the system Australian Securities and Investments Commission (ASIC) compliant, allowing the organisation to electronically submit forms and reports?
- Can the system effectively produce profit and loss statements, balance sheets and cashflow statements?
- Does the system enable managers to analyse data and produce variance reports?
- Does the system handle a number of users at the same time to efficiently process data and obtain information?
- Does the system allow you to keep financial records for each business or department within the organisation?
- Does the system allow for integration with existing systems relating to customer relationship management, human resource management, project management, production, purchasing, inventory management, sales and e-commerce?
- Is the system able to produce sales, purchases and inventory reports?
- Are expensive add-ons required to conduct analysis and present financial budgets and statements?
- If a change in system is made, what costs are involved in purchasing the software, implementing the software and training users?

Example: software packages and their suitability

Several off-the-shelf business management and accounting software packages are available, including the following:

- Xero (www.xero.com.au)
- MYOB (www.myob.com/au)
- Reckon (www.reckon.com.au)
- Cashflow Manager (www.cashflow-manager.com.au)
- Sage (www.sagesoftware.com)
- Nominal (www.nominal.com.au)



Identify the organisation's planning and financial cycle

Strategic plans, business plans, operational plans and financial reports are prepared according to the organisation's agreed cycle of reporting. This cycle is determined by identifying what decision-makers need for strategy development and implementation, and statutory requirements.

Example: net profit ratio

The following shows the net profit ratio for a company called Design Z Emporium.

Net sales (net profit - sales returns)	\$100,000
Total expenses	\$40,000
Income before tax	\$60,000
Tax rate	35%

For Design Z Emporium to work out its net profit, the net profit ratio will need to be calculated as follows:

Profit after tax = \$60,000 x (1 - 0.35) = \$39,000

Net profit ratio = (\$39,000/\$100,000) x 100 = 39% or \$0.39

Thus 39 per cent (or 39 cents) of each sales dollar is left as net profit after all the costs of Design Z Emporium have been covered.

Calculate cashflow ratios

There are a number of ratios to help analyse the organisation's cashflow, as shown below.

Cashflow solvency

This ratio measures the organisation's ability to pay debts, and therefore indicates financial strength or problems, and the ability to implement strategies. A low ratio indicates the organisation may not be able to meet debts. The formula is:

Cashflow solvency = Cashflow from operating activities / Total liabilities

Cashflow margin

The cashflow margin measures how an organisation converts sales to cash. The higher the margin, the more cash is available to engage in business activities to meet organisational objectives. The calculation is:

Cashflow margin = Cashflow from operating activities / Sales

Cashflow return on assets

The cashflow return on assets (ROA) ratio enables managers to see how efficient the organisation is compared to other, similar organisations. The return can also be compared with past ratios to identify trends. The formula is:

Cashflow return on assets = Cashflow from operating activities / Total assets

Understand the balance sheet

The balance sheet is a financial snapshot of the business as it currently stands, that is, the financial stability of the organisation today. Though the balance sheet does not actually show financial profit, managers can review profitability by looking at the owner's equity.

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This example shows that Pantanellic used its asset base less effectively in 2014–15 (9.10 per cent return) than in 2013–14 (9.51 per cent return). Although net profits before interest and tax increased from \$34,700 to \$38,000, the business had substantially more assets on average with which to generate profits (\$417,500 in 2014–15 compared with only \$365,000 in 2013–14). Pantanellic was unable to use its larger asset base to generate profits at the same rate as the previous year.

Monetary profits grew from \$34,700 to \$38,000, but the organisation actually used its assets less effectively than the previous year, as reflected in its ROA – a substantial increase in assets on hand resulted in profits only rising by \$3,300.

Conduct cost-volume-profit analysis

Cost-volume-profit (CVP) analysis is a technique used to identify the organisation's most profitable products or services, and the effects of procured profits when there are changes in product costs and volumes. This can be performed for one period or used to track margins over time by comparing one period to another. Managers can perform CVP analysis to plan future levels of activity and volume projections. Contribution margins, break-even analysis and operating leverage are commonly used tools for conducting CVP analysis, as shown in the following information.

Contribution margin analysis

The contribution margin is the calculation of total revenue minus total variable costs, and is useful when looking at the effects of volume on profit. To calculate the margin, all costs must be divided into fixed and variable categories. The focus is on variable costs as these are the costs that are likely to change within a period of time, such as the price of raw materials. This analysis helps to determine whether a product should be added or subtracted from a line and how to price the products.

Break-even analysis

To determine whether the organisation's activity level covers the costs associated with running it, a break-even analysis can be performed. The analysis can also be used to monitor the product level. The break-even point occurs when total revenue equals total fixed and variable costs.

Operating leverage

Operating leverage enables managers to determine the effect of fixed costs on profit and loss. Operating leverage is calculated by dividing the contribution margin by the net income. An organisation with a higher proportion of fixed than variable costs has high operating leverage due the stability of costs. High variable costs may mean an organisation can respond more easily to sales decreases.

1C

Determine required resources for organisational strategy implementation

To determine the financial resources required for organisational activities, managers can review the organisational plans, paying particular attention to the budgets. The plans and their budgets will not only identify the financial resources required within the next financial cycle, but also dictate when exactly they will be required. To ensure that financial resources are available, managers need to analyse the organisation's cashflow on a regular basis.

Review plans to determine requirements

Managers need to familiarise themselves with the strategic or business and operational plans for the next financial cycle. This is to gain an understanding of what resources are needed to undertake activities to meet organisational objectives.

The types of plans that need be reviewed will depend on the size and nature of the organisation. A description of the types of plans, and the budgets prepared to support them, is provided here.

Types of plans

- Strategic and business plans outline key strategies and the initiatives to implement those strategies – such as adding products to a product line or acquiring another company to achieve growth.
- Competitive or tactical plans in large organisations relate to an organisational division and outline actions to implement strategies for operating in different industries or markets.
- Operational plans relate to units, departments or teams and outline the low-level day-to-day activities and processes to ensure the strategies implemented achieve organisational objectives.
- Specific plans focus on particular projects; for example, a project plan designed to implement a new management information system.

Budgets

- Strategic and business plans will need budgets for the entire organisation, specifying the money required to implement strategy initiatives.
- The strategic or master budget should assist managers in analysing cashflow trends to determine an organisation's ability to implement a budgetary strategy.
- Operational plans generally include budgets, such as the cost of goods sold (COGS) budget, operating costs or fixed costs budgets, capital budgets, inventory budgets, and marketing activities budgets. Generally, these plans are developed following the strategic plan.

Australian Securities and Investments Commission (ASIC)

ASIC is the chief regulatory agency of all incorporated entities (public and private) and fund managers within Australia. ASIC is responsible for protecting investors and consumers in the Australian financial system. It is also responsible for the administration and enforcement of the:

- *Corporations Act 2001* (Cth)
- *Australian Securities and Investments Commission Act 2001* (Cth)
- *Insurance Contracts Act 1984* (Cth)
- *Superannuation (Resolution of Complaints) Act 1993* (Cth)
- *Superannuation Industry (Supervision) Act 1993* (Cth)
- *Retirement Savings Accounts Act 1997* (Cth)
- *Life Insurance Act 1995* (Cth)
- *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003* (Cth).

Read about the reporting requirements for different types of organisations at: www.asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/financial-reports.

Australian Securities Exchange (ASX)

Australian companies listed on the stock exchange must report to the ASX any significant business issue that may reasonably affect company share values or investors' decision-making. Copies of an organisation's audited annual reports and half-yearly reports that are submitted to ASIC must also be lodged with the ASX. The ASX's additional requirement is that a preliminary final report must be lodged in the same format as ASIC's half-yearly report within 75 days of the end of the accounting period. Final annual accounts must be supplied within 90 days of the end of each financial year.

Companies that have announced significant capital expenditure commitments must also lodge quarterly cashflow statements during the periods in which the expenditure is being undertaken. Mining companies, for example, must lodge quarterly cashflow reports and summaries of mining exploration activities during the financial period. Read about the ASX's rules, guidance notes and waivers on its website at: www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm.

Australian Prudential Regulation Authority (APRA)

APRA is the Federal Government agency responsible for regulating the financial health of Australia's banks, life and general insurers, building societies, credit unions and superannuation funds. APRA's purpose is to ensure that the financial services industry is operating prudently and in the best interests of investors and those who are insured. If another non-financial services company owns these businesses, the parent company must also comply with the normal ASIC reporting time frame.

The requirements for reporting to APRA depend on the type of institution. That is, there are different frameworks for authorised deposit-taking institutions (ADIs), general insurers, superannuation organisations, life insurance and friendly societies, and for non-regulated entities. To learn about the reporting frameworks for different institutions, visit APRA's website at: www.apra.gov.au/pages/default.aspx

Topic 2

Establish budgets and allocate funds

A budget is a financial plan of an organisation's expected financial performance in a particular area of activity or aspect of its operations for a specified period of time. A budget enables managers to allocate funds to complete organisational activities and to control finances through regular analysis of budgeted to actual performance. Budgets therefore help to make decisions to minimise risk to financial viability.

In this topic you will learn how to:

- 2A Set budgets and allocate financial resources
- 2B Prepare the cash budget
- 2C Prepare the profit and loss and balance sheet budgets
- 2D Develop risk and contingency plans

Example: cashflow forecasts

A number of cashflow forecast templates have been developed by the federal and state governments to help people who need to prepare a forecast for their organisation, but do not have existing tools to use. Here are some helpful websites where you can access templates and additional information:

- Government of Western Australia, Small Business Development Corporation, 'Cash flow forecast', www.smallbusiness.wa.gov.au/cash-flow-forecast
- State Government Victoria, Business Victoria, 'Cash flow forecasting', www.business.vic.gov.au/money-profit-and-accounting/getting-paid-on-time/cash-flow-statement-projection-with-template
- Tasmanian Government, business.tas.gov.au, 'Preparing a cash flow forecast', www.business.tas.gov.au/finances-tax-and-insurance/managing-your-business-finances/preparing-a-cash-flow-forecast



Analyse the sales forecast and budget

Sales forecasts are estimates of an organisation's sales for a specific period. The forecast, which is typically prepared by the marketing team, identifies the unit and dollar sales for a future period, based on sales trends and market research. From the forecast, a sales budget is prepared to determine the expected volume of sales. This budget is used for making decisions related to purchasing, production and, of course, cashflow.

Two common methods are used for sales forecasting, as shown here.

Qualitative methods

Qualitative methods are used when there is limited previous financial data available, such as for new products. Market research will identify the market demand and conditions that affect future sales of these products, such as interest rates and shifts in disposable income.

Some organisations use the Delphi technique, whereby a panel of organisational specialists from the marketing, sales, operational and finance areas independently provide financial forecasts. The experts then get together to reach a consensus on a combined forecast.

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Profit and loss report for the year to 28 February 2016							
	Month-to-date		Year-to-date			YTD	2015/16 Budget
	Actual	Budget	Actual	Budget	Variance	Last Year	
	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)	
TOTAL INCOME	13,174	12,495	98,620	101,526	-2,906	99,622	150,000
OPERATING EXPENSES							
Payment to suppliers	4,839	4,950	58,203	39,200	19,003	38,465	77,000
Salaries & on costs expenses	5,218	5,400	25,287	26,540	-1,253	22,657	46,000
Marketing & sales expenses	235	250	1,760	1,950	-190	1,498	3,000
Accommodation expenses	56	57	448	456	-8	430	672
Communication expenses	15	19	128	120	8	115	180
Governance expenses	36	36	288	288	0	270	432
Administration expenses	19	20	152	160	-8	145	240
Consumables expenses	15	16	144	120	24	140	180
Other staff-related expenses	16	18	136	152	-16	130	228
IT, repairs & equip hire expenses	21	20	182	170	12	178	240
Depreciation expense	375	362	2,960	2,910	50	3,120	4,365
TOTAL OPERATING EXPENSES	10,845	11,148	89,688	72,066	17,622	67,148	132,537
EBIT	2,329	1,347	8,932	29,460	-20,528	32,474	17,463
Interest on investments	186	180	1,192	1,160	32	57	1,788
Dividends on investments	0	0	23	22	1	19	52
Unrealised gains/(losses) on investments	57	3	121	30	91	81	32
Profit (Loss) on sale of assets	0	0	65	0	65	0	0
Charity sponsorship	-30	-30	-240	-240	0	-200	-360
EBT	2,542	1,500	10,093	30,432	-20,339	32,431	18,975
Company tax	0	0	2,271	2,986	-715	2,798	5,693
Net income	2,542	1,500	7,822	27,446	-19,624	29,633	13,282

Environmental events and major disasters

Environmental events and natural disasters such as storms, floods, tsunamis, power failures, water shortages, drought, heat waves, fires, explosions and gas leaks affect the production of products and services. All organisations must have a disaster management/business continuity plan to manage these events.

Identify competitor, consumer and legal risks

Here are some more possible risks and risk control measures.

Competitor actions

The release of a new, better or cheaper product by a competitor will affect demand for goods and have an immediate effect on organisational income.

The marketing department needs to have strategies in place to ensure the organisation maintains its competitive edge and position in the marketplace.

Consumer behaviour

Satisfaction ratings or changes in consumer spending habits affect sales and cashflow.

The marketing department needs to have promotional strategies in place to ensure the organisation can respond to shifts in customer behaviour.

Political and legal issues

Changes in government/s may lead to changes in policy and laws affecting the way organisations operate. Tax increases, for example, can affect demand, sales and cashflow.

An organisation needs have contingency plans in place to allow for potential increases in tax rates when forecasting sales, expenses and cashflow.

Theft and fraud

Mismanagement of resources, theft and fraud add to costs and affect cashflow and the financial bottom line.

Increased security measures and internal financial controls should be put in place immediately.

Assess risks

Managers need to identify the likelihood and impact of risks and current controls in place to address these risks. This may involve consultation across a broad range of areas that are external to an organisation. Contingency plans should be prepared to control the risk by reducing its likelihood (the chance the risk will occur) and/or reducing the impact (consequences or effects of the risk) if it does occur.

A risk assessment matrix can be developed and used to evaluate a risk, where likelihood and impact are identified to determine the level of the risk where these intersect on the matrix. High-level risks become priorities for immediate treatment or control. Moderate risks will need to be addressed over a brief time frame and require a management focus. Some low-level risks may be resolved through routine procedures.

Consider the likelihood and impact of an activity you have been involved with – relating to financial management – and use this matrix to determine the risk level.

3A

Circulate budgets to managers and supervisors

Once budgets are prepared and approved, they should be provided to senior management, relevant managers and supervisors. Their teams should then have the opportunity to look at the relevant budget's details and determine how it will affect their day-to-day duties. Budgets should also be checked by lower-level managers and team leaders to ensure their earlier inputs, generally via area and team budgets, have been taken into account in the finalised master budget.

The budgeting leader may hold a meeting to communicate the details and responsibilities for managing finances. Alternatively, the budget may be circulated throughout the organisation, providing comprehensive instructions on implementing variable financial controls within the different areas of the business. How budgets are circulated will depend on the size of the organisation, the location of business units and the organisation's policies, procedures and implementation protocols that underpin the control of budgetary requirements.



Circulation methods

When disseminating budgets, you will need to take into account the location of managers and supervisors and your organisation's communication policies. For example, face-to-face meetings and presentations may not be appropriate when managers are located at overseas, interstate or regional sites. However, information sessions may be possible via video conferencing, Skype and FaceTime.

Circulation methods include:

- formal meetings – where the recipients are identified and presented with specific budgetary information relevant to their roles and responsibilities
- group meetings/sessions – where a specific focus is required and those attending have a common area or linked activity
- written communication – where the information is sent via paper-based letter or report
- face-to-face presentations – where an audience can be selected and videoconferencing may be used
- electronic communication – where emails are sent to individuals or groups, or documentation is made available on the wiki or intranet.

Use active listening techniques

When financial information is circulated, it should be clear and easy to understand. This is to ensure each person is aware of the organisation's requirements and of their responsibilities in managing finances. Managers need to ask and encourage questions from departmental and area teams to check for understanding of the content and approval of the budgets. Their responses and concerns need to be raised and addressed in a timely and appropriate fashion.

- audit policy on the frequency of the external audit, how auditors should be appointed and how information will be provided to auditors
- fraud control policy defining fraud and identifying strategies to control fraud.

Implement control measures

Organisations must have a strong set of measures to ensure the handling, checking and authorisation of financial information is done accurately. An audit trail must be evident, whereby financial transactions can be identified and linked to their source documents, such as receipts, invoices and purchase orders. The organisation's accounting system should include measures, including the generation of an audit trail report, that will minimise the possibility of errors, prevent fraud and promote financial efficiency.

Internal control procedures may include:

- separating duties so that the tasks performed by one employee are checked by another; for example, the separation of ordering and invoicing
- ensuring there is regular reconciliation of accounts and ledgers
- ensuring that the receiving, recording and banking of cash are not performed by just one employee
- ensuring that employees have the appropriate skills to perform the tasks required by providing training and development opportunities
- implementing a system of authorisation; for example, a manager to authorise purchases over a certain amount
- ensuring that all business documents are pre-numbered so all documents are accounted for, thus minimising the possibility of fraud
- regularly changing passwords to prevent non-authorised access to information, accounts and reports
- making sure regular audits are performed
- implementing a code of ethics to promote appropriate behaviour.

Compliance with due diligence obligations

Due diligence refers to the process of validating information related to all areas of the organisation to help manage financial risks. Due diligence may be provided by parties external to the organisation, and is often conducted by purchasers before the final sale of businesses. Some organisations will conduct due diligence to pre-qualify suppliers of services, products and raw materials. However, every reporting entity organisation (those required to prepare external reports for government agencies, investors and members) has due diligence obligations.

Here is some information on what due diligence involves and the obligations associated with it.

3C

Determine budget variances and manage contingencies

Monitoring financial projections against actual results on a monthly basis helps ensure financial control and helps to identify where adjustments are required to manage gaps or where contingencies should be implemented to manage issues. The comparison between what was budgeted and actual information will reveal the variance to determine the action required to improve performance to meet organisational objectives.



Review profit and loss reports

A review of an organisation's profit and loss report can help identify variances and supports the determination of issues in meeting the organisation's objectives.

Questions to ask when considering reasons for variance

- Is there an unfavourable variance in sales – does it suggest a trend and the potential that the organisation won't shift products at current prices?
- Is there a seasonal issue, such as Christmas, affecting the favourable result in sales?
- Are clients not paying at the expected times? What does the cashflow look like and how can cash be increased?
- Have rising prices affected expenditure performance? If so, can cheaper materials be sourced?
- Is an increase in customer demand from successful promotional activities the reason for a favourable variance in sales?
- What do favourable variances in sales mean for purchasing and production?
- Have equipment failures resulted in unfavourable variances in costs? Does the capital equipment budget need to be adjusted to reflect this?

Example: profit and loss variance report

Here is an example of an aggregated report, which suggests that this business is doing quite well. Sales are up five per cent on budget. Direct materials are lower than budget by 11 per cent, and direct labour costs are down 22 per cent on budget. Overheads are also lower than the budgeted amount. The net result in terms of profit is very favourable (F).

continued ...

Example: statement of cashflows

The report below illustrates a statement of actual cashflows with projected forecasts.

Statement of cashflows as at 28 February 2015 and forecast to June 2015						
	YTD 2014/15	Actual February 2015	Forecast			
			March	April	May	June
	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)	(\$ '000)
Receipts	102,354	11,296	7,935	6,801	7,935	9,069
Total receipts	102,354	11,296	7,935	6,801	7,935	9,069
Payments to suppliers	57,682	4,923	3,921	2,755	3,667	3,839
Payment to employees	23,581	5,295	3,376	3,515	3,648	4,522
Capital purchases	18,567	103	989	96	45	121
Total payments	99,830	10,321	8,286	6,366	7,360	8,482
Cash inc/(dec)	2,524	975	-351	435	575	587
Cash at the beginning	53,515	56,039	57,014	56,663	57,098	57,673
Cash held	56,039	57,014	56,663	57,098	57,673	58,260

Implement controls and contingency plans

The risk and internal controls and contingency plans developed as part of a budget process may need to be implemented to correct unfavourable budget variances, contingency triggers and the possible failure of identified internal risk controls.

Here are some examples of contingency triggers and their control measures, which can be used following the failure of internal and identified risk controls.

Cashflow issues

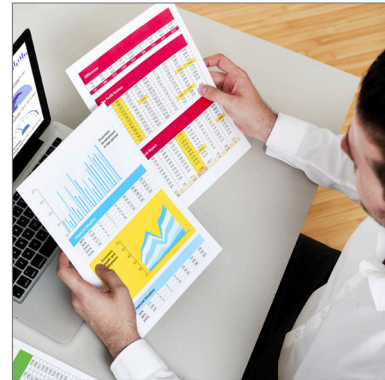
- Ageing summaries analysis reveals that a regular client is not paying on time.
- Risk control: Institute credit recovery procedures.
- Contingency response: Cease business with the client.

Monitor internal controls, risk and contingency plans

The implementation of internal controls and risk or contingency plans may result in changes to budgets – so budgets must be adjusted accordingly. To ensure these controls and risk or contingency plans are effective in correcting issues, they will need to be regularly monitored and adjusted by conducting ratio and variance analyses to assess their performance.

Appropriate analysis techniques in addition to variance analysis on budgets may need to be considered. Should the analyses indicate failure of the control or plan in resolving issues, then further controls need to be implemented.

Risks should be reassessed and treatment strategies developed and implemented immediately. For serious issues, the organisation may need to consider obtaining the assistance of external experts and undertaking corrective actions to raise funds to increase current working capital.



Example: implement and monitor contingency plans

At Margo's Pasta, a medium-sized food-processing manufacturing plant, sales have dropped because the regulations relating to the importation of fresh sauces have been relaxed. An importer has introduced a new pesto sauce to the market that is in direct competition with Margo's Sauce, its leading product. The budget variance reports indicate that Margo's Pasta is not going to achieve the budgeted targets for the year. Furthermore, there is an excess of the product in the warehouse. The organisation's first contingency plan is to increase marketing strategies for the product and have sales representatives promote it heavily to customers, but after two weeks there is no sign of a significant increase in orders.

The second contingency plan is to again promote the product but at a discounted price, in an attempt to increase orders and therefore boost sales and reduce waste. Sales representatives contact the buyers with the offer. Sales increase and the impact of a competing product decreases. The budgets need to be revisited to accommodate the change in price and the effect this will have on the product's profit margins.

Practice task 11

1. What measures might you implement to address unfavourable profit and loss variances as a result of the increased expense associated with increases in the company tax rate?

continued ...

Example: appropriate financial reports

Ravi is the manager for a major business unit with a turnover of more than \$30 million a year, in an organisation that turns over more than \$200 million. He prepares a monthly variance analysis and provides a report on any variations to his general manager.

Ravi provides a comment against any variation in the report. Where significant variances have been identified, he researches the situation and makes recommendations on contingency plans that could be considered for continuous improvement purposes.

Ravi also undertakes a trend analysis so he can consider the income and expenditure over the preceding months to determine whether there is a developing trend. If appropriate, he also compares each month's financial position against year to date (YTD) data.

The general manager must be able to access the findings in Ravi's report two days after the release of the variance reports to ensure the information is included in the organisation's financial reports and to meet taxation obligations and ASIC requirements.



Example: versions of financial reports

As permitted through Australian freedom of information protocols, you can access the annual reports and financial statements of a range of well-known Australian organisations. The websites demonstrate how different organisations format different reports and provide an overview of their financial summary statements.

Here are some examples:

- BHP-Billiton, Reports & Presentations page: www.bhpbilliton.com/investors/reports
- World Vision, Annual Reports & Reviews page: www.worldvision.com.au/about-us/annual-reports
- Telstra, Reports and Presentations page: www.telstra.com.au/aboutus/investors/financial-information/reports-and-presentations
- Virgin Australia, Annual Reports page: www.virginaustralia.com/au/en/about-us/company-overview/investor-information/annual-reports

Practice task 12

1. According to the 'AASB Standard 101 Presentation of Financial Statements', what is the purpose of a supporting note?

2. Access the Standard Business Reporting website at: www.sbr.gov.au, then explain what the Australian Reporting Dictionary is.

Develop recommendations

The recommendations developed must ultimately be aimed at improving an organisation's effectiveness and financial operations by addressing the core or underlying issues. These recommendations should be considered in light of internal implemented control measures and prepared contingency plans. The role of the financial analysis performed is to provide the evidence for the recommendations or contingencies developed.

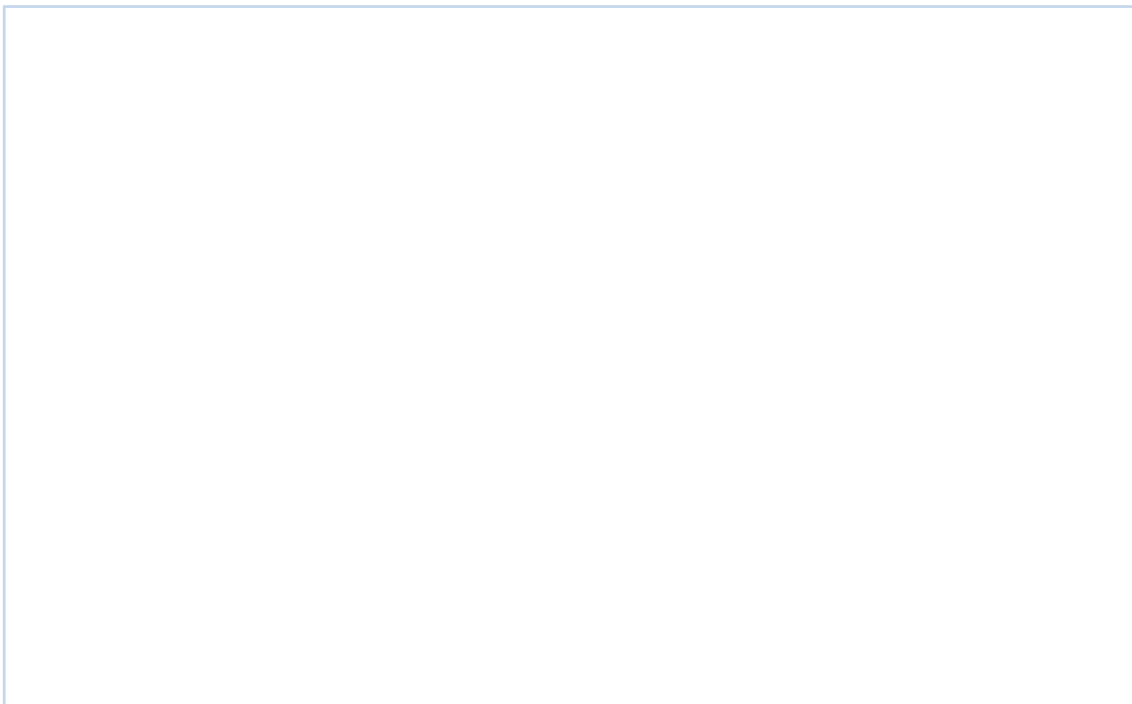
Evidence that supports financial recommendations includes:

- budget analysis to support recommendations to increase investment or identify credit management actions to increase cashflow
- forecasts and estimates to justify increases in production to meet increased demand
- order and supply documents to identify patterns or market trends to support new product development and price change decisions
- ratio analysis to recommend particular investment pathways
- margin, break-even and return on investment analyses to prepare bids for new contracts (proposals or government tendering)
- taxation and statutory returns (in an audited annual report) to encourage shareholders to purchase more stock.

Practice task 13

Rewrite the following steps used in the process for prioritising statement issues in the correct order:

- Identify the underlying issues with team/relevant others through brainstorming
- Consider whether the issues are linked or related in some way
- Assess the impact of the issues
- Assess the likelihood of the issue affecting activities
- Use a risk matrix to rate the issues for priority



2

Gather information

- Collect the data through review of relevant documentation, interviews and questionnaires.
- Organise the data.
- Examine collected information.

3

Analyse information

- Brainstorm information with the team.
- Compare information to evaluation criteria.
- Identify root causes of issues through cause and effects analysis.
- Prioritise issues.
- Identify areas where processes are effective and consider using this information to improve areas with issues or that could be improved.

4

Develop recommendations and plan improvements

- Determine what can be done to improve each process through brainstorming with the evaluation team.
- Develop recommendations.
- Identify tasks to implement improvements and the resources required.
- Prepare an action plan for improvement.
- Assign responsibilities to tasks required to implement improvements, which may require the development of new policies and procedures to maximise efficiency and accuracy, the purchase of new software add-ons to improve reporting etc.
- Seek approval from relevant senior management.

5

Implement and monitor improvements

- Implement the approved action plan.
- Ensure relevant staff are aware of changes and any training required in new procedures is organised and actioned.
- Monitor performance according to identified time lines.
- Assess the effectiveness of improvements.

Identify analysis considerations

Financial analysis is arguably the most important part of the evaluation process. You should be able to figure out what the financial problem or issue is, what solutions might work to combat part of or all of that problem, and take stakeholders into account.

The following questions need to be considered when evaluating any financial management process.

Reporting

- Are the appropriate financial statements prepared and regularly analysed to ensure effective decision-making?
- Do the information collection procedures enable effective and efficient reporting?
- Does the software meet reporting requirements for senior management, owner, shareholder and staff decision-making?
- Is the software compliant with statutory and legislative reporting requirements?
- Are reports consistently prepared on time and according to organisational financial reporting requirements?

Example: reviews, evaluations and audits

The main objective behind undertaking review, evaluation and audit processes is to promote greater accountability and transparency within an organisation's financial operations. If undertaken correctly, these financial tools provide managers with a professional financial second opinion on current financial planning and managing operations, and thus support them to enhance organisational financial results.

Review the following websites for examples of how different organisations approach reviews, evaluations and/or comprehensive audits of financial management processes:

- Myer Holdings Limited, 'Audit, Finance and Risk Committee Charter', available at: investor.myer.com.au/Corporate-Governance/?page=Board-Committees.
- Panoramic Resources Limited, 'Audit Committee Charter', available at: panoramicresources.com/wp-content/uploads/2014/10/PAN-2013-Audit-Committee-Charter.pdf.
- Queensland Government, Queensland Treasury and Trade, Financial Accountability Handbook, 'Financial management practice manuals', available at: www.treasury.qld.gov.au/publications-resources/financial-accountability-handbook/3-14-financial-managment-practice.pdf.

The following list guidelines for evaluating and improving financial practices:

- International Federation of Accountants, 'Evaluating and Improving Internal Control in Organizations', available at: www.ifac.org/sites/default/files/publications/files/Evaluating%20and%20Improving%20Internal%20Control%20in%20Organizations%20-%20updated%207.23.12.pdf.
- Queensland Government, Queensland Treasury and Trade, Financial Accountability Handbook, 'Monitoring and Assessment of Internal Controls', available at: www.treasury.qld.gov.au/publications-resources/financial-accountability-handbook/4-1-monitoring-assessment-internal-controls.pdf.

