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SETTLEMENT COUNCIL OF AUSTRALIA

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Financial and Contract Management

Managing finances and contracts is essential to minimise financial risk and ensure the operational and economic effectiveness of an organisation.

Contract Management

Contracts are a crucial element of business arrangements with a range of third parties including vendors, partners, customers or employees. Contract management refers to the processes and procedures a business implements to manage the development of the contract objectives, negotiate terms and conditions, review compliance and renew or terminate contracts. The process is as follows:

- Negotiate
- Perform
- Review

It is important to carefully read the Terms and Conditions of each contract and understand both your rights and responsibilities under the contract.

Effective contract management can enhance risk reduction and increase business productivity and financial optimisation. Many businesses now use specialised software for contract management which can be purchased online.

Budgeting

A budget is a plan of expected income and expenses produced annually (or sometimes more frequently). Budgeting enables a business to navigate financial risks and plan their operations through the specific allocation of funds to activities. A budget needs the following elements:

- Time frame: Monthly, quarterly, or yearly
- Income: Predicted income using past records
- Fixed costs: salaries, rent, insurance and other known costs
- Variable costs: Expenses, utilities, wages
- Actuals: Record actual income and expenses during the budget period. Then calculate the difference between the budgeted amount and actual income and expense

A budget should be continuously reviewed over the time period for the reallocation of funds if required. It is also recommended to overestimate rather than underestimate costs if in doubt.

For more information, see

https://www.business.gov.au/finance/accounting/cash-flow-and-budgeting/how-to-create-a-budget

Profit and Loss Statement

A profit and loss statement shows the revenues and expenses of a business, resulting in an overall profit or loss. It is prepared over, and reports on, a set period of time (monthly, quarterly or yearly). To prepare a profit and loss statement, you will need the following information:

- Listing of all sources of income found on bank statement and records of cash payments
- A transaction listing of all expenses: business transactions, fees, bills and purchases
- Receipts for any cash transactions
- Information on any sales, discounts, etc.

Useful Resources:

- Downloadable Profit and Loss Template: https://www.business.gov.au/planning/business-plans/writing-a-business-plan/profit-and-loss-statement
- Analysing Your Finances: https://www.business.gov.au/Finance/Accounting/Cash-flow-and-budgeting/Analyse-your-finances

Balance Sheet

A balance sheet is a financial statement that presents the net worth of a business at a specific point in time. Balance sheet data provides a 'snapshot' of the organisation's financial position by dispensing information on its current assets and liabilities. It can be used to provide information for the Board and management, and helps to ensure an organisation remains viable and is not at risk of insolvency. Balance sheet data also enables comparison from previous years, tracking financial performance and can help in identifying and planning financial obligations and operations.

Useful Resources:

- Balance Sheet template: https://www.business.gov.au/planning/business-plans/writing-a-business-plan/balance-sheet
- Microsoft Office Balance sheet template: https://templates.office.com/en-au/Balance-sheet-TM00000053

Keeping Records

Good record keeping is instrumental to business success. It is a legal requirement for all business to keep all records for a minimum of five years (and often longer) after the record is created. It must be in English and in a form the Australian Taxation Office (ATO) can understand. Records can be stored electronically but must be a true copy of the original and be accessible when required. Business record keeping is required by law for the following:

- Income tax and GST
  - Sales records
  - Purchase/expense records
  - Year-end income tax records
- Banking records
- Payments to employees and contractors
- PAYG withholding for business payments
- Fuel tax credits

Aside from being a legal requirement, good record-keeping can also inform smart business decisions, assist in tax returns, and demonstrate financial position when required. The ATO lists the following tips for good record-keeping for small businesses:

- Keep all records for a minimum of five years (some records need to be kept longer).
- Records must contain enough information to calculate and support amounts claimed on activity statements and tax returns.
- Business records need to include all cash, online, EFTPOS, bank statements, credit and debit card transactions.
- Check tax invoices received for purchases that include GST are valid.
  Keep records that show when business purchases were used for private purposes – this will help work out the business portion that can be claimed as a deduction.
- Keep business records separate from personal records to avoid confusion.
- Take pictures of paper receipts to avoid faded records.
- Store a copy of all records electronically and have a backup system in place, where possible.
- If changes were made to the record keeping software used during the year, check that all information transferred over correctly.

Source: ATO

Useful Resources:

- Issuing tax invoices: https://www.ato.gov.au/business/gst/issuing-tax-invoices/
- Records required by law: https://www.ato.gov.au/business/managing-your-small-business-records/records-required-by-law/
- Recording-keeping for small business owners: https://www.business.gov.au/news/record-keeping-for-small-business-owners