Financial procedures manual

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Introduction

This manual provides the policies and procedures for finance transactions within the business. It also provides guidelines that BizOps Enterprises will use to administer these policies, with the correct procedure to follow.

BizOps Enterprises will keep all financial policies current and relevant. From time to time it will be necessary to modify and amend some sections of the policies and procedures, or to add new procedures.

Any suggestions, recommendations or feedback on the policies and procedures in this manual are welcome.

These policies and procedures apply to all employees.

Finance authorisation procedure

Purpose of the procedure

All finance transactions as noted in this policy are to be authorised by the noted authorised person prior to the transactions being undertaken.

This procedure is to be read in conjunction with other specific finance policies where relevant.

Procedure

Prior to any of the following finance transactions being undertaken, the authorised person noted must authorise the transaction.

Finance transaction	Authorised person
Bank accounts	Finance Manager
Issuing petty cash	Finance Clerk
Business credit card	Finance Manager
Authorising new customers	Finance Manager
Authorising new suppliers	Finance Manager
Purchasing stock	Finance Manager
Purchasing assets/ equipment	Finance Manager
Debt collection	Finance Manager
Payment of invoices	Finance Manager

Bank account procedures

Purpose of the procedures

This procedure sets out the requirements for the use of bank accounts, including opening, closing authorisation, variations to terms and conditions, reconciliation of bank accounts and bank account transactions.

Procedures

Opening bank accounts

Any new bank accounts to be opened for the business must have the authorisation of the Finance Manager.

For each new bank account opened, the financial system must be updated and the bank account registered by the Finance Manager.

Bank account authorisations

For money withdrawn from any bank account, whether by cheque, EFT or online payment methods, two people must authorise each payment.

The authorised people for bank account payments:

- Finance Clerk
- Cashier

Each payment made must be supported by an invoice, receipt or other appropriate documentation and the authorisations must be attached to this documentation prior to payment.

Variations to bank account terms and conditions

Any variations to banking arrangements must be made by the Finance Manager.

The Finance Manager is responsible for updating the financial system and/or bank account register with the new information.

Closing bank accounts

Where it is decided that a bank account is no longer necessary, the Finance Manager will authorise the closure of the bank account.

The Finance Clerk will then be required to complete the following:

- Ensure all transactions with respect to the account (including cheques drawn) have been completed
- Lodge a letter, signed by BizOps authorised signatories, with the bank advising of the closure of the account
- Meet the bank’s requirements with respect to account closure
- Update the financial system and bank account register

Bank account transactions

All deposits received must be banked within two days.

Unallocated direct deposits of more than one month will be investigated fully to determine the source of the deposit. Where the source cannot be identified, the deposit will be allocated to the suspense account to keep these funds separate and identifiable.

Cheques outstanding for more than twelve months will be reallocated back to the business through the financial system.

Where a stop payment on a cheque is required, this will be authorised by the Finance Manager.

The Finance Clerk will be responsible for carrying out the following duties in regards to a stop payment on a cheque:

- Ensuring the cheque has not already been presented at the bank
- Getting authorisation to action the stop payment using appropriate forms from the bank
- Ensuring the bank receives notification of the stop payment notice
- Receiving confirmation of action of the stop payment from the bank
- Ensuring the details of the stop payment are kept in the stop payment folder

Petty cash procedures

Purpose of the procedures

Petty cash should be used to pay for small business expenses up to $100 where payments through accounts payable or credit card are not justified or appropriate.

Procedures

Issuing petty cash

Petty cash vouchers must be completed before any cash is taken from the petty cash float.

Only up to $100 can be disbursed at any one time.

All petty cash vouchers issued must be approved by the Finance Clerk.

Once the petty cash is spent, a receipt or invoice should be attached to the voucher and returned to petty cash with any balance of money unspent.

All completed vouchers must have the following details included:

- Issue date of voucher
- Name of person issued the voucher
- Amount of money disbursed
- Details of expense

- Invoice or receipt
- Signature of approval person

Reconciling petty cash

The petty cash float is to be reconciled at least monthly. This is the responsibility of the Cashier.

All petty cash expenditure must be entered into the financial system once the petty cash has been reconciled.

The balance of money and vouchers must equal the petty cash float amount before reimbursement can be made.

Reimbursement of petty cash will be authorised by the Finance Clerk.

Use of business credit card procedure

Purpose of the procedure

This procedure provides guidelines for the issue and use of business credit cards.

Procedure

An employee will only be issued a credit card once the credit card authorisation form has been completed.

The business credit card can only be used for travel, authorised entertainment and purchases of small value expenses or equipment up to the value of $1,500.

No cash advances are to be taken using the business credit card unless authorised by the Finance Manager.

Where a business credit card is lost or stolen, the owner of this card is to notify the Finance Manager as soon as possible. The Finance Manager is responsible for notifying the issuing agency and ensuring the card is cancelled.

The business credit card is not to be used for personal expenses.

All holders of business credit cards are required to reconcile the monthly credit card statement to the expense form, attach all receipts for payments made on the credit card and have the expense statement authorised by the Finance Manager.

Upon completion and authorisation of the monthly expense statement, these documents are to be forwarded to the Finance Clerk for payment of the credit card statement.

All business credit cards are to be returned to BizOps when requested by the Finance Manager or when the holder is no longer an employee of the business.

New supplier procedures

Purpose of the procedures

All new suppliers to the business must be reviewed and accepted in accordance with this procedure to ensure that the supplier's service is aligned with the business's objectives.

Procedures

Choosing a new supplier

A new supplier must provide BizOps with quality products, great service, competitive pricing and efficient delivery.

The following information must be completed for each new supplier prior to BizOps engaging their services:

Supplier selection background information	
Business name	
Location	
Products/services provided (Attach a list if necessary)	
Name of business owner/sales representative	
Number of years trading	

For each new supplier being considered, the following checklist must be completed:

Supplier selection review checklist	
Is the supplier's pricing competitive? (Attach list to this checklist)	
What are their payment terms?	
What is their return policy?	
Does the supplier provide warranties, guarantees, etc.?	
Are the supplier's representatives knowledgeable of the products/services and industry?	
What are their delivery services?	

Is there an alternative to this supplier, and has the alternative supplier been considered?	
Has a credit check been undertaken? (Attach to this checklist)	
Has the Personal Property Securities Register (PPSR) been reviewed?	
Has the supplier been trade checked? (Attach this to this checklist)	

Appointment of supplier

The appointment of a new supplier must be authorised by the Finance Manager.

All of the supplier's relevant details will be entered into the financial system by the Finance Clerk once approval is obtained from the Finance Manager.

The Finance Clerk will review the information entered into the financial system and independently verify the supplier's bank account or other payment details to ensure payments made are to the correct supplier.

The purchasing department must be notified within one week of the new supplier being approved.

Supplier payment terms

All purchases from suppliers must be supported by a purchase authorisation form.

Payment terms for all suppliers must be reviewed by the Finance Clerk every year. Following this review, each supplier must be approached to seek improved payment terms by the Finance Manager.

All supplier payment terms must be a minimum of 30 days.

Any variation to the above must be authorised by the Finance Manager.

All supplier payments are to be reviewed quarterly to ensure that payment terms are adhered to. For payments made to any suppliers earlier or later than the agreed terms, the Finance Clerk will prepare a report that details the reasons why the payment terms have not been adhered to. This report will be reviewed and authorised by the Finance Manager.

New customer procedures

Purpose of the procedures

All new customers to the business must be reviewed and accepted in accordance with this procedure.

Procedures

Choosing a new customer

A new customer must support the business through good credit quality and prompt payment.

The following information must be completed for each new customer prior to BizOps agreeing to supply them:

Customer background information	
Business name	
Location	
Products/services required (Attach a list if necessary)	
Name of business owner/sales representative	
Number of years trading	

For each new customer being considered, the following checklist must be completed:

Customer review checklist	
Have trade references been sourced? (Attach copies)	
Has the customer been informed of the trade terms of {insert payment terms here} and agreed to these terms?	
Has the new customer completed a credit application form? (Attach completed form)	
Has the Personal Property Securities Register (PPSR) been reviewed?	
{insert additional information required to assist in the decision}	

Appointment of customer

The appointment of a new customer will be authorised by the Finance Manager.

Each new customer will have a credit limit set. This credit limit will be set in accordance with the customer credit limits policy.

All new customers must be given the new customer form, which must be signed and returned by the customer before any sales are to take place.

All of the new customer's relevant details will be entered into the financial system by the Finance Clerk once approval is obtained from the Finance Manager. The Finance Clerk will review the information entered into the financial system to ensure all information is correct.

The sales department will be notified within one week of the new customer being approved.

Customer credit terms

All customer payment terms must be 30 days. Where a customer has requested longer payment terms than the policy, this should be referred to and authorised by the Finance Manager.

All customer payments are to be reviewed at least once per quarter to ensure that payment terms are adhered to. For payments made outside of the agreed terms, the Finance Clerk will prepare a report that details the reasons why the payment terms have not been adhered to. This report will be reviewed and authorised by the Finance Manager.

Customer credit limit procedures

Purpose of the procedures

This procedure is to make sure a customer doesn't get too far into debt with BizOps without a payment plan being put into place or work stopped.

Procedures

Reports on customer credit must be run every month. All relevant staff must be notified when a credit limit is breached.

Any current outstanding orders should be stopped until the breach in the credit limit has been rectified. All staff working on the order or sale for the customer should not carry out further work until authorised by the Finance Manager.

Review outstanding orders and sale history

If the customer has a large number of orders outstanding or has increased the volume of orders since the last credit review, then a review of the credit limit must be undertaken. This is the responsibility of the Finance Manager.

If the credit limit needs to be increased, this must be approved by the Finance Manager. Once this has been approved, all staff working on outstanding orders must be notified to restart the customer's orders.

Credit limit is breached due to outstanding payments

The Finance Clerk must make a list of all outstanding payments. The Finance Clerk must call the customer and explain that further orders cannot be processed until the account has been paid.

If the customer is having difficulty, make a schedule of payments to bring them back in line with their credit limit. Get the Finance Manager's signoff before discussing this option with the customer.

Use the following script to assist with the call:

'Hi {insert contact name}, how are you? I am calling today to discuss your outstanding orders. Unfortunately, we have noticed that payments for previous sales have fallen behind on your account and these will need to be paid for before we can process the next set of orders. Are you able to fix this up today so we can continue on your order?"'

If they cannot pay on the day of the phone call, then get an expected payment date and confirm that any outstanding orders cannot start until the payment is made.

Review payment terms for the customer

If the customer has increased the volume or value of orders since the last credit review, the payment terms must also be reviewed by the Finance Manager.

Where large orders are being placed, then the payment terms should include deposit on order and/or progressive payments for each order. This must be discussed with and approved by the Finance Manager.

Customer debt collection procedure

Purpose of the procedure

This procedure provides guidelines for the collection of late payments from customers.

Procedure

An ageing debtor report must be run every month. All overdue customer payments are to be noted and the following procedures undertaken until the outstanding amounts are recovered.

- First contact: Once the payment is overdue, call or email the customer. Remind them that payment is due and has not been received. Ask when they will be paying and keep a record of the conversation or email. Remember to be nice; they may have forgotten or paid into the wrong bank account.

- Overdue reminder: If they do not respond to the phone call or email, try contacting someone else in the business. Let them know who you are trying to contact. This often results in a return response from either the person you were trying to contact or someone else from the business. Make a note of all conversation details on the overdue customer payment record.
- Final notice: When a payment is overdue for 60 days, a final notice must be sent by either phone or email. A record of this notice must be entered onto the overdue customer payment record.
- Direct contact: Where there has been no response to the final notice within 30 days, the Finance Manager must either visit the customer or phone where previous contact has been by email. The purpose of this step is to secure a date of payment. A record of this notice must be entered onto the overdue customer payment record.
- Formal letter of demand: Where payment remains outstanding for 60 days from the final notice and there has been an unsatisfactory response from the customer, seek authorisation from the Finance Manager for the formal letter of demand to be issued. Once authorised, this letter is to be sent via registered mail and a record of this notice must be entered onto the overdue customer payment record.
- Debt collection agency: Where the amount outstanding is in excess of $500 and the Finance Manager has approved it, a debt collection agency is to be appointed to recover the debt.
- Write off debt: Customer payments that remain outstanding for 120 days are to be written off as bad debts and no further sales are to be undertaken with that customer without approval from the Finance Manager.

Accounting process

The organisation's accounting process consists of the steps required to record all of the transactions that take place, and to organise and collate this information before finally producing financial reports that are analysed and used in decision-making. BizOps uses the AccountsRUs V8.6 software to manage all accountancy and financial reporting processes.

The accounting process is made up of the following sequence.

Transactions	Transactions are the financial or economic exchanges between the organisation and other parties. Each transaction leads to the creation of source documents.
Journals	Every transaction is recorded in a journal. Specialised journals can be used to record information on similar transactions.
General ledger	The information entered into the journals is posted to the general ledger. The organisation has a separate general ledger account for each asset, liability, owner's equity, revenue and expense item. This account records increases and decreases in each item's balance. The general ledger is the complete set of all of these accounts.
Trial balance	In double-entry accounting, all transactions must have an equal dollar amount of debits and credits recorded in the general ledger accounts. The trial balance is a statement that lists all of the accounts in the general ledger and their debit or credit balances, to ensure that the overall general ledger is in balance – debits equal all credit balances.
Balance-day adjustments	The balances in the general ledger accounts must be adjusted at the end of the accounting period before final reports can be prepared. These are called balance-day adjustments.
Accounting reports	The accounting reports are the end product of the accounting process and are generated from the information collected during the accounting period and recorded in the journals and general ledger. There are many reports that can be prepared, including income statements and a statement of financial position.

Ledger system

BizOps will maintain control over the business accounts and its debtors by keeping:

- a general ledger
- an accounts receivable ledger (also referred to as a debtors' subsidiary ledger).

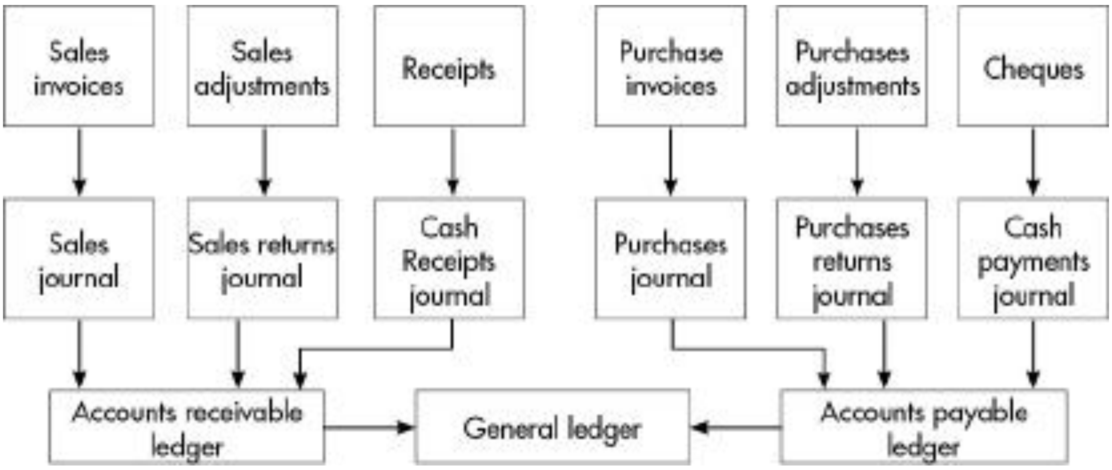
The general ledger

The general ledger contains the organisation's accounts, including assets, liabilities, equity, revenue and expense accounts. The accounts in the general ledger are regularly updated by posting the totals of the journals to the accounts in accordance with the principles of double-entry accounting.

Double-entry accounting requires the accounts in the general ledger to be debited and credited with amounts from the journals according to certain rules. After the accounts have been updated in the general ledger, a trial balance is prepared to ensure that the general ledger balances. The trial balance is used to prepare the financial reports, i.e. an income (profit and loss) statement and a balance sheet.

The following diagram illustrates the relationship between the journals, the general ledger, other subsidiary ledgers and financial reports used by the organisation.

Source documents, journals, ledgers and reports



Double-entry accounting

The rules of double-entry accounting require amounts to be recorded in debit and credit columns according to their classifications, i.e. assets, liabilities, owner's equity, revenues and expenses.

- Assets: An item is considered an asset if it provides the organisation with a long-term benefit or is considered an item of value owned by the organisation. This includes cash at the bank, cash on-hand (for example, in the cash registers), stock on hand, buildings, equipment and amounts owing by debtors.

- Liabilities: An item is considered a liability if it relates to amounts the organisation has not yet paid. This includes bank loans, mortgages, taxes and amounts owing to creditors.
- Owner's equity: This refers to the amount of money personally invested by the owner into the business.
- Revenues: Revenues arise when BizOps makes a sale or provides a service to a customer.
- Expenses: BizOps incurs expenses for items such as wages and salaries, advertising, stationery, motor vehicles, equipment, machinery and payments for utilities.

The following table shows the account classifications and the double-entry accounting rules to record increases and decreases in these accounts.

Asset accounts
To increase an asset account, record the amount in the debit column. To decrease an asset account, record the amount in the credit column.
Liability accounts
To increase a liability account, record the amount in the credit column. To decrease a liability account, record the amount in the debit column.
Owner's equity accounts
To increase an owner's equity account, record the amount in the credit column. To decrease an owner's equity account, record the amount in the debit column.
Revenue accounts
To increase a revenue account, record the amount in the credit column. To decrease a revenue account, record the amount in the debit column.
Expense accounts
To increase an expense account, record the amount in the debit column. To decrease an expense account, record the amount in the credit column.

The accounts receivable ledger

The accounts receivable ledger contains information about BizOps' debtors. A separate account is prepared for each debtor from information contained in the journals.

The format of account used is the 'three column' format – debit, credit and balance columns, as shown in the following account.

Accounts receivable ledger					
Date	**Particulars**	**Jnl ref.**	**Debit $**	**Credit $**	**Balance $**

The columns in this format of account are used as follows:

- Date: the date the journal was posted
- Particulars: the reason for making an entry in the account
- Jnl ref (journal reference): the journal from which the information was obtained, for example:
  - SJ for sales journal
  - CRJ for cash receipts journal
- Debit: the amount increased or decreased according to the rules of double-entry accounting
- Credit: the amount increased or decreased according to the rules of double-entry accounting
- Balance: the running balance of the account

Preparing the accounts receivable ledger

The accounts receivable ledger, which contains the individual accounts of each debtor, will be updated using the information contained in the:

- sales journal (credit sales to debtors)
- sales returns and allowances journal (returns from debtors)
- cash receipts journal (payments received from debtors, including discount given).

The sales journal

The following sales journal shows the amounts sold on credit to debtors. The total of each transaction must be recorded in the debit column of each debtor's individual account as each debtor incurs an increased amount.

The sales returns and allowances journal

The sales returns and allowances journal records the value of goods returned by debtors or allowances given to debtors. The total amount recorded against each debtor must be entered into the credit column of the debtor's account, and the balance reduced as goods returned will decrease the amount owing.

The cash receipts journal

When debtors pay their accounts and are granted a discount, the amounts are recorded in the cash receipts journal. These amounts must be posted to the credit column of each debtor's account and the account balance reduced, as payment has been received.

Summary of the accounts receivable ledger

- Amounts recorded in the debit column are added to the balance column.
- Amounts recorded in the credit column are subtracted from the balance column.
- When entering information from the journal into the subsidiary ledger, enter the total amount. For example, do not separate sales and GST payable. This is because the debtor is required to pay the total amount owing.
- Discount expense and its associated GST adjustment are recorded in the credit column, as they effectively reduce the amount owing by the debtor to the business.
- Payments made by debtors are recorded in the credit column.

Preparing the debtors' schedule

After transactions affecting debtors have been posted to the accounts receivable ledger, it is necessary to check that the total of all the balances matches the balance of the debtors' control account that is maintained in the general ledger (reconciliation).

This is done by listing all the balances of each debtor's account at the end of the month.

The accounts payable ledger

The accounts payable ledger contains a separate account for each creditor. The information used to update each creditor's account is taken from the:

- purchases journal (which shows the amounts owing from purchasing goods)
- purchase returns and allowances journal (which shows the value of goods returned)
- cash payments journal (which shows payments made to creditors and the discount received).

Creditors are classified as a liability. As a result, the following double-entry accounting rules must be applied when posting transactions to the creditors' accounts in the accounts payable ledger:

Liability accounts
To increase a liability account, record an amount in the credit column. To decrease a liability account, record an amount in the debit column.

The purchases journal

The purchases journal records amounts owing to creditors as a result of purchasing stock on credit.

The purchases returns journal

The purchases returns journal records amounts that creditors have accepted as returned goods or have granted an allowance.

The cash payments journal

Payments made to creditors are recorded in the cash payments journal. The amounts paid appear in the debit column of the journal, along with amounts received as discounts.

Summary of the accounts payable ledger

- Amounts recorded in the credit column are added to the balance owed to the creditor.
- Amounts recorded in the debit column are deducted from the balance.
- Discount revenue and its associated input tax credits adjustment are recorded in the debit column as they effectively reduce the amount owing to the creditor.
- Payments made to creditors are recorded in the debit column.

Preparing the creditors’ schedule

After transactions affecting creditors have been posted to the accounts payable ledger, the total of all the balances should be checked to see that it matches the balance in the creditors’ control account maintained in the general ledger.

This is done by listing all the balances of each individual creditor’s account at the end of the month.

Asset registers

General

All repairs and maintenance of assets are recorded in the relevant section of the asset register to provide a full history of the asset. The date, service provider’s name, service details and cost (exclusive of GST) are to be entered so the information is always up to date and easily accessible to authorised personnel.

Asset sales

When an asset is sold, the asset register card must be updated to show the details of the disposal (date, purchaser, price) and the profit or loss that resulted from the disposal of the asset.

When an asset is sold, a new account called disposal of asset is opened in the general ledger. This account is known as a clearing account and is used to accumulate amounts relating to the asset being sold so the profit (or loss) on disposal can be accounted for.

The disposal of asset account accumulates the:

- capital cost
- accumulated depreciation of the asset
- disposal value received from the sale of the asset.

The balance remaining in the asset account after these amounts have been entered represents a profit (if a credit balance) or a loss (if a debit balance) on the disposal.

The balance of the disposal of asset account is then transferred to another newly created account called profit or loss on disposal of asset before being transferred to the profit and loss account at the end of the year.

Trading-in an asset

Disposing of an asset by trading it in on the purchase of a replacement asset is recorded in a similar way to disposal by sale, except for the entries regarding GST.

The value of the input tax credits is based on the GST included in the purchase price of the new asset.

Preparing the income (profit and loss) statement

The income statement, commonly referred to as the profit and loss statement, reports on the revenues and expenses for the year and has the following features:

- Title
- Trading section
- Profit and loss section

Title

The title of the statement must show the name of the organisation and the accounting period for which the statement is being prepared; for example, for the year ending or for the months ending.

Trading section

All revenues and expenses shown in the general ledger trading account are reported in the trading section of the statement to show the organisation's gross profit or loss.

Profit and loss section

All revenues and expenses shown in the general ledger profit and loss account are included in the statement to show the organisation's net profit or loss.

Preparing the statement of financial position (balance sheet)

The statement of financial position is a listing of the organisation's assets, liabilities and owner's equity balances and is presented in a format that is similar to the accounting equation:

Owner's equity = assets – liabilities

The statement of financial position has the features shown below.

Title

The title of the statement must show the name of the organisation and the date at which the statement has been prepared; for example, as at 30 June 2016. The words 'as at' must be used, as the statement of financial position shows the account balances at a particular date, unlike an income statement, which shows the profit (loss) over a period of time.

Owner's equity

The full details of the amounts owing to and taken by the owner must be reported, hence the opening balance, drawings and net profit/loss are listed as shown in the general ledger capital account.

Working capital

Working capital is the term used to refer to the organisation's liquidity. This is the ability of the organisation to meet its current liabilities from current assets available. The balances of all the current asset and current liability general ledger accounts are listed. The difference between the total of current assets and current liabilities represents working capital.

Current assets

Current assets are assets that are either cash or convertible to cash within the ensuing 12 months. Examples of current assets include cash at bank, input tax credits, debtors, stock, prepaid expenses and accrued revenue. Provision for doubtful debts is also included, as it is a negative current asset that is deducted from debtors to determine a net debtors' balance.

Current liabilities

Current liabilities are liabilities that are expected to be repaid within the ensuing 12 months. Examples of current liabilities include creditors, GST payable, accrued expenses, prepaid revenues and provision for annual leave.

Net assets

Net assets represents the final balance of all assets less all liabilities and should equal the owner's equity balance. In the narrative form of the statement of financial position, net assets is determined by adding non-current assets to the working capital balance and then deducting deferred liabilities.

Non-current assets

Non-current assets are assets that are held for longer than 12 months and are used by the business for generating revenue in the future. Examples of non-current assets include land, buildings and motor vehicles. Accumulated depreciation of assets is also included as a negative non-current asset to be deducted from the capital cost of the assets to determine written-down values.

Deferred (non-current) liabilities

Deferred (non-current) liabilities are liabilities that are unlikely to be repaid within the next 12 months. Examples of deferred liabilities include mortgages on land and buildings, loans (due in over a year) and provision for long service leave.