CHAPTER 4
Legal requirements and financial considerations

4.1 Overview

4.1.1 Why it is important

A business must ensure that it complies with all aspects of Australia’s complex legal system. Australia’s many laws promote fair business practices and in doing so protect workers, consumers and businesses. A business must also ensure that it complies with the financial requirements of running a business by maintaining accurate records. Businesses can use various strategies to ensure that they are fulfilling their legal and financial requirements, such as the development of policies and procedures. By implementing such strategies, businesses can avoid the serious consequences associated with financial mismanagement and breaking the law.

SASY N SAVY DEALS WITH LEGAL AND FINANCIAL MATTERS

Sasy n Savy is a natural skincare and aromatherapy business. Samea Maakrun established the business while working as an in-house accountant for other businesses. She was always told that she was entrepreneurial and vibrant.

After developing a business plan for Sasy n Savy, Maakrun launched the company in 2004. She needed to follow the legal requirements for registering the name of the business and, as she was planning to sell online, also needed to register a website domain. Maakrun says the misspelling of the business name is deliberate — to ‘make people think outside the square’.

As an experienced accountant, Maakrun knows that accounting is the process that allows a business to control financial areas such as cash flow (making sure there is enough cash to keep the business operating from day to day) and pricing. For Maakrun, this means keeping a lid on costs, making sufficient profit and reinvesting some profit back into growing the business. Sasy n Savy is a debt-free and cash-flow positive business.

Sasy n Savy manufactures natural and organic bath, body and hair care products, using Australian native ingredients, such as Kakadu plum and wild rosella flower. The business has chosen appropriate suppliers that meet Sasy n Savy’s corporate social responsibility objectives. With staff and contractors in Australia, and agents in overseas countries, Maakrun sells in Australia at selected retailers and online through her website. The company opened its first stand-alone store in Sydney in 2014. Sasy n Savy’s products are now exported to approximately 18 countries.
Maakrun's business has certainly grown over its 15 years of operation. However, Sasy n Savy has also become an award-winning business. For example, it won the 2016 Acquisition International (AI) Business Excellence Awards UK — Best for Natural Skincare & Wellbeing Products.

4.1.2 What you will learn

Key knowledge
Use each of the points from the VCE Business Management Study Design below as a heading in your summary notes.

- An overview of legal requirements for establishing a business, such as registering the business name, registering a website domain, trade practices legislation, business tax compliance and work safe insurance
- Technological and global issues which may affect decision making when establishing a business, such as generating customer databases and contacts with overseas suppliers and retailers
- The need for policies and procedures to achieve compliance with legal requirements and establish business routines
- The importance of establishing bank accounts, financial control systems and record-keeping strategies
- The importance of choosing appropriate suppliers, including the benefits and limitations of suppliers, that meet the corporate social responsibility objectives of the business

Key skills
These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

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Resources

- Digital doc: Key terms glossary (doc-29420)
4.2 Legal requirements

**KEY CONCEPT** A business must ensure that it is familiar with all of the various legal requirements that may affect it. A failure to do so can have serious consequences for the business and its owners.

4.2.1 Legal and government regulations

There are many licences, permits, approvals and authorities which must be taken into account by business owners. All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business. Fulfilling all legal obligations may be frustrating at times, particularly when more than one level of government is involved. However, businesses that do not obey the law risk losing customers and their reputation, being fined, or losing the right to continue trading. Businesses can evaluate their performance according to the extent to which they have observed laws and regulations. Observing the law, and indeed, exceeding legal expectations, can lead to a business outperforming competitors.

4.2.2 Business name registration

The Australian Securities and Investments Commission (ASIC) is now responsible for a national business name registration service. Businesses need to register their business name, except when the name is that of the owner, and then it is optional. If something is added to a personal name, such as ‘Pty Ltd’, ‘Motors’, ‘and Associates’ or ‘and Co’, then the business name must be registered. This is to prohibit anyone else from trading under a similar name, and to protect consumers by allowing them to identify the owner of a business name.

The owner must have an Australian Business Number (ABN) or an ABN application reference number to apply for a business name. Before registering a business name, the owner should conduct a search on the ASIC website to check whether the name is already taken.

Registration of a business name does not protect or establish any specific rights to that name. If the business name is a crucial part of the business’s operation, then it should also be registered as a trademark with the federal agency responsible for intellectual property (IP Australia), which administers the *Trade Marks Act 1995* (Cwlth).

The owner of a company can register the business’s name, although a company name is not compulsory. A company can be known by its Australian Company Number (ACN), a unique number ASIC issues to every registered company. The public must be able to tell if the registered company is a public or private company. For example, a private limited company must include the words ‘proprietary’ and ‘limited’ or abbreviations of these words at the end of its name. The name of a company can be registered when the owner goes through the process of registering his or her company.

**Resources**

- Weblink: ASIC business name availability
4.2.3 Registering a domain name

With the rapid growth of e-commerce it is becoming a necessity for most businesses to develop an online presence. A key element of a business’s online presence will be the domain name, which is the address of its website on the internet.

It is important that the business chooses a unique domain name that represents its activities. It also helps if the domain name is easy to remember and spell, so that customers can find the website without difficulty — for example, kpalplumbing.com.au.

A business can register multiple domains to help its customers find them more easily and to prevent other businesses from registering a similar domain name that might confuse customers. A business can see whether a domain name has already been registered by checking the registry online.

Domain names can be registered through resellers and registrars by visiting the Australian Domain Administration website. Although building and hosting a website can cost thousands of dollars, registering a domain name generally only costs between $10 and $100 per year.

4.2.4 Taxation regulations

Taxation is a means by which the government finances its expenditure by collecting money from individuals and businesses. Tax can be imposed, for example, on income, on capital gains and on the provision of goods and services. Many different taxes apply to different types of businesses, and it is important that a person starting a business becomes familiar with all relevant tax regulations. Some of the main taxes that affect a business are imposed by the federal and state governments and are shown in the table and figures on the next page. The Australian Taxation Office (ATO) is the government body in charge of administering and collecting tax for the federal government.
A business owner establishing a partnership or company will need to obtain a tax file number (TFN) for the business. This is a unique number issued by the ATO to individuals and organisations to assist with managing tax and other government services. A TFN can be acquired at the same time as an ABN. A sole trader will need to use their individual TFN when dealing with the ATO.

**Income tax**

Federal income tax is levied on the taxable income of an individual or a business. It is calculated differently for individuals and companies. Companies pay a flat rate tax of 30 per cent for larger businesses or 27.5 per cent for businesses with a turnover less than $50 million. Individuals, on the other hand, pay a **progressive tax rate**, whereby the rate of tax increases with the amount they earn.

### Personal tax rates 2018–19

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax on this income</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to $18,200</td>
<td>Nil</td>
</tr>
<tr>
<td>$18,200 to $37,000</td>
<td>19c for each $1 over $18,200</td>
</tr>
<tr>
<td>$37,001 to $90,000</td>
<td>$3572 plus 32.5c for each $1 over $37,000</td>
</tr>
<tr>
<td>$90,001 to $180,000</td>
<td>$20,797 plus 37c for each $1 over $90,000</td>
</tr>
<tr>
<td>$180,001 and over</td>
<td>$54,097 plus 45c for each $1 over $180,000</td>
</tr>
</tbody>
</table>

**Other federal and state taxes**

There are many other federal taxes that apply to businesses, depending on their activities. The business owner may need to register their business for pay as you go (PAYG) withholding, goods and services tax (GST) and fringe benefits tax (FBT).

### Major federal taxes that apply to business

**Pay as you go (PAYG) withholding**
- Taken from an employee’s salary or wage directly
- Imposed on the employee

**Goods and services tax (GST)**
- A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia
- Imposed on all consumers
- Businesses are only required to register for GST if they earn $75,000 or more in a financial year.

**Fringe benefits tax (FBT)**
- Tax on the provision of a benefit to an employee — such as a car for private use, or a low-interest loan — in place of a wage or salary
- Imposed on the employer

### Major state taxes that apply to business

**Stamp duty**
- Placed on documents that give evidence to transactions
- Imposed on the individual or business

**Land tax**
- Annually levied on the owner of the land

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**Business activity statement**

Any business registered for GST must complete a business activity statement (BAS). This is a form submitted to the ATO to report a business’s taxation obligations. Businesses can remit tax due on income earned during the period as well as any GST and employee PAYG withholding obligations. The BAS is lodged periodically with the ATO.

Keeping up with tax requirements can be a daunting task for individuals, let alone businesses with many complicated transactions. A business owner should seek help from the Australian Taxation Office or a registered tax agent when unsure.

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**4.2.5 Work health and safety regulations**

A business owner is legally responsible for implementing health and safety practices in the workplace when he or she establishes a business. Under the *Work Health and Safety Act 2011* (Cwlth), a business owner must ensure the health and safety of workers while they are at work in the business, so far as is reasonably practicable. Each state and territory in Australia is expected to pass its own laws consistent with the Commonwealth Act so that occupational health and safety laws are uniform across all states.

In Victoria, the *Occupational Health and Safety Act 2004 (Vic)* is the principal legislation covering occupational health and safety. This Act:

- secures the health, safety and welfare of employees and other persons at work
- eliminates risks to health, safety or welfare of employees and other persons at work
- ensures that the health and safety of other members of the public is not placed at risk by the conduct of undertakings by employers and self-employed persons
- provides for the involvement of employees, employers and organisations representing those persons in the formulation and implementation of health, safety and welfare standards.
WorkSafe insurance (WorkCover)

In Victoria, work health and safety legislation is administered by WorkSafe Victoria. This government agency aims to reduce workplace injuries and support injured workers. WorkSafe has the power to inspect work sites and prosecute employers for any breaches of health and safety requirements.

As well as enforcing Victoria’s occupational health and safety laws, WorkSafe provides WorkCover insurance, which is a compulsory expense for Victorian employers. It provides employers with insurance cover for the cost of benefits if workers are injured or become ill as a result of their work.

The insurance may cover:
- replacement of lost income
- medical and rehabilitation treatment costs
- legal costs
- lump sum compensation in the event of a serious injury.

4.2.6 Consumer protection and fair competition

Australia has both federal and state laws in place to ensure that businesses and consumers are protected from unfair trading practices. Furthermore, each major industry has its own code of practice, which provides businesses with guidelines for dealing with customers. A business must familiarise itself with its industry’s code of practice as well as any state or federal laws that may affect its day-to-day operations. A failure to abide by these laws can result in heavy fines for the business.

The business owner must comply with trade practices legislation when establishing his or her business. The Competition and Consumer Act 2010 (Cwlth) is a federal law that specifies what business behaviour is acceptable in relation to a wide range of issues, from product safety and pricing to the way in which a business competes in the marketplace. The Australian Consumer Law is set out in Schedule 2 of the Competition and Consumer Act and covers issues such as misleading or deceptive conduct, unfair practices, conditions and warranties. The Competition and Consumer Act is administered by the Australian Competition and Consumer Commission (ACCC), which promotes competition and fair trading across the nation. Australian courts and tribunals can enforce the Competition and Consumer Act and the Australian Consumer Law.

In Victoria, the Australian Consumer Law is enacted through the Australian Consumer Law and Fair Trading Act 2012 (Vic). This legislation is administered by Consumer Affairs Victoria.
Anti-competitive practices

The *Competition and Consumer Act 2010* either prohibits or places strict controls on the following activities by business:

- **Cartels (ss.45AA–45AU).** A cartel exists if two or more businesses that would normally be in competition with each other agree to act together. The Act prohibits businesses from making agreements with competitors to fix prices, rig bids, share markets or restrict outputs. For example, it is illegal for businesses to communicate before lodging bids and agree among themselves who will win and at what price (rigging bids). It is illegal for two businesses in competition with each other to agree to set identical prices for their products (price fixing).

- **Misuse of market power (s.46).** The Act prohibits businesses with a substantial degree of market power from engaging in conduct that has the purpose, or has or is likely to have the effect, of substantially lessening competition in a market. For example, a business should not take advantage of its power to damage or get rid of a competitor, prevent anyone from competing in a market or prevent another competitor from entering a market.

- **Exclusive dealing (s.47).** This occurs when one business trading with another imposes restrictions on the other’s freedom to deal with other businesses. An example is when a hair products supplier will only sell to a hairdresser on the condition that the hairdresser does not purchase hair products from a competitor of that supplier. This can be legal in some circumstances if it is not seen to lessen competition in the market for the products in question. For example, McDonald’s sells Coke products but not Pepsi. Businesses that wish to enter such an arrangement, and believe it may be legal, must notify the ACCC of the agreement. The ACCC will then examine the details before either approving or disallowing the arrangement.

- **Resale price maintenance (s.48).** This occurs if a supplier sets the prices at which retailers will sell their products. Suppliers can recommend a retail price for the sale of their goods, but it is illegal to attempt to force a retailer to sell at that price. It is also illegal for a supplier to insist on a minimum price that sellers must not sell below, and to force a retailer not to discount goods. On the other hand, it is quite legal for a supplier to insist on a maximum price, as this can discourage a retailer who has a monopoly in a particular location from overcharging customers.

- **Mergers and acquisitions (s.50).** The Act prohibits any merger or acquisition that would have the effect, or be likely to have the effect, of competition being substantially lessened. Mergers between one or more businesses and acquisitions can be important for the efficient functioning of the economy, as they can allow businesses to achieve efficiencies and spread their risk. Therefore, a merger or acquisition may be permitted if it does not substantially limit...
competition. Planned mergers and acquisitions must be notified to the ACCC, which will determine if they can proceed.

The Australian Consumer Law

The following are some of the undesirable and misleading practices that are illegal under the Competition and Consumer Act:

• **Misleading or deceptive conduct.** A business must not engage in conduct that is misleading or deceptive or that is likely to mislead or deceive. For example, advertisements must not use words that are deceptive or claim that a product has some specific quality when it does not. Such actions convey a false impression of the exact nature of the product. Additionally, price reductions or specials must be genuine. Another example would be a business using the word ‘free’ in a ‘buy one, get one free’ offer but not revealing the full truth — that the price of the first item was increased to cover the cost of the second item. It is against the law to use a brand name similar to a well-known brand or use an Australian-made logo when the product was made overseas.

• **Unconscionable conduct.** This is conduct in business transactions that is unfair or unreasonable and goes against good conscience. It is illegal for businesses to engage in unconscionable conduct when dealing with other businesses or with customers.

• **Unfair contract terms.** Consumers are protected from unfair terms in a contract (a legally enforceable agreement between two or more parties). A term of a consumer contract may be deemed unfair if it would cause a significant imbalance between the business’s rights and obligations and those of the consumer — if it is not reasonably necessary to protect the legitimate interests of the business and if it would cause detriment (financial or non-financial) to a party if it were to be enforced. An example would be when the contract permits the business to vary prices without notifying the customer. Negotiations should be based on a principle of fair and open dealing. Contracts must be clearly expressed, legible and available to all parties.

• **False or misleading representations regarding goods or services.** A false or misleading representation is a statement that is untrue, such as claiming that a motor vehicle has a certain fuel consumption performance when it does not.

• **Offering gifts and prizes in connection with the supply of goods and services and then not providing them.**

• **Bait advertising.** This involves advertising products at reduced prices without a reasonable supply for customers to buy. A business attempts to attract customers by advertising some products at lower prices. When the advertised products quickly run out, customers are directed (or switched) to higher priced items.

• **Pyramid schemes.** Participation in pyramid schemes is illegal. A pyramid scheme involves a person or business making money by recruiting people, rather than providing a genuine good or service. Promoters at the top of the pyramid profit from having people join their ‘money making’ scheme. New members are promised payments for recruiting other investors or new participants. Those at the top pocket the fees and other payments made under them. Most participants, however, never make money; most lose all the money they paid to participate.

• **Referral selling.** This occurs when a business offers a customer benefits, such as a special deal or special price, if the customer refers other potential customers to the seller. This is illegal because it may encourage consumers to spend more money than they planned with the expectation that they may recoup some if they encourage others to buy.
The following are some examples of lawful sales practices under the Competition and Consumer Act:

- **Unsolicited consumer agreements.** These are agreements that result from negotiations by phone or at a location other than the seller’s place of business, and when a seller, or their sales agent, approaches or calls the consumer uninvited. Unsolicited consumer agreements made through door-to-door sales or telephoning consumers are limited to 9 am to 6 pm on weekdays and 9 am to 5 pm on Saturdays and are not permitted on Sundays or public holidays. This rule does not apply when consumers have agreed in advance to an appointment time for the seller to visit their home. A salesperson must leave immediately if requested and must not contact the consumer again for at least 30 days (with that same product).

- **Lay-by agreements.** These must be in writing and be transparent (expressed in plain language, legible and presented clearly). The agreement must specify all terms and conditions, including any termination charge.

- **‘Proof of transaction’ and itemised bills.** A retailer must provide an itemised bill on request; a retailer must provide a receipt for all transactions over $75 and, on request, for transactions under $75.

**GET QUALIFIED AUSTRALIA FOUND TO BE MISLEADING, DECEPTIVE AND UNCONSCIONABLE**

In 2017, the Federal Court ordered Get Qualified Australia Pty Ltd to pay an $8 million penalty, and its sole director, Mr Adam Wadi, to pay a penalty of $500 000, for multiple breaches of the Australian Consumer Law. The Court found the education company, which left thousands of students without the qualifications they paid for, had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.

Get Qualified Australia’s false or misleading representations and misleading or deceptive conduct occurred through a range of practices, including:

- assuring consumers they were eligible for qualifications when, in fact, the company could not directly offer qualifications and its employees were not qualified to assess eligibility
- telling consumers that they would be entitled to a ‘100 per cent money back guarantee’ if they were unsuccessful in obtaining the qualification despite Get Qualified almost always declining students’ requests for refunds.

Get Qualified Australia engaged in a system of unconscionable conduct that comprised a number of elements, including:

- false or misleading representations
- obtaining contact details of potential customers through a ‘Free Skills Review’ function on its website, which produced an automated response irrespective of the information submitted by a consumer
- using unfair sales tactics to pressure consumers into enrolling.

The Federal Court also made declarations that Get Qualified Australia imposed an unfair contract term and entered into unsolicited consumer agreements by making uninvited sales phone calls to people, failing to disclose the full terms of the agreement and requiring payment within ten business days.
ACCC Commissioner Sarah Court said, ‘Get Qualified Australia and Mr Wadi took advantage of vulnerable people trying to advance their career. Some examples of the illegal conduct included enrolling people into courses through misleading marketing and unfair sales tactics, not providing the service customers paid for, and refusing customers refunds despite GQA’s 100 per cent money-back guarantee promise’. The ACCC said that the size of the penalties was in keeping with the nature of the conduct.

Consumer guarantees
The Australian Consumer Law sets out protections for consumers who buy goods and services from businesses. Consumer guarantees are a comprehensive set of rights and obligations in relation to the supply of goods and services to consumers. All suppliers and manufacturers automatically provide guarantees on their products they sell to consumers. These exist regardless of any express warranty provided by the manufacturer. A business cannot eliminate consumer rights under the consumer guarantees, but they can extend and improve these basic rights.

Australian Consumer Law provides the following guaranteed rights:
• The consumer will gain clear legal title to goods; that is, that the seller actually owns the goods being sold, and can legally transfer ownership to the buyer.
• Goods must correspond to any sample, demonstration model or description provided to the buyer.
• Goods must be of acceptable quality; that is, they must be safe, durable, free from defects, acceptable in appearance and finish, and do all the things that the goods are ordinarily used for. If a consumer purchased a sandwich, for example, that turned out to be stale, or contained impurities, the sandwich would not be considered of acceptable quality.
• Products must be fit for a particular purpose. Fitness of purpose means the product will perform as the instructions or advertisement implies. A pair of running shorts being sold as football shorts, for example, would be a breach of a condition to supply goods for the purpose for which the seller knew they were intended.
• Repairs and spare parts are reasonably available.
• Services are carried out with reasonable care and skill.
• Services are completed within a reasonable time.

If a good or service that a customer purchases fails to meet a consumer guarantee, they have the right to ask for remedy through a repair, replacement or refund under the Australian Consumer Law.

4.2.7 Local government legal requirements
Many business owners overlook the importance of local government regulations. Any business using premises or land must first seek local government approval. Commencing trading before approval is obtained could result in the closure of the business and wasted time, money and energy. Local governments have control over the following business activities:
• land zoning and the purpose for which a building or land can be used
• new development applications and alterations to existing premises
• fire regulations, especially the provision of adequate fire-prevention facilities
• parking regulations governing the number of parking spaces that need to be provided
• health regulations
• business signs — their size, shape and location.
Two important local laws, or by-laws, relate to zoning and health services.
Zoning regulations

Local government ensures activities that do not belong together, such as those associated with factories and residential areas, are kept separate. This function assists the local community in terms of planning. Each council has a local planning scheme that describes the types of activities or developments that may occur in different areas of a municipality. Land is zoned for particular uses, such as residential, industrial, business or other.

When commencing a business, the owner must enquire with the local council to determine which zoning regulations will affect the business now and in the future. For example, a manufacturing business that uses heavy equipment and wants to operate a 24-hour shift would need to be located where zoning regulations allow it to operate in this way. A location close to a residential area would not be suitable mainly because of the noise pollution the business would create in such an area.

Health services

Local government also ensures compliance with health regulations under the Food Act 1984 (Vic). Each local council supplies businesses (primarily those dealing with food, such as cafés, restaurants, butcher shops and bakeries) with the regulations and standards they must meet in order to obtain a licence to operate.

A health officer will inspect premises regularly, often without warning, to ensure the business owner maintains standards. If problems occur, then the business is given a period of time to rectify the situation or it will be closed down. Local councils may also register and inspect other premises such as accommodation and hairdressers to ensure they observe hygiene and safety requirements.

4.2 ACTIVITIES

TEST your understanding

1. What are the main objectives of imposing government regulations?
2. Why is it important to comply with legal and government regulations?
3. When is it compulsory to register a business name?
4. Explain why it is important to register a website domain.
5. Describe three federal taxes that a business would be likely to pay.
6. Describe two state taxes that a business would be likely to pay.
7. What is WorkSafe Victoria?
8. Who pays for WorkCover insurance and what does it cover?
9. What is the Competition and Consumer Act and which federal body is in charge of administering it?
10. What is the Australian Consumer Law and Fair Trading Act and which state body administers it?
11. Explain each of the following anti-competitive practices:
   • cartels
   • misuse of market power
   • exclusive dealing
   • resale price maintenance
   • mergers and acquisitions.

12. Explain each of the following practices that are illegal under the Competition and Consumer Act:
   • misleading or deceptive conduct
   • unconscionable conduct
   • unfair contract terms
   • bait advertising
   • pyramid schemes
   • referral selling.

13. Provide a brief description of the following examples of lawful sales practices:
   • unsolicited consumer agreements
   • lay-by agreements
   • ‘proof of transaction’ and itemised bills.

14. Read about the case brought against Get Qualified Australia. Explain why the Federal Court found the company had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.

15. Outline the consumer guarantees set out by the Australian Consumer Law.

16. Explain why it is important for a small business owner to comply with the consumer protection provisions of the Competition and Consumer Act.

17. What is the purpose of zoning?

18. In what way does local government ensure compliance with health regulations under the Food Act 1984 (Vic)?

APPLY your understanding

19. Brainstorm suitable business names for the following businesses and check to see whether they are already registered.
   (a) Solomon is starting his plumbing business as a sole trader.
   (b) Slavica is a florist launching her business in the township of Belgrave.
   (c) Nick and Hubert have decided to go into a business partnership to develop cutting-edge smartphone applications for everyday practical use.
   (d) Jo is beginning her business as a chiropractor in Mordialloc.
   (e) Steve is commencing his business as a private investigator in the Melbourne suburb of Mulgrave.

20. Brainstorm suitable domain names for the following businesses and check whether they are already registered.
   (a) Allen and Volkan are partners in a mortgage brokerage business trading as ‘Select mortgage and financial services Dandenong’.
   (b) Daniel operates a business as an electrician trading under the name of ‘i-active electrical’.
   (c) Mick operates a trucking business trading under the name of ‘KNN transport’.

21. If Solomon earns $34000 a year from his plumbing business, how much tax would he pay as:
   (a) a sole trader
   (b) the owner of a company.

22. How much tax would Harry and his wife Sally each have to pay if they earn a total of $80000 from their 50/50 partnership running a florist business?

23. Do you think a company is better or worse for tax purposes than a sole trader or partnership? Justify your response.

24. In each of the following situations, state whether there has been a breach of the Competition and Consumer Act. If so, describe the type of breach committed.
   (a) Franchisees of a franchised garden maintenance business were required to sign a clause in their agreement with the franchisor that they would only operate in a specific group of postcode areas.
   (b) The owners of five petrol retailers along a major stretch of road met each week to determine how much they would all charge on each day of the week.
(c) The manufacturer of a range of electrical goods provided all retail outlets selling its products with a list of recommended retail prices for each of its products.

(d) A branch of a major supermarket chain, located in the same shopping centre as an independent supermarket, consistently prices all its products 5 per cent below those of the independent supermarket, even when the independent business lowers its prices to try to match its competitor.

(e) A small business advertises jumpers and claims that they are made in Australia when in fact they are made in Hong Kong.

(f) A small business advertises that a special deal is only for one week when in fact it plans to extend it for two months.

(g) A small business offers its customers a 10 per cent discount if they provide the names and addresses of five potential customers for the business.

25. In each of the following examples, state if there has been a breach of the Australian Consumer Law and why.

(a) A small business owner displays a sign that reads 'Choose carefully. No refunds given'.
(b) A small business owner does not issue a receipt for a $300 transaction.
(c) A small business owner removes any unfair terms from the business's contracts.

26. Arrange to have a representative from the school canteen outline the health regulations that apply to this business.

EXAM practice

27. Explain why it is important when establishing a business to comply with legal requirements. (2 marks)

28. Describe two legal requirements that need to be considered when establishing a business. (4 marks)

4.3 EXTEND YOUR KNOWLEDGE Legal requirements created by the three levels of government

**KEY CONCEPT** The business owner must comply with legal requirements created by all three levels of government when establishing a business.

Our federal system of government came into being on 1 January 1901 when the Commonwealth of Australia was formed. The six colonies became states and agreed to hand over some powers to a central government. Under these new arrangements, three levels of government were established: federal, state and local. As seen in the diagram below, all three levels of government enact laws and regulations that affect the way in which businesses are established. These laws will not only influence the dealings that will occur between businesses and customers but will also affect their relationship with competitors. These laws and regulations have two broad purposes:

- to protect consumers from being sold dangerous or unsuitable products, and to ensure that they receive the goods and services they expect to receive at the price they expect to pay. This includes protecting consumers from undesirable or misleading practices that may be attempted by unscrupulous business owners.
- to ensure maximum levels of fair and open competition between businesses. This is achieved by regulating business practices that may restrict competition, and by ensuring that there are a number of competing businesses operating in the same market at any one time. Greater competition gives the consumer more choice and reduces the risk of dishonest practices.
The three levels of government in Australia and their main responsibilities

Federal government
- Taxation
- Foreign affairs
- Defence
- Social security
- Health
- Education
- Aboriginal welfare
- Trade
- Communication
- Immigration

State government
- Law and order
- Housing
- Health
- Education
- Transport
- Local government
- Industry and business development

Local government
- Parks
- Rubbish
- Minor roads
- Street lighting
- Zoning
- Signage
- Development applications
- Health regulations
- Fire regulations

MSY TECHNOLOGY FINED FOR CONSUMER GUARANTEE MISREPRESENTATIONS

The Australian Competition and Consumer Commission (ACCC) took consumer electronics retailer, MSY Technology, to the Federal Court in 2017. In October, the company was fined $750,000 for misrepresenting consumers’ rights to remedies for faulty products.

MSY Technology operates 28 retail stores across Australia and has an online site. The company sells computers, computer parts, accessories and software. According to the ACCC, statements allegedly made by MSY on its website and by some of its employees in New South Wales and Victorian stores misrepresented consumers’ rights to a repair, replacement, or a refund when they had purchased faulty products.

The ACCC alleged that between January 2013 and February 2016, the company misrepresented consumer rights by claiming that:
- MSY Technology had discretion over whether a customer was entitled to a remedy for a faulty product
- It was up to MSY Technology to choose which remedy it would provide customers
- MSY Technology would only provide a remedy for products returned within seven days
- MSY Technology may require the customer to pay an administration fee to receive a remedy for a faulty product that is out of warranty
- MSY Technology would provide no remedies in relation to faulty software products.

MSY admitted that it made false or misleading representations to consumers about their rights on its website, and in oral and email communications.

ACCC Deputy Chair Delia Rickard said, ‘MSY had misrepresented consumers’ rights to a repair, replacement or a refund where a product developed a fault. Businesses must ensure their refund and returns policies and any representations accurately reflect their obligations under consumer law’.
The Federal Court also ordered MSY to undergo a comprehensive Australian Consumer Law compliance training program and pay $50,000 towards the ACCC’s costs. This was not the first appearance of MSY Technology in court. In 2011, following action by the ACCC, the company was fined $203,500 for misleading customers over their warranty entitlements for the products they purchased.

**WORKPLACE BULLYING**

Bullying unfortunately doesn’t just take place in the schoolyard. Bullying can occur in the workplace and, according to WorkSafe Victoria, it is ‘characterised by persistent and repeated negative behaviour directed at an employee that creates a risk to health and safety’. When considering whether behaviour is unreasonable, an employee should apply the test of whether an impartial person observing the situation would think that behaviour was unacceptable.

Business owners are no exception when it comes to providing a healthy and safe workplace. It may well be that persistent bullying can result in a breach of occupational health and safety legislation. In addition to this, the Crimes Act 1958 (Vic) was amended in 2011 to include cyber and workplace bullying, such as threats, abusive language and performing offensive acts. Business owners should have policies and procedures to prevent bullying in the first place. The diagram below suggests some ways that business owners can prevent bullying. If bullying does occur, the business should appropriately respond to the allegations.

A most serious case of bullying in the workplace occurred at Cafe Vamp in Melbourne in 2006. Brodie Panlock took her own life that year after enduring bullying while working at the café. One incident involved pouring fish sauce over Brodie’s hair and clothes. The café’s owner pleaded guilty to charges that included not providing and maintaining a safe work environment. The owner and three employees working in the business were fined $335,000. It was found that the owner told staff to ‘take it out the back’ when abuse was being carried out, and this sent the message to employees at the café that bullying was acceptable.

Victoria’s anti-bullying legislation (often referred to as Brodie’s Law) was introduced following lobbying by Brodie’s parents. The legislation has seen more than 40 people charged since January 2012. In a recent case, electrician Tommy Liu pleaded guilty to stalking with intent to cause mental harm, after subjecting an apprentice to a relentless campaign of physical and mental abuse. In the Frankston Magistrates’ Court in 2017, Mr Liu was sentenced to a 15-month community corrections order.
RESTAURANTS FINED FOR FOOD SAFETY BREACHES

Local council environmental health officers regularly inspect food businesses. However, many restaurants continue to breach food safety regulations. During the 2016–17 financial year, 37 convictions for offences under the Food Act were recorded against 30 companies or individuals across Victoria. Over $350 000 in fines were issued.

In a recent case, a restaurant in Camberwell was convicted and fined in October 2017 for breaches of the Food Act. This was the second time in three years that the restaurant had been found guilty of serious food safety breaches. The City of Boroondara successfully prosecuted Japanese Gourmet Kenji in the Melbourne Magistrates’ Court. The council did not release details of the breaches. However, a media release said that 12 charges were laid in relation to ‘unclean and unsanitary’ equipment, and ‘unsafe food handling practices’. Both the company and the director were fined $20 000 and $5 000 respectively, and a conviction was recorded.

Boroondara Mayor Phillip Healey said, ‘We expect all food traders to adhere to food safety laws and regulations and putting the health and safety of the community at risk is, quite simply, unacceptable’.

In September 2017, a bakery and café in Collingwood was fined $120 000 for multiple breaches of food safety laws. The company operating the restaurant, Pastry Art Design Pty Ltd, and its directors received convictions in the Melbourne Magistrates’ Court. The charges included inadequate pest control, inadequate cleaning, contaminated food products, inadequate and inaccessible hand washing facilities and intimidation of an authorised officer.

In her summation, Judicial Registrar Samantha Dixon said, ‘This is one of the worst cases I have seen. The proprietor failed in every way to provide a safe working environment and to protect the public, it is very serious’.

The prosecution was brought by the City of Yarra.

The Food Act 1984 (Vic) stipulates that a food business must keep its food premises in a clean and sanitary condition and must ensure that food prepared, sold or otherwise handled at the food premises is safe and suitable.

4.3 Activities

TEST your understanding

1. Identify the level of government that has responsibility for each of the following:
   - defence
   - street lighting
   - zoning
   - foreign affairs
   - health regulations
   - housing
   - transport
   - trade.

2. Read ‘MSY Technology fined for consumer guarantee misrepresentations’ and answer the following questions.
   (a) Outline the ACCC’s role in responding to breaches of the Competition and Consumer Act.
   (b) Identify the type of behaviour prohibited by the Act, for which MSY Technology was prosecuted in this case.
   (c) Explain the legal consequences that were applied to MSY Technology as a result of this finding by the Federal Court.
3. Read ‘Workplace bullying’ and answer the following questions.
   (a) Under what legislation do business owners have an obligation to ensure workers are not bullied?
   (b) Explain why the owner of Cafe Vamp was also responsible for the bullying that occurred in his workplace.
   (c) What can businesses learn from this case study in terms of providing a safe work environment?
4. Read ‘Restaurants fined for food safety breaches’ and answer the following questions.
   (a) Why was the Camberwell restaurant fined?
   (b) Under what Acts (or laws) was Japanese Gourmet Kenji charged?
   (c) What penalties were applied to the restaurant?
   (d) Why was the Collingwood bakery and café fined?
   (e) What penalties were applied to the bakery and café?
   (f) Why do you think the local council checks food-related businesses?

EXTEND your understanding
5. Would you say that running a business is complicated, in terms of all of the laws that you need to know? Explain.
6. The ACCC does not always prosecute businesses that break the Competition and Consumer Act. In many cases, once the offending conduct has been identified, the business will willingly change its behaviour to ensure it no longer breaches the Act. Use internet sources to locate the ACCC’s website and find an example of where this has occurred. This is likely to be in a media release.
   Once you have done this answer the following questions:
   (a) What was the name of the business involved?
   (b) What was the business conduct that was at risk of breaching the Competition and Consumer Act?
   (c) What was the solution agreed to by the business to resolve the issue?
7. Janine worked as a casual assistant and had some difficulty understanding the procedure required at the end of the day regarding the cash register and closing the shop. Which of the following scenarios is clearly a case of bullying and which is not? Provide reasons for your answer.
   (a) Janine’s manager said that she needed more assistance and training so that mistakes did not continue to occur. Janine felt she was being bullied.
   (b) Janine’s manager shouted at her every morning when she found that the appropriate closing procedure had not been used. Janine was repeatedly given a dunce hat and told to wear it. When Janine said she needed more training she was told she needed a new brain. Janine’s health was beginning to be affected as she was so stressed and felt hopeless.
8. If bullying in the workplace has occurred and an allegation is made, an investigation should take place. Using internet sources, find the WorkSafe Victoria website to locate procedures for dealing with workplace bullying. Explain the procedure that will take place if an investigation into workplace bullying needs to occur.
9. It is the local council’s responsibility to ensure that businesses that sell or prepare food comply with regulations. Without looking at the actual regulations, can you guess what sort of regulations a food-related business must comply with in relation to food handling?
10. Imagine you run a bakery. It is up to you to ensure food safety. In the following situations, what would you do to ensure that food regulations are met?
    (a) Su knows that she must not touch the bread with her bare hands, but when she is in a hurry she takes a short cut.
    (b) Geoff the baker makes a batch of scones. Some fall to the floor so he just picks them up and puts them back on the tray.
    (c) One of the sales assistants has a heavy cold and arrives for work coughing and spluttering.
    (d) Geoff the baker doesn’t check the use-by date on the flour before making today’s fresh batch of patty cakes.
11. Explain the legal considerations that need to be taken into account by a business owner when establishing a business.
4.4 Establishing bank accounts

**O KEY CONCEPT** Opening and managing the right bank account is an important decision for a business.

### 4.4.1 Establishing separate accounts

An essential part of establishing a business in Australia is opening a business bank account. While most business owners may already have an individual bank account for their personal use, it is highly recommended that the transactions of the business are performed through a separate bank account. There are several reasons for this:

- **The ‘separate entity’ accounting principle** states that we should always record the transactions of the business and its owners separately. This is far easier to do with separate bank accounts.
- **It is easier to monitor the financial performance and position of the business** if it has a separate account to that of its owner.
- **It is easier to calculate business expenses** such as bank fees, and revenue such as interest earned, which makes it less time consuming and costly to prepare tax returns for the business.

### 4.4.2 Choosing the right bank account

**Factors to consider when choosing the right bank account**

- Bank fees
- Interest rates
- Overdraft facility
- Credit cards
- Convenience and support

Opening a business bank account can be as straightforward as walking into a local branch with the required proof of identification, and agreeing to the terms offered by the bank. However, choosing the right bank account from the right financial institution requires consideration of the following factors:

- **Bank fees.** Banks are notorious for charging hidden or ‘not so obvious’ fees. While these fees are legally required to be stated in the product disclosure statement (PDS), it is the customer’s responsibility to read the paperwork carefully and ask questions if unsure.
- **Interest rates.** This is probably the most important factor in determining which is the best alternative, as the interest rate will determine how much money the business will earn on the amount of money they have in the bank account, or how much they have to repay on any loans.
A credit card can be a convenient tool for a business that regularly repays the amount that is owed. The owner must ensure they are up to date with repayments as many banks charge very high rates of interest on unpaid balances.

- **Overdraft facility.** Some financial institutions allow a business to withdraw more money than they have available in their account. This is known as a bank overdraft facility and can be an important feature for a business that might temporarily fall low on cash flow.

- **Credit cards.** Having a business credit card can also be convenient for the owner. Different credit cards have different features, including the maximum amount that can be used, as well as the interest rate on unpaid balances. The terms of the credit card should also be closely evaluated when deciding on which financial institution to open an account with.

- **Convenience and support.** Some financial institutions offer a more practical way of banking. While smaller banks and credit unions can often offer a lower interest rate, they often lack the infrastructure to support the business owner with their banking needs in a way that larger commercial banks can. Having a local branch with supportive staff and a variety of secure internet banking options available is a convenience that can ease the burden of running a business for its owner.

### 4.4 Activities

**TEST your understanding**
1. What is the ‘separate entity principle’ in accounting?
2. Explain one reason why a business should have a separate bank account to that of its owner.
3. Why is it important to carefully read the terms of the agreement before signing up for a new bank account?
4. What is an overdraft facility?

**APPLY your understanding**
5. Describe a scenario in which an owner would need to use the bank overdraft facility.
6. Give two reasons why a business owner might opt for a larger commercial bank, even though they have higher fees and interest rates than a smaller bank?
7. Use the following weblinks in the Resources tab to visit the websites of the various banks, and outline some of the support services they offer to their business customers:
   - (a) Commonwealth Bank of Australia
   - (b) National Australia Bank
   - (c) Westpac Banking Corporation
   - (d) ANZ.

**EXAM practice**
8. Outline why a business owner should have a separate bank account for their business. (2 marks)
9. Explain why establishing a bank account is an important decision for a new business owner. (2 marks)
10. Describe two factors that a new business owner should consider when establishing a bank account. (4 marks)
4.5 Establishing financial control systems

**KEY CONCEPT** Financial control systems are used to help the business monitor and manage its financial performance.

As a business is established, its day-to-day operations will command much of the owner’s attention and effort. To continue to build momentum, the business will need to establish financial control systems that allow the business owner to monitor and manage its financial performance. Financial control systems will vary from business to business depending on its size and nature. Some of the more common financial control systems that businesses implement relate to accounting and record-keeping systems. Record-keeping strategies will be covered in more detail in 4.6 Establishing record-keeping strategies.

A new business could potentially suffer financial problems and/or losses because of any of the following:
- poor systems
- mismanagement
- theft or fraud
- poor debt management
- lack of cash flow
- damage to assets
- incorrect pricing.

If these problems and losses were to eventuate, the business’s financial performance may be hampered. In the worst case, the business may be forced to close. Financial control systems can be used by the business to prevent these problems and losses.
4.5.1 Budgeting

Budgeting refers to predicting or estimating the business’s financial performance for a given period in the future. There are a number of different types of budgets that a business can prepare, including cashflow budgets, budgeted income statements and budgeted balance sheets. Budgets may be prepared monthly, quarterly or yearly.

Budgeting is used to control the business. By comparing actual with planned results, the business can ask questions about why certain targets were not reached or why results were better than anticipated. Completing budgets also helps the business to establish standards and use them as a benchmark against which to compare actual events.

4.5.2 Cash-flow management

Managing cash flow is crucial to the survival of the business. Regardless of whether the business is making a profit (what is left after business expenses have been deducted from money earned from revenue), if it does not have the cash needed to pay its day-to-day expenses it will find itself in a great deal of trouble. A profitable business can ensure such issues do not arise by implementing some of the following strategies:

• keeping track of money that is owed to the business and chasing up outstanding debts
• hiring accounts receivable staff to ensure that customers are paying the full amount on time
• offering discounts to customers who pay cash or make payments early
• withholding future supplies to customers who are late in paying their accounts or who have outstanding amounts owing
• arranging readily available short-term loans and a bank overdraft.

HOW IMPORTANT IS CASH FLOW?

Cash flow is like blood pumping through your body. It keeps a business alive. Profit is also vital to the business. Failing to make a profit will lead to the long-term demise of the business. A small business owner needs to manage a profitable business and make sure that there is enough cash available to pay debts and expenses on time. Just how important is cash flow? Is it more important than profit?

The Australian Taxation Office (ATO) says that it is very important for a business to maintain sufficient cash flow to be able to meet obligations, such as bills and tax. It suggests that the best way to do this is to prepare a cash-flow projection or budget. This can be as simple as adding up all the cash receipts over the course of a year, such as sales and other income, then adding up all the cash payments, including payments for salaries and interest. By comparing the totals,
A business can calculate its surplus or deficit of cash. A deficit means that the business will need to take corrective action to avoid problems.

A common solution to a cash-flow problem is to send reminder notices to debtors, but another way is to encourage early payment. A business might change their credit terms of 30 days from the date a statement is issued, for example, to offering a discount of 10 per cent on 7-day payment terms. Although this strategy may benefit cash flow, in the long term it can have an impact on profit, as total revenue is decreased by 10 per cent.

A business that has a healthy cash flow but that is not making a profit will find over time that cash reserves will disappear. A business can delay paying expenses but, ultimately, creditors must be paid if the business is to continue. If there is insufficient revenue coming into the business, eventually the only way to make payments will be to use cash reserves, which is an unsustainable practice. A business can return to profit by increasing revenue and/or by reducing costs. If this process is managed successfully, a positive cash-flow position should be restored. Making a profit is very important, but so too is cash flow. A business can continue to operate for some time without making a profit but, if it is lacking cash, it will be unable to meet the immediate needs that allow it to continue operations.

**DID YOU KNOW**

In December 2017, the Australian Securities and Investments Commission (ASIC) published its annual overview of corporate insolvencies based on statutory reports lodged by external administrators during the 2016–17 financial year. Insolvency occurs when a business can no longer meet its financial obligations with lenders as debts become due. While there was a decline in reports received (down 17.9 per cent), small- to medium-sized corporate insolvencies dominated the reports (79 per cent of businesses had fewer than 20 employees). The primary cause of failure was inadequate cash flow or high cash use, with 47 per cent of owners reporting this. Poor financial control was nominated as another cause of failure (according to 35 per cent of reports).

4.5.3 Control of accounts receivable

Accounts receivable refers to the outstanding invoices or payments that a business has — that is, the money that the business is owed by its customers. In many ways, accounts receivable represents cash waiting to come into the business.

When a business makes a sale — and has delivered the good or service to a customer — but the customer stills owes payment on the good or service, the amount will be recorded under accounts receivable. It is important to note here that the business has made a sale. However, the money is still owed. Collecting accounts receivable is vital in a business to ensure cash flow.

When establishing a business, the owner needs to ensure that they set the right credit terms. A typical payment cycle ranges from 30 to 90 days. A longer payment term extends more credit to customers, while shorter terms should result in the business being paid faster. A business owner might also offer a variety of payment methods to make payment easier. Bonuses or rewards for early payment, such as discounts, free shipping, gifts, loyalty/points programs or future credits may encourage customers to pay on time. Late payment fees could also be used to encourage prompt payments.

4.5.4 Inventory control

Many businesses have large quantities of materials on hand to complete production. This is called stock, or inventory. Businesses hold large inventories to make sure they do not run out of materials. However, this can become a huge cost for a business because the stock has to be stored. Stock that takes up storage space for a long time can also result in the business missing opportunities to invest money in other places. In addition, materials can become unusable after a certain period of time. It is very important to manage materials effectively so that costs can be kept down.

Inventory control is a system businesses use to ensure that the costs associated with maintaining an inventory of materials are kept to a minimum. Costs can be minimised by not allowing materials to remain idle and by making sure that materials are available for production when needed. Control may occur through both
physical control of inventory and through accounting control — for example, by using an inventory recording system.

Many businesses use bar coding and computerised stock records to control inventory. Computerisation can help to minimise loss or theft of stock and it provides precise, up-to-date information about stock levels. Signals can alert management when it is time to order new materials and how much to order. Businesses also conduct stocktakes, physically counting stock and then comparing the count against what was expected to be available. Any differences would indicate problems with stock control. Some businesses use an inventory system called Just In Time (JIT). This system ensures that the correct materials arrive just as they are needed for production, which can reduce storage costs and reduce the risk of waste occurring in storage, thereby improving the business’s financial performance.

4.5.5 Auditing

Auditing is the process of testing and evaluating a business’s accounting processes and internal controls. Auditing can be done internally, whereby employees of the business perform the audit, or externally, whereby another business performs the audit. While contracting experienced external auditors can provide the business with valuable feedback, it is often a costly exercise that many businesses avoid.

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Although some employees may feel uncomfortable about the idea of an external auditor checking the validity of their work, audits can lead to great improvements in the accounting processes and internal controls of a business.

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### 4.5 ACTIVITIES

**TEST your understanding**

1. What are financial control systems?
2. Explain what budgeting is and why it is an important financial control system.
3. How important is cash flow to a business, and what can be done to improve it?
4. Why is it important for a business to monitor its cash flow?
5. Outline what accounts receivable refers to.
6. Explain how accounts receivable can ensure cash flow in the business.
7. What is inventory?
8. What is the main benefit of inventory control?
9. Explain how inventory control can be used to improve a business’s financial performance.
10. Outline why it is vital for a business to make use of auditing.

**APPLY your understanding**

11. How do you think the financial control systems of a chicken shop might be different to that of a builder? Highlight at least two differences.
12. As a business consultant, you have been asked to advise the manager responsible for the area affected in each of the following situations. Describe the financial control problem that exists and suggest ways to deal with the situation.
   (a) The accounting area is confused about why the business invariably seems to struggle to pay for expenses, which always seem to emerge unexpectedly.
   (b) The finance manager is concerned about cash flow and suspects that some employees are collecting money from customers and keeping a proportion for themselves.
   (c) Accounts receivable has found that approximately one in five accounts has become a bad debt. Easy credit terms are offered and many customers end up not repaying all of their debts.
   (d) The production manager claims that inventory often seems to be missing. It might be theft or there is the possibility that stock has deteriorated and has been disposed.

13. Explain why an external auditor might provide more useful feedback to a business than an internal auditor.

EXAM practice
14. Define the term ‘financial control system’. (1 mark)
15. Outline the importance of a business developing effective financial control systems. (2 marks)
16. Explain one financial control system that a business might use to improve its financial performance. (2 marks)

4.6 Establishing record-keeping strategies

**KEY CONCEPT** Record-keeping strategies are used to help the business monitor, manage and report its financial performance.

4.6.1 Record-keeping systems and strategies

Maintaining accurate records is not only an obligation of the business, but also serves as an invaluable tool for decision making. Without accurate records, an owner has a restricted understanding of how the business is performing and where improvements need to be made. Furthermore, investors and financial institutions are unlikely to invest in or make loans to a business that cannot demonstrate its financial position.

Businesses are required by law to keep records of their financial transactions for at least five years for tax purposes. This includes all documents relating to income and expenses such as tax invoices, receipts and bank statements, as well as other important documents such as employee contracts. While the Australian Taxation Office (ATO) allows businesses to keep all such information electronically, it is important that businesses keep their electronic information backed up and secure.

While maintaining accurate records can be a time-consuming and daunting task, having the right systems and strategies in place can cut down and simplify the workload significantly.
4.6.2 Source documents

When established, a business will engage in a variety of financial transactions, all of which can be recorded on paper. Cash register dockets, credit card or EFTPOS vouchers and purchase invoices are all examples of these paper records. As well as handing these to a customer, a business will keep a copy, and it is these copies that are used to produce the financial reports. Original paper documents recording transactions are known as source documents. Source documents are essential for the business owner as they provide the basic data necessary for the ultimate production of financial reports.

The type and format of source documents will vary between businesses, reflecting the differences in operation. There are common features in most records, however, including:

- the date the transaction occurred
- the names (and addresses if applicable) of the parties involved
- the nature of the transaction
- the amount of money involved.

Source documents provide evidence of financial transactions and include cash register dockets, credit card or EFTPOS vouchers and purchase invoices. The business must keep records of these transactions. Businesses record the information from these documents into journals. This allows the business to keep a chronological summary of all transactions to assist in the preparation of financial reports. Cash received by a business is recorded on the duplicates of receipts issued to those from whom the cash has been received. The journal that summarises this data is known as the cash receipts journal. Payments that a business makes will be recorded in the cash payments journal. When these two journals are combined, it is known as a cash book.

4.6.3 Cash book

A cash book normally consists of two sections, with cash receipts recorded on the left-hand side and cash payments recorded on the right. The main benefit of using a cash book is that it allows the business owner to:

- keep a tight control on the cash
- monitor the business’s cash-flow position — that is, the money coming into the business and the money leaving the business
- determine the cash balance.

The Dava’s Landscaping case study shows how a business’s cash receipts and cash payments are recorded in a single-entry cash book.
DAVA’S LANDSCAPING

Dava Norwich is the owner of Dava’s Landscaping. She has just started her business and during the month of September, the following cash transactions occurred:

These financial transactions must now be recorded into a cash book. As you can see, a separate column is created for transactions that occur regularly during the month, such as wages, lease payments and fees.

Dava can control her cash flow by recording transactions in her cash book.

- 4 September — paid fortnightly lease $440 (chq. no. 2356)
- 6 September — received fee from client $1750 (rec. no. 487)
- 9 September — paid Nathan’s Nursery for plants $520 (chq. no. 2357)
- 10 September — paid wages $859 (chq. no. 2358)
- 12 September — paid for repairs to motor vehicle $180 (chq. no. 2359)
- 14 September — received interest from the bank $218 (rec. no. 488)
- 15 September — purchased printer cartridge $45 (chq. no. 2360)
- 18 September — paid fortnightly lease $440 (chq. no. 2361)
- 21 September — received fee from client $2100 (rec. no. 489)
- 25 September — paid wages $859 (chq. no. 2362)
- 28 September — received fee from client $2592 (rec. no. 490)

By examining the cash book, it is easy to see where the money is coming from (receipts) and where it is going to (payments). A positive cash flow occurs when the cash received is greater than cash payments — as is the case with Dava’s Landscaping for the month of September. As the cash book shows, a balance of $3317 is brought forward at the start of October — that is, $6660 minus $3343 equals $3317.

Dava’s Landscaping cash book

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30/9 Closing balance 6660

Oct. 1/10 Opening balance 3317
4.6.4 Income statement

A business earns income by selling a good or service to its customers. To measure how successful a business is at trading, a financial report called an **income statement** is drawn up. The income statement (also called the revenue statement or the profit and loss statement) is used primarily to help a business to calculate how much net profit it has made over a period of time.

The income statement shows:
- the amount of income or revenue earned
- the costs or expenses incurred in earning that revenue
- whether a profit or a loss has been incurred in the period under review.

The income statement for Angelo’s Eatery shows how expenses are deducted from revenue to determine net profit. This income statement is for a trading business (a business that purchases goods from suppliers and then sells them at higher prices to customers). Service businesses (ones that provide a service) do not calculate cost of goods sold (and therefore do not show gross profit).

The first step in completing an income statement is to record the revenue, which is the income earned by a business. A café, for example, earns revenue by selling food and drinks. The second step is to record the cost of goods sold, which is the money spent on purchases of raw materials or finished goods for resale, and to use this figure to calculate gross profit. The gross profit/loss is the amount remaining when the cost of goods sold is deducted from revenue. The third step is to calculate net profit. To earn revenue, a business will have a variety of expenses. Common expenses include wages and salaries, payments for telephone, electricity, postage, motor vehicle expenses and so on. A net profit/loss is the amount remaining when operating expenses are deducted from gross profit. The word ‘net’ means all expenses have been deducted.

For the owner of a business, profit represents a return on the contribution they have made to the business in terms of both labour and funds. The owner can either withdraw profits from the business as a reward for taking the risk of running the business or reinvest the profits within the business so that the business grows.

The income statement can be used to answer the following questions:
- Is revenue high enough to cover expenses?
- Is the profit mark-up on purchases sufficient?
- Is the business making an adequate profit?
- Are the expenses in proportion to the revenue they are earning?

By examining figures from previous income statements, business owners can make comparisons and analyse trends to help evaluate the business’s financial performance.

4.6.5 Balance sheet

A **balance sheet** is like a snapshot providing a picture of what a business owns (assets) and owes (liabilities) and the owner’s equity on a particular date. Its heading includes the words ‘as at’, which means ‘at that point in time’. It represents the net worth (equity) of the business. In other words, it shows the financial stability of the business.
The main purpose of the balance sheet is to help a business owner watch the debt and equity levels of the business, evaluate the business’s overall financial position against that of previous periods and to undertake financial decision making. A simplified balance sheet is shown in the following figure. The balance sheet records the value of assets, the value of liabilities and owner’s equity.

Assets are items of value that the business owns. You can see from the balance sheet for Kiji Cottage T-shirts that the assets of this business are cash at the bank, debtors (the money that other individuals or businesses owe Kiji Cottage T-shirts), stock, a motor vehicle, equipment and the premises. Liabilities are the debts owed by a business to others. Kiji Cottage T-shirts’ liabilities include creditors (the money owed to other businesses for supplies), a loan from the bank (the mortgage) and credit cards. Owner’s equity represents the value of the business to the owner. It is sometimes called proprietorship or capital, because it represents the money that the owner has invested in the business.

4.6.6 Other record-keeping strategies
A business owner should consider the following record-keeping strategies.

- Use bookkeeping software such as MYOB, Xero or Quickbooks. Learning to use the program may be difficult, which is why many businesses engage professional bookkeepers to enter the financial transactions on a weekly basis.
• Consider hiring a bookkeeper if they are not confident they have the time, skills or knowledge to accurately record financial transactions.
• Establish a good filing system, and process documents and transactions into their record-keeping software regularly.
• Keep records as simple as possible to understand while still containing all of the relevant information.
• Be organised and make sure they don’t let record-keeping duties pile up.
• Do not mix up business records with their personal finances.
• Make sure they obtain all documents, such as invoices, at the time of the transaction and record all of the necessary details as soon as possible.
• Seek assistance where needed. The ATO provides plenty of support through their telephone hotline and online information, as well as free assistance visits from tax officers. A registered tax agent can also provide assistance for a fee.

4.6 ACTIVITIES

TEST your understanding
1. Why is it important for a business to maintain accurate records?
2. What are source documents?
3. Why is it important for a business to keep source documents?
4. Identify the benefits of a cash book.
5. Examine the Dava's Landscaping cash book entries. Describe the financial transactions that occurred on the following dates:
   (a) 6 September
   (b) 10 September
   (c) 18 September
   (d) 28 September.
6. What is the main use of an income statement by a business?
7. What does a balance sheet show?
8. Briefly outline the purpose of the balance sheet.

APPLY your understanding
9. Explain why source documents would be needed for each of the businesses and individuals involved in the following cases.
   (a) Freda receives a shipment of flowers for her florist business from her supplier in Gippsland.
   (b) An electrical contractor wires up a house for a builder.
   (c) A plumber purchases pipes and fittings from a plumbing supplies business for use in the connection of water to a new house.
   (d) A pizza shop provides home-delivered pizzas.
10. Anita Toparis owns and operates Petal's Florist. Last year she had sales revenue of $285 000. Her cost of goods sold totalled $115 000. Her operating expenses were: electricity $5000, advertising $11 000, interest charges $5000, salaries $62 000 and rent $25 000. Construct an income statement for Anita and tell her whether she has made a net profit.
11. Candice Wahler, an artist, has asked you to help her construct a balance sheet.
    (a) Briefly explain to her how a balance sheet is set out.
    (b) Draw up her balance sheet as at today’s date from the following information: cash at bank $1500, motor vehicle $10 000, accounts payable $6000, equipment $8200, accounts receivable $3000, bank loan $13 500 and stock $3000.
EXAM practice
12. Outline the importance of a business developing effective record-keeping strategies. (2 marks)
13. Explain one record-keeping strategy that a business might use to improve its financial performance. (2 marks)
14. Distinguish between financial control systems and record-keeping strategies. (4 marks)

4.7 EXTEND YOUR KNOWLEDGE A basic record-keeping strategy — establishing a cash book

KEY CONCEPT Establishing a cash book that records cash receipts and cash payments is an important record-keeping strategy to use when beginning a business.

A cash book keeps track of cash purchases. Many businesses, particularly small businesses, find that cash books are useful for ensuring that there is adequate cash for purchasing materials when experiencing unpredictable shortfalls or for meeting other unexpected expenses. The following case study outlines how a business might use a cash book. In doing so, it illustrates how a typical business owner might establish a cash book for their own business. The receipts and payments are recorded in pre-ruled columns that have headings that suit the business.

NU LOOK INTERIOR DESIGNS CASH BOOK

Juno Roberts owns and operates Nu Look Interior Designs, which is a business that renovates homes and offices. She uses a van to transport equipment and materials and employs two part-time assistants. Juno is completing a cash book for the month of June. She wants the cash book drawn up so she can obtain details about fees, wages, and motor vehicle and materials expenses.

Juno has collected the following receipts for Nu Look Interior Designs for the month of June:

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
<th>Rec. No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/6</td>
<td>Renovation fee $950</td>
<td>425</td>
</tr>
<tr>
<td>8/6</td>
<td>Renovation fee $635</td>
<td>426</td>
</tr>
<tr>
<td>12/6</td>
<td>Interest from the bank $250</td>
<td>427</td>
</tr>
<tr>
<td>18/6</td>
<td>Renovation fee $2540</td>
<td>428</td>
</tr>
<tr>
<td>21/6</td>
<td>Loan from the bank $5000</td>
<td>429</td>
</tr>
<tr>
<td>29/6</td>
<td>Renovation fee $3200</td>
<td>430</td>
</tr>
</tbody>
</table>

By using a cash book as a record-keeping strategy Juno can determine her business’s cash flow. If Nu Look Interior Designs does have a cash-flow problem, information in the cash book can be used to develop a solution.
The payments that Juno has collected for Nu Look Interior Designs for the month of June are:

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
<th>Chq. No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/6</td>
<td>Materials $3750</td>
<td>645789</td>
</tr>
<tr>
<td>5/6</td>
<td>Wages $1250</td>
<td>645790</td>
</tr>
<tr>
<td>6/6</td>
<td>Petrol for van $65</td>
<td>645791</td>
</tr>
<tr>
<td>8/6</td>
<td>Materials $2500</td>
<td>645792</td>
</tr>
<tr>
<td>10/6</td>
<td>Van insurance $685</td>
<td>645793</td>
</tr>
<tr>
<td>10/6</td>
<td>Wages $1250</td>
<td>645794</td>
</tr>
<tr>
<td>25/6</td>
<td>Petrol for van $59</td>
<td>645795</td>
</tr>
<tr>
<td>28/6</td>
<td>Materials $3590</td>
<td>645796</td>
</tr>
</tbody>
</table>

Juno records these financial transactions into a cash book (see the figure below). Her headings have been chosen to suit the business: her headings for receipts are ‘fees’ and ‘other’ and her heading for payments are ‘wages’, ‘vehicles’ and ‘materials’.

Nu Look Interior Designs Cash book for the month of June 2019

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Details</td>
</tr>
<tr>
<td>3/6</td>
<td>Fees</td>
</tr>
<tr>
<td>8/6</td>
<td>Fees</td>
</tr>
<tr>
<td>12/6</td>
<td>Interest</td>
</tr>
<tr>
<td>18/6</td>
<td>Fees</td>
</tr>
<tr>
<td>21/6</td>
<td>Loan</td>
</tr>
<tr>
<td>29/6</td>
<td>Fees</td>
</tr>
<tr>
<td>25/6</td>
<td>Petrol</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
</tr>
<tr>
<td>30 Jun</td>
<td>Closing balance</td>
</tr>
<tr>
<td>1 Jul</td>
<td>Opening balance</td>
</tr>
</tbody>
</table>

Juno now examines the cash book to see where money is coming from (receipts) and where it is going to (payments). A positive cash flow occurs when the cash received is greater than cash payments, whereas a negative cash flow occurs when cash payments are greater than cash receipts. It can be seen from the cash book that Nu Look Interior designs had a negative cash flow of $574 for June. A balance of $(-574) is brought forward at the start of July — that is, $12 575 minus $13149 equals $(-574).

Juno now knows that she will need to improve her cash flow. To increase her business’s cash flow, she could encourage customers to pay on time by offering a discount for early payment or she could increase the number of reminder notices. Alternatively, she could reduce her expenses, reduce the amount of cash she has tied up in materials or delay payments to suppliers. Juno’s total materials purchase for June was $9840. This represents 74.83 per cent of total cash payments. She might determine that she has too many materials stored in inventory and therefore reduce the amount of materials purchased for a short time.
4.7 ACTIVITIES

TEST your understanding

1. Outline two benefits to a business of establishing a cash book.
2. On 4 November a business has $340.40 in its bank account. On that day the owner deposits $415.00 in the bank. On the same day a cheque is written for advertising for $267.00. Calculate the bank balance after these transactions.
3. A business provides the following receipts and payments information for October.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Wages</td>
<td>19 000</td>
</tr>
<tr>
<td>Loan</td>
<td>GST paid</td>
<td>7 000</td>
</tr>
<tr>
<td>Cash from debtors</td>
<td>Computer</td>
<td>4 000</td>
</tr>
<tr>
<td>GST received</td>
<td>Drawings</td>
<td>22 000</td>
</tr>
</tbody>
</table>

The business’s net cash flow would be:
(A) $21 000
(B) $9000
(C) $23 000
(D) $98 000.

4. Using the following data, determine net cash flow from this operation: cash from debtors $22 000, cash fees paid $14 000, credit fees paid $19 000, cash paid to creditors $9000, stock purchased for cash $10 000, wages paid $4000, rent $1000, loan repayment $5000.

EXTEND your understanding

5. A business records the following transactions in the first week of February. Record the transactions in a cash book using the headings shown below.

| February 1 | • Cash fees charged to Kane Crellin $240 (receipt no. 221)
|            | • Paid for materials $300
| February 2 | • Cash fees charged to Carolyn Smith $350 (receipt no. 222)
|            | • Paid wages of $500 to Jerry Jalopies
| February 3 | • Cash fees charged to Mike Patter $280 (receipt no. 223)
| February 4 | • Received interest from the bank $150
|            | • Cash fees charged to Anton Woods $560 (receipt no. 224)
| February 5 | • Cash fees charged to Regina Kuzmich $240 (receipt no. 221)
|            | • Paid for materials $300

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Details</td>
<td>Rec. No.</td>
</tr>
<tr>
<td></td>
<td>Fees</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>Total receipts</td>
<td>Date</td>
</tr>
<tr>
<td></td>
<td>Details</td>
<td>Materials</td>
</tr>
<tr>
<td></td>
<td>Total payments</td>
<td></td>
</tr>
</tbody>
</table>
6. Rick runs an electrical appliance repair business. At the beginning of August, his business had $2360 in the bank. During August, his business had the following cash transactions.

**FIGURE 4.29** Arrange the data in a table as below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
<th>Rec. No.</th>
<th>Date</th>
<th>Detail</th>
<th>Rec. No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/8</td>
<td>Received cash fees $380</td>
<td>50331</td>
<td>12/8</td>
<td>Received cash fees $400</td>
<td>50334</td>
</tr>
<tr>
<td>1/8</td>
<td>Materials for appliance repairs $450</td>
<td>765234</td>
<td>15/8</td>
<td>Vehicle repairs $260</td>
<td>765239</td>
</tr>
<tr>
<td>3/8</td>
<td>Paid petrol for van $70</td>
<td>765235</td>
<td>17/8</td>
<td>Received cash fees $330</td>
<td>50335</td>
</tr>
<tr>
<td>4/8</td>
<td>Received cash fees $410</td>
<td>50332</td>
<td>18/8</td>
<td>Received cash fees $430</td>
<td>50336</td>
</tr>
<tr>
<td>7/8</td>
<td>Materials for appliance repairs $380</td>
<td>765236</td>
<td>21/8</td>
<td>Materials for appliance repairs $400</td>
<td>765240</td>
</tr>
<tr>
<td>8/8</td>
<td>Received cash fees $270</td>
<td>50333</td>
<td>24/8</td>
<td>Paid wages $580</td>
<td>765241</td>
</tr>
<tr>
<td>10/8</td>
<td>Paid wages $580</td>
<td>765237</td>
<td>28/8</td>
<td>Received cash fees $290</td>
<td>50337</td>
</tr>
<tr>
<td>10/8</td>
<td>Paid petrol for van $60</td>
<td>765238</td>
<td>30/8</td>
<td>Interest from investments $310</td>
<td>50338</td>
</tr>
</tbody>
</table>

(a) Prepare the cash book for the business for the month of August.
(b) After having looked at Rick's cash book, comment on the business's cash flow. Should Rick be concerned about his appliance repair business’s cash flow? Why or why not?

4.8 Choosing suppliers

**KEY CONCEPT** A business must choose suppliers that are appropriate for its needs. A business also needs to consider the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business.

Choosing the right suppliers is an important part of developing a successful business. This process of finding, acquiring and purchasing resources from suppliers is referred to as procurement. Failing to find the right suppliers can cripple the ability of the business to provide goods and services to their customers. Furthermore, if a supplier fails to act in a socially responsible manner, it can damage the reputation of the business as well as the integrity and culture within the business. Although different businesses will have different supplier needs, they all need to consider certain aspects when choosing suppliers.
4.8.1 Price
For a business to remain profitable it must keep costs low where possible. While the price of the raw materials or goods offered by the supplier should not be the only consideration, it will often be the deciding factor for a business that competes on price.

4.8.2 Quality
The quality of the goods and materials provided by suppliers will generally determine the quality of the end product offered by the business. If a business wishes to develop the reputation of offering quality goods and service to its customers, it needs to source quality inputs from its suppliers. Businesses also need to ensure that the goods it purchases from international suppliers are in compliance with Australian quality and safety standards. Failing to do so can have serious legal consequences for the business owner.

4.8.3 Reliability
Businesses that have a fast turnover of stock often rely on quick and timely delivery from their suppliers. If a business doesn’t receive the goods that are needed to continue its operations, it may not only lose sales but also its reputation may suffer as a result of not being able to deliver to its customers.

4.8.4 Proximity
Being in close proximity to suppliers can save the business time and money. A shorter distance means less travel time before goods arrive and can also reduce the cost of transporting the goods. Sourcing supplies locally is not only more environmentally friendly but also helps to support the local economy — this is considered socially responsible.

4.8.5 Corporate social responsibility
It is vital that the business’s suppliers meet the corporate social responsibility objectives of the business. Today, many businesses practice sustainable procurement. Sustainable procurement decisions consider the environmental and social impacts from purchased materials as well as the cost, or economic impact. For example, a business practising sustainable procurement might assess the cost of acquiring a certain resource as well as the costs involved at the end of the resource’s life cycle, such as the disposal of any waste. Once these considerations are met, a business would also avoid materials produced by socially irresponsible suppliers, such as producers that are not environmentally friendly or those that exploit labour.

Sustainable procurement will involve a high degree of collaboration between the business and suppliers. It is the duty of a business to take reasonable care when selecting a supplier to ensure that its own business is not tainted by the poor practices of a supplier. If a business relies heavily on a given supplier it should enquire about and, if possible, inspect the operations of that supplier prior to making any long-term commitments.

Some of the factors that need to be considered when choosing suppliers that meet the corporate social responsibility objectives of the business are summarised in the following diagram.
Choosing suppliers that meet the corporate social responsibility objectives of the business has a number of benefits and limitations. These are summarised in the following diagram.

**Benefits**
- Reduces costs — savings are achieved through "green" initiatives such as reducing the use of energy.
- Improves the reputation of the business — members of the community, including consumers, are likely to perceive that the business is meeting wider community expectations.
- Customers who are aware that the business is using socially responsible suppliers are likely to purchase from the business – this is likely to result in the business becoming more competitive and financially successful.
- Investors who are aware that a business is using socially responsible suppliers are more likely to invest in the business.

**Limitations**
- Increased costs associated with sourcing socially responsible suppliers — socially responsible suppliers are likely to pass costs of production on to the business.
- Maintaining a supply chain that sources sustainable materials will be expensive and time-consuming – checking and maintaining checks on all suppliers claiming to be socially responsible is likely to take time, and result in financial costs.
- The quality of materials may be lower than the standard required by the business. The business will need to work with suppliers to ensure that quality is on a par with competitors, if not superior.

### Considerations when choosing socially responsible suppliers

<table>
<thead>
<tr>
<th>Financial/economic impacts</th>
<th>Social impacts</th>
<th>Environmental impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The costs involved in sourcing suppliers which meet the corporate social responsibility objectives of the business</td>
<td>• The labour conditions involved in the manufacture, use and disposal of materials</td>
<td>• How resources such as energy and water are used in the manufacture, use and disposal of materials, as well as the delivery of materials</td>
</tr>
<tr>
<td>• The costs involved in maintaining the procurement of socially responsible materials</td>
<td>• The labour conditions involved in the delivery of materials</td>
<td>• Whether or not pollution and waste are produced from the manufacture, use and disposal of materials, as well as the delivery of materials</td>
</tr>
<tr>
<td>• The savings gained from more efficient resource use</td>
<td></td>
<td>• How the removal or alteration of natural resources will affect flora and fauna</td>
</tr>
</tbody>
</table>
EXAM TIP

• The key skills for Unit 2, Area of Study 1 state that you need to ‘evaluate the costs and benefits of decisions when establishing a business’ as well as ‘justify the strategy chosen’.
• The key knowledge for Unit 2, Area of Study 1 states that you must know ‘the benefits and limitations of suppliers which meet the corporate social responsibility objectives of the business’.
• The task word ‘evaluate’ in this case requires you to be able to present a judgement of the use of socially responsible suppliers by exploring both benefits and limitations, and then provide an overall conclusion or judgement related to which argument is more persuasive and why. To ‘justify’ — expressing valid reasons for accepting a particular conclusion — the use of socially responsible suppliers, knowing the benefits of using socially responsible suppliers will also prove useful.

RANA PLAZA

On the 24 April 2013, the Rana Plaza building in Bangladesh collapsed, killing 1134 garment workers and injuring many more. The horrific event once again shed light on the questionable behaviour of over 150 international brands, which source the cheapest possible garment suppliers on the planet, ignoring crimes inflicted on the impoverished workers.

The collapse was caused by a complete disregard of health and safety standards that would result in heavy fines and imprisonment had such negligence taken place in western nations such as Australia. Workers were paid just $40 a month, were often physically abused, and forced to work in inhumane conditions for long hours.

It became apparent to many consumers that much of the garment industry, which had once been forced to uphold decent standards for their workers when factories were located in western nations, was now taking advantage of the desperate needs of poverty stricken Bangladeshis.

Many of Australia’s biggest retail brands including Just Jeans, Peter Alexander, Portmans, Best & Less and Lowes pleaded ignorance to the circumstances in which their clothing is manufactured and have been more resistant than other companies such as Kmart and Target to alter their supply chain policies. Subsequently, many consumers have boycotted such brands and have turned to more reputable retailers instead. The move reflects a growing level of awareness among Australian consumers who are on the lookout for socially responsible alternatives when adding to their wardrobes.

When the Rana Plaza building collapsed 1134 garment workers died. Many consumers around the world have boycotted the retail outlets that were sourcing garments from Rana Plaza suppliers.
4.8 Activities

TEST your understanding
1. Why is it important for a business to choose the right supplier?
2. Define the term ‘procurement’.
3. List five considerations for a business when choosing a supplier.
4. Why is the location of a supplier an important factor for many businesses?
5. Outline the benefits and limitations for a business that chooses to source materials from socially responsible suppliers.
6. Read ‘Rana Plaza’ and answer the following questions.
   (a) What happened on 24 April 2013 in Bangladesh?
   (b) Outline the working conditions that the garment workers faced prior to the collapse.
   (c) Why do you think businesses allowed the workers of their suppliers to be treated in a way that they would not treat their Australian workers?
   (d) To what degree do you think the Australian retailers were responsible for the poor working conditions and eventual collapse of Rana Plaza?

APPLY your understanding
7. Why is it important for a business to ensure it sources inputs that are in accordance with Australian standards for quality and safety?
8. (a) List, in order of importance, the factors that a $2 shop would consider when choosing a supplier.
   (b) List, in order of importance, the factors that a high-end cosmetics retailer would consider when choosing a supplier.
   (c) List, in order of importance, the factors that an organic fruit and vegetable shop would consider when choosing a supplier.
   (d) Compare your answers for each of the above scenarios and explain why your answers differed for each.
9. Do you think the Australian government should hold Australian businesses more accountable for their use of unethical supply chains? Justify your response.
10. Do you think the Rana Plaza collapse is still relevant today? Using internet sources, write a paragraph on how the world has reacted to Rana Plaza in the past few years.

EXAM practice
11. Outline two considerations that a business might make when choosing appropriate suppliers.  (2 marks)
12. Explain the importance of a business choosing appropriate suppliers.  (4 marks)
13. Sustainable Living is a company that manufactures furniture and homewares. Where possible, the business sources its materials from socially responsible suppliers in an effort to minimise the company’s carbon footprint. Discuss Sustainable Living’s choice to use suppliers that meet its corporate social responsibility objectives.  (4 marks)
14. Identify a business that uses socially responsible suppliers. Justify the business’s decision to use suppliers that meet its corporate social responsibility objectives.  (3 marks)

4.9 Policies and procedures

**KEY CONCEPT** Policies and procedures must be developed and implemented to establish and communicate basic expectations about behaviour and decision making.

4.9.1 Policies
A policy is a written set of broad guidelines to be followed by all employees when dealing with important areas of decision making. Policies are established by businesses to set the direction of the business and to determine standards of behaviour. Clearly defined policies promote good practice and help ensure employees
are working within the requirements of the law. The right policies can also help to establish a positive culture within the business, which will in turn assist the business to reach its objectives.

Your school will have a well-defined policy on bullying and harassment. This policy would have been widely communicated in your school. The policy exists to establish clear guidelines on what the issue is, the school’s stance on bullying and consistent approaches to dealing with the issue.

It is important that policies achieve compliance with legal requirements. For example, one area of legal compliance for all businesses is discrimination. Several federal and state laws aim to end discrimination in the workplace, including Victoria’s Equal Opportunity Act 2010. This law supports businesses to take action in eliminating discrimination, sexual harassment and victimisation. All equal opportunity policies in Victoria must conform to the provisions of this Act.

When you read the Toll Holdings policy you will notice that a framework for behaviour, decisions and actions has been established for all members of the business. In this way, the policy ensures the daily actions of every employee are consistent with the values, objectives and strategies of the business. Policies, therefore, guide employees.

### DIVERSITY AND EQUAL OPPORTUNITY POLICY

**Scope**

This policy applies to all employees and contractors engaged by Toll globally.

**Principles**

Toll’s commitment

We are committed to:

- attracting and selecting a diverse range of people based on merit and through fair and equitable processes, without regard to personal attributes
- welcoming a diverse range of people and providing a workplace that is both welcoming and inclusive
- providing a workplace that is free from inappropriate conduct such as, discrimination, bullying, harassment, vilification, victimisation and violence
- educating and training our employees on the value of diversity and their roles and responsibilities in relation to diversity and equal opportunity
- providing tools/process for employees to raise grievances and for Toll to annually review these tools/processes
- fostering diversity through reviewing the demographic profile of the workforce and ensuring talent solutions are initiated to build a diverse workforce.
- providing flexible work options to assist our employees balance their work and personal lives.
- enabling us to retain a diverse workforce
- providing training and leadership programmes that promote respect and fairness in how we work with and value others
- complying with local legislation such as, but not limited to, anti-discrimination.

**Expected workplace behaviour**

Toll expects all employees and contractors of Toll to:

- at all times behave in a manner that is consistent with Toll’s commitments set out in this policy; and report any instances where the actions or behaviours of Toll employees are not consistent with Toll’s commitments set out in this policy.

**Implementation of this policy**

The Group Managing Director is responsible for this policy across all business units, worldwide.

The Group Managing Director will communicate this policy and any subsequent updates or amendments to it, to all Divisions within the company for implementation.

### 4.9.2 Procedures

A **procedure** is a series of actions that enable a policy to be put into practice. It is a step-by-step set of instructions. A procedure can also be used to provide a means of resolving a dispute brought about by a breach of a policy. In this way procedures establish business routines which put into effect the policies that help the business to achieve objectives. Most businesses have procedures for paying accounts, handling grievances, preparing budgets, and dealing with customer complaints.

To support an equal opportunity policy, for example, specific procedures establish how a complaint is handled. These procedures might include:

- how to record the complaint
- the process used to investigate an allegation of sexual harassment, bullying or discrimination
- how to arrange counselling for victims
- the process used to counsel, warn or terminate employees responsible for sexual harassment, bullying or discrimination
- the steps to be taken when an allegation is found to be untrue.

Similar to policies, procedures provide a sense of consistency within the business by putting in place common methods to deal with problem solving or routine tasks.
4.9.3 Types of policies

Not all issues or problems faced by the business will require a policy. Many routines can be dealt with by having simple workplace processes in place. Some small businesses may struggle to implement policies and procedures. Instead, a small business owner who has constant direct contact with staff may choose to share a statement of expected behaviours in the workplace or a code of conduct.

However, some examples of typical policies commonly used by many businesses include:

- recruitment policies
- occupational health and safety policies
- privacy policies
- anti-discrimination, equal opportunity and harassment policies
- dispute resolution policies
- drug and alcohol policies
- customer service policies
- anti-bribery and corruption policies
- risk-management policies
- supplier policies
- environmental policies
- accounting policies.
4.9.4 Ensuring policies and procedures comply with legal requirements and establish routines

Policies should be reviewed regularly. The need to change a policy may originate with any of the stakeholders of the business. Regardless of where the pressure to change occurs, the business will need to use a process to develop policies that ensure compliance with legal requirements and establish routines.

The need for a new policy may arise because there is an issue or problem that needs to be resolved, or a change to the law that necessitates the introduction of a new policy into the workplace. For example, any changes to the Victorian Equal Opportunity Act will require businesses, such as Toll, to review their policies, making sure there is compliance with the law. Following research and analysis, a summary of changes should be provided to all stakeholders, seeking feedback. Once a decision has been made to proceed with the policy development, a team would write a draft policy, incorporating the feedback of stakeholders and any changes to legislation.

After the draft policy has received feedback, it should be revised and then presented to senior management for approval. A final version must be distributed to all stakeholders and it needs to be clearly communicated to all staff. Management and staff may need training related to understanding the new policy and its implications. After the policy has been introduced it will need to be monitored and evaluated to ensure it is easily understood and is being followed. Policies will typically be reviewed on a regular basis to ensure that they remain current. For example, a business might include an end date for a policy, which will prompt a review within a given period such as one year or five years.

4.9 ACTIVITIES

TEST your understanding

1. What is the purpose of policies and procedures?
2. Examine the Toll diversity and equal opportunity policy and answer the following questions.
   (a) To what Act are all equal opportunity policies in Victoria required to conform?
   (b) Whom does the policy cover?
   (c) In what ways is Toll committed to a diverse and discrimination-free workplace?
3. List three other areas for which a business needs to have policies.
4. In what ways is a policy different from a procedure?
5. What are the main pressures for a change in policy?
6. Explain how a business can ensure that policies and procedures achieve compliance with legal requirements and establish business routines.
7. Outline the advantages and disadvantages of establishing policies and procedures.

APPLY your understanding

8. Inspect a number of policies being used in a business with which you are familiar. Evaluate the effectiveness of each policy by looking at aspects such as:
   (a) the connection of the policy to the objectives of the business
   (b) the extent of consistency within the policy
   (c) how easy it is to follow.
9. Use the Coca-Cola Amatil weblink in the Resources tab to locate Coca-Cola Amatil’s environmental policy. What information does this policy contain? Can you find other policies on this website? What information is in the other policies?
EXAM practice
10. Distinguish between a policy and a procedure. (2 marks)
11. Using an example, outline what a policy is and explain why it is necessary for a business to have one. (4 marks)
12. Explain how policies and procedures achieve compliance with legal requirements and establish business routines. (4 marks)

Resources
Weblink: Coca-Cola Amatil

4.10 APPLY YOUR SKILLS The need for policies and procedures

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management concepts and terms
- Acquire, record, interpret and share business information and ideas
- Research and analyse case studies and contemporary examples of business management applicable to establishing a business
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

Kathmandu is a global chain of retail stores that sells outdoor and travel clothing and equipment. The business is well known for its adventure gear. It sells an extensive range of products including jackets, shirts and pants, footwear and socks, packs, bags, tents and travel accessories. The company, which was founded in 1987 by John Pawson and Jan Cameron, has 163 stores: 115 in Australia, 47 in New Zealand and 1 in the United Kingdom. Almost 2000 people work for Kathmandu.

Kathmandu has a number of policies including a code of conduct, a returns policy, a privacy policy, a continuous disclosure policy, a risk management policy, a diversity policy, a remuneration policy and a responsible purchasing policy. An extract from Kathmandu’s privacy policy is presented below.

KATHMANDU PRIVACY POLICY

Our privacy commitment
Kathmandu is committed to protecting the privacy of your personal information. We manage your personal information in an open and transparent way.
Kathmandu will only use your personal information when it is necessary for us to deliver you a service or perform other necessary business functions and activities.
Kathmandu will not use or disclose your personal information for purposes unrelated to the services we provide, unless we first obtain your consent.
Where we can, we will allow you to deal with us anonymously or by using a pseudonym. However, in some circumstances, this may not be possible, and Kathmandu may need to collect personal information from you to provide you with a delivery or other service. In some cases, if you do not provide the required personal information we will not be able to provide you with a service.

Our privacy obligations
This privacy policy sets out how we comply with our obligations under the:
- Privacy Act 1988 (Cwlth) (Australia);
- Privacy Act 1993 (NZ) (New Zealand); and
- Data Protection Act 1998 (United Kingdom).
Kathmandu is bound by the requirements of these privacy laws, which regulate how we may collect, use, disclose and store personal information/data. These laws also specify how individuals may access and correct personal information/data held about them.

‘Personal Information’ means information or an opinion about an identified individual (or an individual who is reasonably identifiable), whether true or not, or recorded in a material form or not.

‘Personal Data’ means data which relates to a living individual who can be identified from the data, including an opinion about the individual.

For example, these types of information/data could include your name, contact details, age and health information.

This privacy policy is effective from March 2014. From time to time, our privacy policies and procedures will be reviewed and, if appropriate, updated. If any changes are made to this policy, these will be posted on our websites.

How and why does Kathmandu collect and hold your personal information?
Kathmandu will only collect personal information about you by lawful and fair means, and not in an unreasonably intrusive manner.

It is Kathmandu’s usual practice to collect personal information (about you (and possibly about your family)) directly from you (or from your authorised representative), when you:
- complete an online form on one of our websites
- visit and browse our website
- complete a hard copy form
- apply for membership of the Summit Club
- purchase goods or services from us in certain circumstances such as through our website, or if you deal with us by reference to your Summit Club membership, or if you pay other than by cash
- enter one of our competitions
- apply for employment with us
- contact us by telephone, via mail, email or online.

We may collect personal information about you from a third party or a publicly available source, but only if you have consented to such collection, or would reasonably expect us to collect your personal information in this way. Kathmandu only collects personal information for purposes that are directly related to our business activities, and only when it is necessary for or directly related to such purposes. We also collect personal information related to employment services, human resource management, and other corporate service functions.

If we receive information about you from a third party and it is not information we need in respect of our business activities, we will destroy or de-identify that information (provided it is lawful to do so).

No one under the age of 13 years is allowed to provide any personal information. Minors under the age of 18 years are prohibited from making purchases, including subscriptions, on our websites.

What kind of personal information does Kathmandu collect and hold?
Any personal information that you provide via our websites or directly (for example, when you apply to become a member of the Summit Club) is collected and managed by Kathmandu.

If you provide your personal information to a third party via a link from the Kathmandu website, that information is collected and managed by those third parties. You should familiarise yourself with their privacy policy prior to deciding whether you wish to provide them with your information.

The types of personal information Kathmandu may collect includes (but is not limited to) your:
- name
- date of birth
- gender
• marital status and family details
• residential address
• email address
• contact telephone numbers
• identification details (e.g. student, YHA member, over 60s)
• Tax File Number
• passport details
• testimonials or opinions
• photos of you
• financial information, such as credit card details
• statistical information about visits to pages on the site, the duration of individual page view, paths taken by visitors through the site, data on visitors' screen settings and other general information
• written or verbal contact with Kathmandu, including voice recordings of telephone conversations you have had with our employees
• activities, including but not limited to sporting and other lifestyle interests.

The nature of the information collected will depend on the purpose for which it is being collected. If you provide us with information about any third party, you must obtain that person's permission to give us the information and inform them that you have given the information to us.

How does Kathmandu use your personal information?
We use your personal information for a variety of reasons including to:
• provide services and products to you
• answer your inquiries and deliver customer service to you
• to tell you about other products that we think may be of interest to you
• maintain and improve customer services
• administer our Summit Club program
• facilitate your interaction with us on our website
• consider any application for employment made by you
• meet our legal obligations
• manage and resolve any legal or commercial complaints and issues
• carry out internal functions including training
• conduct marketing research and analysis.

While you may opt not to provide us with your personal information, you should be aware that without this personal information, we may not be able to provide you with some of the services and/or products you are seeking.

In what circumstances will Kathmandu disclose your personal information?
In the course of conducting our business and providing our products and services to you, we may disclose your personal information.

We only disclose personal information for the purposes for which it was given to us, or for purposes which are directly related to one of our functions or activities. We do not give it to anyone else unless one of the following applies:
• you have consented to the disclosure
• you would reasonably expect, or have been told, that your information is passed to those individuals, bodies or agencies;
• it is otherwise required or authorised by law.

If we engage third party agents or contractors, we will take all reasonable steps to ensure that they do not breach privacy requirements in relation to the information before we share your personal information with them.

Who do we disclose your personal information to?
We may disclose your personal information to:
• another Kathmandu business
• professional advisers (such as lawyers or auditors)
• payment systems operators and financial institutions
• third party agents or contractors with whom we contract in the ordinary course of business
• organisations authorised by Kathmandu to conduct promotional, research or marketing activities
• upon lawful request from law enforcement agencies or government authorities
any persons acting on your behalf including those persons nominated by you, executors, trustees and legal representatives.

In all circumstances where your personal information is disclosed, we will take all steps reasonable to ensure that these third parties undertake to protect your privacy.

Direct marketing
We are committed to compliance with all laws and requirements relating to the use of your personal information. We will only use or disclose your personal information for direct marketing purposes if you have provided your information for that purpose (and you would expect us to use the information for that purpose), or if you have provided consent for your information to be used in this way.

From time to time, we may contact you with information about products and services offered by us and our related entities and our business partners which we think may be of interest to you. When we contact you it may be by mail, telephone, email or SMS.

We may also provide targeted marketing to you whether directly or through online advertisement networks such as those operated by Google, based on your viewing activity of our website. For more information, see ‘Website usage’ below.

Where we use or disclose your personal information for the purpose of direct marketing, we will:
- allow you to request not to receive direct marketing communications (also known as ‘opting-out’)  
- comply with your request to ‘opt-out’ of receiving further communications within a reasonable timeframe.

You can opt out of receiving targeted advertising derived from your viewing habits by selecting from your browser’s privacy or security settings to reject, delete or block (as the case may be) the cookies or web beacons used by us in order to conduct such targeted marketing.

Kathmandu will only ever contact you if you have consented to this, and you can ask to be removed from our marketing lists at any time by contacting us directly.

Kathmandu’s Bourke Street store in Melbourne
AUSTRALIAN PRIVACY PRINCIPLES

The Australian Privacy Principles (APPs) are contained in schedule 1 of the Privacy Act 1988 (Cwlth). The APPs outline how businesses with an annual turnover of more than $3 million and some small businesses must handle, use and manage personal information.

Each business needs to consider how the principles apply to its own situation. The principles cover:
- the open and transparent management of personal information, including having a privacy policy
- an individual having the option of transacting anonymously or using a pseudonym where practicable
- the collection of solicited personal information and receipt of unsolicited personal information, including giving notice about collection
- how personal information can be used and disclosed (including overseas)
- maintaining the quality of personal information
- keeping personal information secure
- the right of individuals to access and correct their personal information.

The Australian Privacy Principles place more stringent obligations on businesses when they handle 'sensitive information'. Sensitive information is a type of personal information and includes information about an individual’s health (including predictive genetic information); racial or ethnic origin; political opinions; membership of a political association, professional or trade association or trade union; religious beliefs or affiliations; philosophical beliefs; sexual orientation or practices; criminal record; biometric information that is to be used for certain purposes; and biometric templates.

An individual has a right to complain if he or she believes that a business covered by the Privacy Act has not complied with the legislation in handling his or her personal information. The Office of the Australian Information Commissioner’s (OAIC) can investigate, conciliate and make determinations where necessary about complaints made about a business’s handling of personal information.

4.10 ACTIVITIES

TEST your skills

1. Describe the difference between a policy and a procedure.
2. In your own words, define the term ‘privacy’.
3. Using Kathmandu as an example, outline what personal information is.
4. According to Kathmandu’s privacy policy, how does Kathmandu collect personal information and what does it do with it?
5. According to Kathmandu’s privacy policy, to whom does Kathmandu disclose personal information?
6. Is it possible to opt out of receiving direct marketing communications from Kathmandu? If so, how?
7. Outline why Kathmandu needs a privacy policy.

APPLY your skills

8. Explain the need for a business to have policies and procedures.
9. (a) Use the table below to record the advantages and disadvantages for Kathmandu in developing policies. Use the company’s privacy policy as an example. One advantage and one disadvantage has already been completed for you.

<table>
<thead>
<tr>
<th>Advantages for Kathmandu in developing policies</th>
<th>Disadvantages for Kathmandu in developing policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies help employees at Kathmandu to know what is expected of them with respect to standards of behaviour. The privacy policy lets employees know what they can and cannot do with customers’ personal information.</td>
<td>Policies take time and money to research and write. Kathmandu’s privacy policy is lengthy and would have taken time to finalise. Confirming that it meets the requirements of the relevant legislation would also have been time consuming.</td>
</tr>
</tbody>
</table>
(a) The task word (sometimes referred to as command word or instructional word) ‘evaluate’ generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. For VCE Business Management Unit 2, Outcome 1 you are expected to be able to evaluate the costs and benefits of decisions when establishing a business.

Using the information you have recorded in the table, evaluate Kathmandu’s decision to establish a privacy policy.

(b) The task word (sometimes referred to as command word or instructional word) ‘justify’ generally requires you to point out reasons for forming a particular conclusion. This may involve the provision of evidence to support an argument. For VCE Business Management Unit 2, Outcome 1 you are expected to be able to justify strategies chosen when establishing a business.

Using the information you have recorded in the table, justify Kathmandu’s decision to establish a privacy policy.

10. In groups of 2–4 people, brainstorm a set of guidelines that you would include in a policy concerning the following issues at your school:
- the appropriate use of mobile phones
- school bullying
- the appropriate use of laptops or tablets at your school
- involvement in school events such as sport
- school uniform
- student discipline
- any other issue that your teacher deems appropriate.

(a) Develop a process that you would undertake to implement that policy.
(b) Consult your teacher and other students about the effectiveness of the policy you have created.
(c) Write down the feedback and review the policy that you have developed.
(d) How effective do you think your policy would be at improving the school?
(e) What are some problems your school might face with the implementation of this policy?
(f) Compare your policy to any existing school policies (these can usually be found on your school website), show the differences and similarities in a T-chart.

4.11 Technological and global issues

**KEY CONCEPT** A business owner must consider technological and global issues when establishing a business.

Today’s world of business is more dynamic than ever before. The world is experiencing an era of technological advances and globalisation. You may recall that in chapter 2 we explored how technological issues and global issues have an impact on business planning. Let’s now look at how these same two issues may affect decision making when establishing a business.

In a rapidly changing environment, a business owner will need to consider the technological and global issues that may affect the way that their business will operate once it is established. Failing to take advantage of new technology and respond to global issues could possibly leave the business behind competitors who do capitalise on current trends. While it
can be difficult to predict events that are completely outside of the business’s control, the business owner will need to learn about any changes that could affect the business prior to establishing it.

### 4.11.1 Technological issues

Advances in technology can be both a blessing and a curse for a business. A business that can incorporate such advances into its operations successfully will thrive, while those that are too slow to take up the change or invest in the wrong technology are unlikely to experience much success. Much of the cutting-edge technology that businesses currently use will be redundant several years from now and some business models will become outdated by new technology.

Technology not only affects how a business creates its goods and services, but it also plays an increasingly important role in the administration and marketing of a business. While new issues are constantly arising around the impact of technology on businesses, we can get a better understanding of their importance by looking at some contemporary examples.

#### Technology in manufacturing

Perhaps some of the most interesting technological advances in recent years affecting production are three-dimensional (3D) printing and robotics.

The application of 3D printers has expanded from small-scale model replication in laboratories to the construction of entire buildings. The potential of 3D-printer technology is limitless on a commercial scale, and is already being used across a variety of industries to make objects in precise accordance with their design.

Increasingly complex robots are being developed that can perform a wider range of tasks to a greater degree of precision than is humanly possible. While robotics has been used in manufacturing for many decades, the significant improvement and more widespread application of robotics leaves no doubt as to its significance for the future needs of many businesses.

Despite a technology’s potential, when a business owner is planning a business, they will need to decide whether the technology available is cost-effective or whether traditional methods are more practical. The business owner should consider that, while technology such as robotics may be initially expensive and require maintenance, in the long run it may be less expensive than the cost of manual labour and human error.
Technology in administration

Smartphone applications and web-based software for businesses has progressed in leaps and bounds over the past decade. The owner of a business can now do everything on a smartphone, from viewing live security camera footage to email correspondence and web-based conferencing. Further, the cost of developing software specific to the needs of the business has significantly reduced, with options to outsource such work to cheaper international IT contractors. When a business owner is planning a business, they will need to decide what applications or software to use in administration.

Technology in marketing

Perhaps the most significant change businesses have experienced in recent years has been to marketing, through the rise of social media advertising. It is now important to develop a social media advertising strategy when establishing a business.

Facebook, Twitter, LinkedIn, YouTube, blogs, podcasts and online communities are all examples of social media channels, and have been behind the recent revolution in social media advertising (SMA). Businesses are becoming increasingly aware that SMA can have positive results, especially when used in combination with traditional advertising methods. SMA is relatively inexpensive when compared to traditional marketing methods and is easy to use and monitor. When a business owner is planning a business, they may decide to implement SMA. However, the business owner should be aware that SMA has a number of disadvantages. A business does not always have control over what online consumers write about the business’s product. Bloggers have the freedom to discuss, review, criticise and even ridicule a product or business. Unlike more traditional online advertising, it is difficult for a business to accurately measure how successful SMA has been in marketing the business.

Establishing customer databases

A customer database is an organised collection of information on existing and potential customers, including such details as their contact information, personal details, previous interactions with the business, buying habits and preferences. Technology has allowed businesses to establish improved customer databases consisting of large amounts of information about customers. This is largely due to the amount of data that can be collected from an increasing number of internet searches.

A business owner may choose to build their own customer database, perhaps using a spreadsheet, or to purchase access to a database. Data can be collected by gathering data on existing customers or retrieved from market research companies, who sell the information to businesses for a fee.

Generating a customer database allows the business to easily communicate with customers, thereby improving customer relationships and supporting the business in providing better service. Remaining in contact with customers helps to build loyalty and repeat business. However, generating a customer database can be time consuming, if the business owner builds their own, or expensive, particularly if the business pays for a third-party provider. Even if the business owner does build their own database, the expense may grow over time as the business expands and investment needs to be made in infrastructure to support the database.

Businesses also need to ensure that the private details of customers are well protected from hackers who may profit from identity theft should they get their hands on sensitive information. Furthermore, the business owner needs to consider legislation when handling individuals’ personal information. The Privacy Act 1988
(Cwth) governs the way in which businesses can gather, use, keep secure and disclose personal information. This Act stipulates that businesses should collect only information that is directly related to their business activities. A business cannot collect sensitive personal information, or use or disclose personal information, unless the individual has given consent.

**DID YOU KNOW?**

Identity fraud occurs every two seconds.

### 4.11.2 Global issues

Despite the fact that the world’s population has increased exponentially over the past century, the world is in many ways much smaller. The globalisation phenomenon has presented many opportunities as well as problems for businesses in the twenty-first century. The removal of trade barriers has allowed Australian businesses access to a wider range of overseas suppliers and resources, customers and overseas retailers, as well as competitors.

**Overseas suppliers and resources**

When establishing a business, a business owner may find it beneficial to develop contacts with overseas suppliers. Australian businesses now have access to a global supply network that offers a wider range of more affordable raw materials and finished products. Materials from overseas suppliers are often less expensive than from local wholesalers. This is due to the lower cost of skilled labour in many countries overseas as well as other economic factors, such as lower taxes and low trade tariffs due to free trade agreements. As well as taking advantage of lower prices, the business owner may be able to source materials that are not available domestically.

Technology allows the business owner to make contact with suppliers in other countries over the internet, with software such as Skype enabling regular face-to-face communication. However, it is essential that the business owner choose socially responsible suppliers with which to do business or risk a backlash from employees and customers.

Purchasing materials from overseas suppliers does have disadvantages. There may be hidden costs associated with different cultures and time zones. There may be long lead times (the time taken between placing the order and the delivery of materials). It may also take time to find a suitable supplier that has the required production capabilities to meet orders on time and at the standard demanded by the business owner.

**Customers and overseas retailers**

Many Australian businesses have grown substantially as reductions in trade barriers have provided greater access to international markets. The economic growth of nations such as China has resulted in a greater demand for Australian commodities; demand for Australia’s premium agricultural products has also presented excellent opportunities to Australian farmers.

The business owner may decide to develop contacts with overseas retailers when establishing a business. In doing so, the business will become an **exporter**. A business exports when it sends goods or services to another country for sale. Once the business owner has considered laws in the other country, as well as cultural and demographic factors, exporting can allow the business to access more customers and larger markets. Exporting can increase the business’s profit, spread the business’s risk and reduce dependence on the local market.

When developing contacts with overseas customers such as retailers, the business owner will need to meet with prospective customers, see the overseas market first hand, investigate local pricing and experience how business is conducted in the new environment. There are risks associated with exporting. It is important to understand the different cultures, languages, norms and ways of doing business in other countries. There will
always be hidden costs involved in meeting regulations. Developing export markets can also be costly in terms of time taken to find support and customers willing to purchase the business’s products.

The Australian Trade and Investment Commission (Austrade) provides help to businesses who wish to seek opportunities in overseas markets. Austrade can connect businesses that are ready to export to opportunities overseas and work with business owners to achieve their objectives.

**DID YOU KNOW?**

Austrade research shows that, on average, exporting companies are more profitable than their non-exporting counterparts.

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**FERGUSON AUSTRALIA — AN EXPORT SUCCESS**

Ferguson Australia is a leader in the multi-million dollar rock lobster industry, and its success has come from innovative thinking. In 2002, the business did some market research with focus groups and found that there were many customers who loved lobster but did not want to go to the trouble of shelling one. This marketing information was taken seriously, and the company has experienced much success in selling value-added products to the domestic and overseas markets. One of its successful inventions is selling lobster without its hard red shell. The product is ready to eat without all that shelling.

Former General Manager Debra Ferguson said, ‘We looked at global food trends and saw that there was a strong movement towards portion control, better packaging, set prices — and telling the stories behind products.’

Ferguson Australia has gained international recognition as an award-winning and innovative seafood processor and exporter. For example, in 2015, the Adelaide-based company was recognised by South Australia’s chamber of commerce as the best agribusiness exporter.

In 2015, Ferguson Australia acquired two South Australian seafood brands, Mori Seafood and Five Star Seafoods, and export facilities. This enabled the company to grow its lobster production and launch into the southern bluefin tuna industry. The acquisitions also increased the group’s annual lobster exports, and its projected turnover was expected to quadruple.

The company is accredited to export its live and value-added lobsters, oils and other seafood products to countries and regions including China and Japan, the United States of America, Russia, the European Union and the Middle East. In 2017, Ferguson Australia became the first company in the world to achieve the prestigious international ‘Friend of the Sea’ (FoS) certification for sustainable fishing practices for six wild-caught, local fish species. The company also became the first and only fishery in Australia to gain sustainability certification for southern rock lobster.

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**study on**

Unit 2  AOS 1  Topic 1  Concept 10

*Technology and globalisation* Summary screen and practice questions
4.11 Activities

TEST your understanding

1. Outline why it is important for a business owner to respond to technological and global issues when establishing a business.
2. Give two examples from the text of how technology is being used by businesses in manufacturing.
3. Describe how the administration of businesses is becoming easier with the use of technology.
4. What are the advantages and disadvantages of social media advertising?
5. Explain what a customer database is.
6. Outline the factors a business owner will need to consider when generating a customer database.
7. Explain why it may be beneficial for a business owner to develop contacts with overseas suppliers when establishing a business.
8. Explain why overseas retailers need to be considered by business owners when establishing a business.
9. Read the Ferguson Australia case study.
   (a) Outline the decisions that the owners of Ferguson Australia made when establishing the business.
   (b) Describe the consequences of the decisions made by the owners of Ferguson Australia.

APPLY your understanding

10. Video and DVD rental stores were thriving businesses less than a decade ago but have since experienced a drastic decline in customers.
   (a) How would the introduction of a variety of affordable video players on the market have affected video rental stores?
   (b) How would the introduction of a variety of affordable DVD players on the market have affected video rental stores?
   (c) How would the introduction of a variety of affordable DVD burners and more easily available pirated copies on the market have affected video rental stores?
   (d) How would the spread of high-speed internet and downloading websites have affected video and DVD rental stores?
   (e) How would online movie and TV streaming subscription services such as Netflix have affected video and DVD rental stores?
11. The National Broadband Network is making fast internet available to remote areas around the country.
   (a) How might this affect a small regional newspaper?
   (b) How might a local plumbing business that receives much of its customers through newspaper advertisements adjust to the situation?
   (c) How might this affect businesses that provide subscriptions to online streaming services such as Netflix?
12. The global financial crisis has resulted in tighter regulations of financial institutions and stricter lending policies in Australia.
   (a) How might this affect a small business that is considering taking out a loan to expand its operations?
   (b) How might this affect a mortgage broker who runs a small business organising loans across different banks for clients?
13. Use internet sources to find the Austrade webpage. Explain what Austrade can do to assist a business wishing to begin exporting.

EXAM practice

14. Outline two factors that a business owner will need to consider when developing contact with overseas retailers. (2 marks)
15. Explain the effects that developments in technology may have on decision making when establishing a business. (3 marks)
16. Describe one technological issue and one global issue that may affect decision making when establishing a business. (4 marks)
17. Discuss a business owner’s decision to develop contact with overseas suppliers when establishing a business. (4 marks)
4.12 APPLY YOUR SKILLS Evaluate and justify decisions when establishing a business

PRACTISE YOUR SKILLS
• Define, describe and apply relevant business management concepts and terms
• Acquire, record, interpret and share business information and ideas
• Research and analyse case studies and contemporary examples of business management applicable to establishing a business
• Apply business management knowledge to practical and/or simulated business situations
• Evaluate the costs and benefits of decisions when establishing a business, and justify the strategy chosen

ENVATO DEVELOPS A HUGE ONLINE MARKETPLACE

Collis Ta’eed, Cyan Ta’eed and Jun Rung founded Envato in 2006. The company operates a suite of digital marketplaces where people can buy and sell creative digital goods, such as music, graphics, video, photos, website themes, basically anything a person might need for a creative project. Think of it like an eBay for creative types. Envato employs approximately 300 people, most of whom work from its Melbourne office. More than 2 million people make a purchase on its website each year.

The three founders started Envato after they saw a need in the market for an online place where people could buy and sell stock photography and website components. Once they had decided they were going to begin an online business, they spent nine months building the website. It also cost a large amount of money — $90 000. The Ta’eeds financed the business using credit card debt, borrowed money from Collis’s family and money earned from freelancing. They moved into Cyan’s parents’ basement and put everything they could afford into the project. The business was finally established in a Sydney garage. Envato was a bootstrap business (a business that is financed using personal finance or the revenue from the business) and continues to be so today.

At the beginning, Envato attracted sellers by promoting the business on online forums and lured buyers with free credit. It paid its creative sellers more than other marketplaces at the time. It began offering sellers 15–25 per cent of each sale, and then increased that to the present range of 50 to 85 per cent.

Initially, Collis and Cyan Ta’eed were hoping that Envato would be a business that they could run while travelling. As the business started to earn income in 2008, they took a holiday to Hong Kong. They took their laptops so that they could work remotely during the day. The holiday extended to other places such as the United States and Paris. However, Envato continued to grow and the couple needed to return home 16 months later. Eventually an office was set up in Melbourne.

In 2017, Envato was named Australia’s top exporter for the creative industries at the 55th Australian Export Awards. Envato co-founder and CEO Collis Ta’eed has suggested that Envato has always looked at the global market. He has said, ‘I think that’s one of the beauties of the internet, that you can go for global markets.’

Envato has built a truly global customer base of approximately 7 million people. Ninety-seven per cent of Envato’s revenue now comes from outside Australia. The company has been able to help sellers earn a living through its platforms. By 2018 it had paid out in excess of $500 million to its community.
With all of those customers (and sellers) it is vital that Envato maintains a customer database. The company has a privacy policy that outlines how it will collect personal information, how it will use the information, how the information will be stored and how users of the site can access and control their personal information. Because Envato is an online service, it is particularly susceptible to denial-of-service attacks (cyber security events where an attacker tries to prevent users from accessing network resources by disrupting the services of the host connected to the internet). Envato suffered a distributed denial-of-service attack (where the incoming traffic comes from many different sources) for a number of weeks in 2015.

In response to the cyber attack Envato implemented changes, including improving its internal response processes, improving how it works with its service providers and fast-tracking planned upgrades to its online security. In a media release, Envato assured users that ‘your data is safe and we are fully committed to mitigating the situation and minimising future unplanned downtime’. No data leaks or breaches were reported.

MATT BLATT ESTABLISHED AS AN IMPORTING BUSINESS

Husband and wife Adam and Deborah Drexler founded the furniture and homewares brand Matt Blatt 20 years ago. The business has become a family affair, with son Joel becoming general manager and daughter Avril designing graphics and artwork.

Adam Drexler established a business in the eastern suburbs of Sydney in the late 1970s, selling furniture that he sourced from auctions. In the early 1980s, Drexler began manufacturing furniture and wholesaling to retailers. Deborah left her teaching job to help out with answering phones in the warehouse.

The Drexlers soon realised that it would be cheaper to import finished products and sell them, rather than purchase raw materials to make products. They started to import furniture and sell it on eBay. The model proved successful and, as items sold out, the business turned around.

Although the business did well, and despite the Drexlers being adventurous in their selection of products, other businesses were soon copying them and selling similar imported products for less. In 2003, the couple decided to establish their own website and sell directly to customers.

The name of the business came about when a misspelled label on a box of imported chairs from China read ‘matt blatt’ instead of the colour ‘matte black’. The Drexlers thought that the name was quirky and would allow them to go in whatever direction they chose. As well as the website, the business had a warehouse and a small showroom where customers could look around, talk to a salesperson and purchase from the bricks and mortar store or online.

Importing furniture required Adam and Deborah to travel overseas on buying trips. They would visit major furniture shows in Asia, Europe and the United States every year. Today, Deborah is mainly involved in trade shows and selection, continuing to work with Matt Blatt’s lead buyer. Most of the business’s products come from China, Vietnam and Malaysia. Some also come from Europe. There were problems sourcing products from India because of unpredictable quality. However, they eventually found a supplier who could source unique products made to a suitable level of quality.

Matt Blatt now has 13 stores across Sydney, Melbourne, Brisbane, the Gold Coast, Adelaide and Canberra. The company employs more than 200 people. There are plans to open at least two stores a year for the next five years — in Western Australia, more in Sydney and Melbourne, possibly Newcastle and Tasmania, and also possibly expanding into New Zealand. Even though Matt Blatt has a strong online presence, most of its sales still take place in bricks-and-mortar stores; only about 20 per cent of sales occur online. Customers still love to go in to a showroom and browse. Many will buy online after visiting a showroom.

Adam Drexler says that the family likes to think of themselves as being in the entertainment business. People can walk into a Matt Blatt store and have fun. He says that people can come in and play pinball machines, spin a
chocolate wheel to win a gift voucher, or take advantage of an area where children can watch cartoons while their parents shop.

Matt Blatt advertises using print, Google and social media. Newspapers were dropped from its advertising spending because it was felt that print was reaching a diminishing audience. This resulted in sales increasing, but foot traffic slowing. The company reintroduced print ads. The company learnt that it is important to get the right mix between online and offline advertising.

**4.12 Activities**

**TEST your skills**

1. Define the term ‘customer database’.
2. Describe what an overseas supplier is.
3. Read ‘Envato develops a huge online marketplace’.
   (a) Describe the nature of Envato’s business.
   (b) Explain why Collis Ta’eedd, Cyan Ta’eed and Jun Rung established Envato as an online business.
   (c) Outline how Envato promoted itself when it was first established.
   (d) Why does Envato need a customer database?
4. Read ‘Matt Blatt established as an importing business’.
   (a) Describe the nature of Matt Blatt’s business.
   (b) Explain why Adam and Deborah Drexler established Matt Blatt as a business importing furniture from overseas.
   (c) What have Adam and Deborah Drexler needed to do to source products from suppliers?
   (d) How successfully has operating an online business as well as a bricks and mortar business worked for Matt Blatt?

**APPLY your skills**

5. Working in a small group, copy the table below. Use the first column to identify technological issues that may affect decision making when establishing a business. Use the second column to identify the decisions made by Envato and Matt Blatt in response to these issues. In the third and fourth columns, outline the costs and benefits of the decisions the owners made when establishing their businesses. In the last column, write a justification for the strategy chosen. Some cells have already been completed for you. You may also be able to identify other technological issues.

<table>
<thead>
<tr>
<th>Technological issue</th>
<th>Decision</th>
<th>Costs</th>
<th>Benefits</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generating a customer database</td>
<td>Envato established a database for the users of its website.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using social media advertising</td>
<td></td>
<td></td>
<td>Envato and Matt Blatt would find that SMA is relatively inexpensive. It is easy to use and monitor and an effective way to gain exposure to new and existing customers.</td>
<td></td>
</tr>
</tbody>
</table>
6. Working in a small group, copy the table on the following page. Use the first column to identify global issues that may affect decision making when establishing a business. Use the second column to identify the decisions made by Envato and Matt Blatt in response to these issues. In the third and fourth columns, outline the costs and benefits of the decisions the owners made when establishing their businesses. In the last column, write a justification for the strategy chosen. Some cells have already been completed for you. You may also be able to identify other global issues.

<table>
<thead>
<tr>
<th>Global issue</th>
<th>Decision</th>
<th>Costs</th>
<th>Benefits</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contacts with overseas suppliers</td>
<td></td>
<td></td>
<td>The founders of Matt Blatt found that it was less expensive to import furniture using overseas suppliers. This was likely due to the low cost of skilled labour in other countries, as well as lower taxes and low trade tariffs. The owners were also able to source furniture that was not available domestically.</td>
<td></td>
</tr>
<tr>
<td>Exporting</td>
<td></td>
<td>Both Envato and Matt Blatt would have found it important to understand the different cultures, languages, norms and ways of doing business in other countries. They would have become aware of hidden costs involved in meeting regulations. Developing their export markets was also costly in terms of time taken to find support and customers willing to purchase their products.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. The task word (sometimes referred to as command word or instructional word) ‘evaluate’ generally requires you to consider both sides of an issue, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. For Unit 2, Outcome 1 you are expected to be able to evaluate the costs and benefits of decisions when establishing a business.

Using the information you have recorded in the tables in questions 5 and 6, evaluate two decisions that the founders of Envato or Matt Blatt made in response to technological and global issues when they were establishing their businesses.

8. The task word (sometimes referred to as command word or instructional word) ‘justify’ generally requires you to point out reasons for forming a particular conclusion. This may involve the provision of evidence to support an argument. For Unit 2, Outcome 1 you are expected to be able to justify strategies chosen when establishing a business.

Using the information you have recorded in the tables in questions 5 and 6, justify two decisions that the founders of Envato or Matt Blatt made in response to technological and global issues when they were establishing their business.

9. Use internet sources to locate the Austrade webpage. Find a case study of a business that is successfully exporting.

(a) Identify the decisions that the business has made in response to technological and global issues.
(b) Justify the strategies that the business has chosen.
(c) Evaluate the costs and benefits of the decisions the owners made when they were establishing their business.
4.13 Review

4.13.1 Summary

Legal requirements
- A business must ensure that it is familiar with all of the various legal requirements that may affect it, as failing to do so can have serious consequences for the business and its owners.
- A business must legally register a business name, domain name, comply with tax regulations, and follow legislation regarding workplace health and safety.
- Businesses must ensure they comply with state and federal laws regarding trade practices for their given industry.
- Businesses must comply with local government regulations.

Establishing bank accounts
- A business owner should keep the finances of the business separate from their personal finances.
- A business should carefully consider which banking services offered by different financial institutions to use.

Establishing financial control systems
- Financial control systems are the processes, methods and tools that the business uses to monitor and manage financial performance. The business can use financial control systems to prevent financial problems and losses.
- Financial control systems include budgeting, cash-flow management, control of accounts receivable and auditing.
- A business can predict or estimate its financial performance for a given period in the future using budgeting, ensure that adequate amounts of cash are coming into the business by using cash-flow management, and keep track of the money owed to it using control of accounts receivable.
- A business can test its accounting processes and internal controls through the process of auditing.

Establishing record-keeping strategies
- Record-keeping strategies are used to help the business monitor, manage and report financial performance.
- Maintaining accurate records is a legal obligation of the business and serves as an invaluable tool for decision making.
- Record-keeping strategies include using source documents (written documents that provide evidence of a financial transaction), maintaining a cash book (a summary of all the business’s cash receipts and cash payments), producing an income statement (used primarily to help the business to calculate how much profit it has made over a period of time), and producing a balance sheet (a summary of a business’s assets and liabilities at a point in time).

Choosing appropriate suppliers
- A business should consider the price and quality of its suppliers’ goods, as well as the reliability and proximity of the supplier.
- A business must choose a supplier that caters for its needs in a socially responsible manner.
- Choosing suppliers that meet the corporate social responsibility objectives of the business has a number of benefits and limitations.

Policies and procedures
- A policy is an established set of broad guidelines to be followed by all employees.
- Policies need to reflect the legal requirements of the business as well as the behaviour desired within the business.
• A procedure is a series of actions that enable a policy to be put into practice.
• Policies and procedures establish business routines that help a business achieve its objectives and need to be reviewed regularly to ensure that they remain relevant.

Technological and global issues
• A business must adapt to the rapidly changing global environment in order to be successful.
• The business world is experiencing rapid technological advancements in the areas of manufacturing, administration, and marketing.
• A business can establish a customer database (an organised collection of information on existing and potential customers, including such details as their contact information, personal details, previous interactions with the business, buying habits and preferences). Using technology to establish a customer database has a number of benefits and costs.
• Globalisation has allowed Australian businesses to access a wider range of customers and suppliers. A business may choose to develop contact with overseas suppliers and/or overseas retailers. Both of these decisions have benefits and costs.

4.13.2 Key terms

accounts receivable the outstanding payments a business is owed by its customers
acquisition when one business takes over another business
auditing the process of testing and evaluating a business’s accounting processes and internal control
Australian Competition and Consumer Commission a government body that has the role of enforcing the Competition and Consumer Act 2010 and a range of additional legislation promoting competition and fair trading, and regulating national infrastructure
Australian Taxation Office (ATO) the government body in charge of administering and collecting tax for the federal government
balance sheet shows a business’s assets and liabilities (the financial position of a business) at a point in time
bookkeeping the keeping and processing of a business’s financial records
budgeting estimating the business’s financial performance for a given period in the future
cash book provides a summary of all the business’s cash receipts and cash payments; it is compiled from the receipt and payment source documents.
cash flow the money being transferred into and going out of the business
code of practice a written set of guidelines that are intended to help businesses achieve the standards set by the government (e.g. in dealing fairly with customers)
Consumer Affairs Victoria Victoria’s government body established to regulate the marketplace, helping ensure fairness for businesses and consumers
credit terms the terms and conditions of sale between a customer and a business, including the amount of time provided for making final payment
customer database a bank of information on existing and potential customers, including their contact information, personal details, previous interactions, buying habits and preferences
domain name the address of a website on the internet
exporter a local business that manufactures goods for overseas customers
financial control systems the processes, methods and tools that allow a business to accurately monitor and manage its financial performance
income statement used primarily to help the business to calculate how much profit it has made over a period of time
inventory control ensures that costs are minimised and that the business has access to the right amounts of materials when required
merger the joining together of two or more businesses to form one business
policy a written set of broad guidelines to be followed by all employees
procedure a series of actions that enable a policy to be put into practice
procurement the process of researching and selecting suppliers, establishing payment terms, negotiating contracts and the purchasing of resources that are vital for maintaining the production of the business’s good or service
**progressive tax rate** a tax rate that increases as the individual earns a higher income

**robotics** the engineering behind the design, construction and application of robots

**separate entity** accounting principle recognising that the owner’s finances are separate to those of the business and therefore business transactions should be recorded separately

**social media advertising** a form of online advertising that uses social media channels to deliver targeted commercial messages to potential customers

**source documents** written documents that provide evidence of a financial transaction

**three-dimensional (3D) printing** the production of a physical object from a digital design or model

**WorkSafe Victoria** a government agency that aims to reduce workplace injuries and support injured workers

### 4.13.3 Review questions

**TEST your understanding**

1. Describe two legal requirements of starting an online business.
2. Which government body is in charge of administering and collecting tax for the federal government?
3. Describe three federal taxes a business can expect to pay at some stage.
4. Explain what WorkCover insurance covers.
5. Describe two anti-competitive practices.
6. Explain two other practices that are illegal under the *Competition and Consumer Act*.
7. Outline two local government legal regulations that businesses must comply with.
8. How does the ‘separate entity’ principle of accounting relate to bank accounts opened by a business owner?
9. Outline three considerations for a business when deciding on which bank account to open.
10. Explain why it is important for a business to develop effective financial control systems.
11. Identify two control systems that a business owner might introduce when establishing a business.
12. Why is it important for a business to manage its cash flow?
13. How can undergoing an audit help a business?
14. Explain why it is important for a business to maintain accurate records.
15. Describe four record-keeping strategies a business might implement.
16. Outline the factors a business should consider when choosing an appropriate supplier.
17. Identify the benefits and limitations for a business in choosing socially responsible suppliers.
18. Outline the differences between a policy and a procedure.
19. How do policies help a business achieve its objectives?
20. Identify three examples of policies.
21. Outline how a business can ensure that policies and procedures achieve compliance with legal requirements and establish business routines.
22. Explain what a customer database is.
23. Identify the costs and benefits of using a customer database.
24. Explain the difference between overseas suppliers and overseas retailers.
25. List the costs and benefits of using overseas suppliers.
26. Identify the costs and benefits of using overseas retailers.
APPLY your understanding

27. Imagine you are about to start a business of your choice. Complete the following questions relating to your business and explain any factors that you would need to consider.

(a) What is the name of your business? (Remember to explain the factors that you have considered.)
(b) What is the domain name of the business?
(c) Explain the bank account that you will open and outline which financial institution you will open the account with. (You can use the internet to compare rates and terms.)
(d) Describe two financial control systems and two record-keeping strategies that would apply to your business.
(e) Using the internet, describe the supplier that you would use for one of your inputs (include the price and specifications of the product as well as basic information about the supplier).
(f) Describe how you would develop one policy for your business.
(g) Explain why the policy you chose to develop is important to the success of the business.
(h) Identify three types of technology that your business would be likely to use.
(i) Discuss the potential for your business to expand into overseas markets.

EXAM practice

28. Tess is establishing a new business that will produce organic cleaning products. As well as selling the product domestically, she hopes to export her products to Asia.

(a) Explain why it is important that Tess’s new business comply with legal requirements. (2 marks)
(b) Justify the use of one financial control system and one record-keeping strategy that would enable the success of Tess’s new business. (4 marks)
(c) Outline two factors that Tess will need to consider when choosing appropriate suppliers. (2 marks)
(d) Tess has sourced suppliers that she knows are socially responsible. Explain the benefits and limitations of Tess using suppliers which meet the corporate social responsibility objectives of her business. (4 marks)
(e) Explain why it will be important for Tess to establish effective policies and procedures for her business. (2 marks)
(f) Evaluate the costs and benefits of Tess developing contact with overseas suppliers when establishing her business. (5 marks)
4.13.4 School-assessed coursework

OUTCOME 1

Explain the importance when establishing a business of complying with legal requirements and financial record keeping, and establishing effective policies and procedures.

ASSESSMENT task — case study analysis

Read the following case study and then complete the questions.

Oak Valley Timber

Oak Valley Timber is a third-generation, family-run business operating in Tasmania. The founder, Bill Stevenson, started the timber company in 1948 with his friend Brett Smith, who died when struck by a falling tree several years later. Today the business has grown to employ over 800 workers across eight forests, providing quality timber to a variety of commercial customers. The business is still based in Tasmania but has operations in Victoria, South Australia, New South Wales and Queensland. CEO Jason Stevenson has recently inherited the leadership of the business from his father during a time of turmoil. The business is facing a number of significant problems that Jason must turn around.

- The number of workplace injuries is significantly higher than the industry average.
- There have been several reports of sexual harassment by the female workers (who are in the minority).
- Environmental lobby groups have accused the business of unsustainable logging practices.
- A staff survey recently highlighted that many staff feel unsafe at work and were unaware of how to reduce the risks associated with their jobs.
- The business is struggling to retain its best workers and productivity is falling as a result.
- A Facebook page has been created by environmentalists who are displeased with the unsustainable logging practices of Oak Valley Timber.
- A new free trade agreement with China has resulted in rising imports of bamboo, which have seen a fall in the price of Australian timber.

After being briefed on the problems faced by Oak Valley Timber, the CEO has asked you to provide guidance by addressing the following questions.

1. Outline two legal requirements that should have been considered by Oak Valley Timber when establishing the business.
2. Describe the possible implications of Oak Valley Timber failing to comply with legal requirements.
3. Explain two record-keeping strategies that Oak Valley Timber might use to improve its financial performance.
4. What are the consequences of the business continuing to operate in a way that is harmful to the natural environment?
5. What actions could the business take to reduce its negative impact on the environment?
6. The CEO of Oak Valley Timber has decided that the company’s objectives will focus on producing sustainable timber. Describe two considerations that the business will now need to make when choosing appropriate suppliers.
7. Explain why Oak Valley Timber needs policies and procedures that comply with legal requirements.
8. Describe the procedures that Oak Valley Timber might put in place to address one of the workplace issues it is dealing with.
9. Do you think that developing effective policies might solve Oak Valley Timber’s productivity problem? Justify your response.
10. Describe one global issue that must be considered at Oak Valley Timber.
11. Evaluate one technological issue affecting Oak Valley Timber.