

BusinessPlus+ Newsletter



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Challenging Times For Businesses

It’s autumn already and we’re in the middle of widespread speculation in the media on what is going to be included in the Liberal government’s policies, to be announced in the Federal Budget on the 13 May. The key economic data, from a business’ perspective, includes:

- **Economic Activity** – this is the volume side of the economy and reflects demands for products produced by all types of businesses.
- **Prices** – are ultimately reflected in the Consumer Price Index (CPI). Prices for some services go up, some drop and they’re all reflected in the CPI. It is expected that the CPI will remain between 2%-3% during 2014.
- **Interest Rates** – the Reserve Bank has set the interest rate currently at 2.5%. There is an expectation that, by the end of 2014, rates will increase to around 3%. If you’re able to do so, this might be a good time to lock in a long-term rate, in accordance with your agreements with your bank.
- **Exchange Rates** – are expected to remain around AUD0.85 to USD1. Exchange rates can have significant effects on a large number of businesses and many will be closely watching what happens to interest rates.

There have been some other events initiated by the Federal government (mostly laws passed by the previous Labor government), which will have effects on many SMEs, including:

- There has been a decision handed down in Victoria, in a matter of liquidation, between Swans Services Pty Ltd and Central Cleaning Supplies (Aust) Pty Ltd, in which the court rejected the plaintiff’s (Central Cleaning Supplies) appeal from the liquidator’s decision to seize property that has been supplied to Swans Services Pty Ltd (in liquidation). This case highlights the necessity for businesses supplying goods with a ‘Retention of Title’ clause appropriately drafted after the 31 January 2012, to ‘protect their security interest’ by registering the security interest on the PPSR.
- Privacy Law Reform has been introduced, which affects all organisations with a turnover of over \$3million. Privacy Laws will also affect businesses with annual turnovers of less than \$3million, that are:
 - health services holding health information;
 - organisations related to a larger companies.
 - organisations trading in personal information; andReforms commenced on the 12 March 2014.
- Anti-Bullying Laws are now fully operational. Workers who feel they are being bullied will now be able to seek an order from the Fair Work Commission, requesting that the bullying stops.

These three items, PPSA, Privacy Law Reform and Anti-Bullying Laws, highlight the necessity for business owners to be having an annual legal check-up with their commercial solicitor, to ensure they are complying with the new laws and regulations.

We are certainly within challenging times. This edition of Business Plus+ includes commentary on:

- Recalibrating cost structures and replenishing revenue streams, as strategies businesses might adopt to combat ‘digital disruption’.
- Cost control strategies are discussed.
- Succession planning doesn’t just apply when you’re 60-70 years of age. Succession planning can apply to businesses at any age of the owner.
- Debtors’ days outstanding are 80% above the traditional 30-day trading term that most Australian businesses establish with their customers. A dedicated debtors’ system may assist in reducing debtors’ days outstanding and freeing up cash into your business’ bank account.

If you would like to discuss any of the issues that have been discussed within this edition of Business Plus+, please don’t hesitate to contact us.

What Services Can Accountants Offer?

As your accountants, we're happy to supply you with a range of services beyond the traditional annual accounts and income tax service. The additional services can include:

- In-depth review of your monthly financial accounts.
- Preparation of budgets on an annual basis, then monthly or quarterly updates.
- Preparation of annual cashflow forecasts, then monthly or quarterly updates.
- Review of your debtors' aged analysis.
- Advising on strategies to reduce debtors' days outstanding.
- Assisting in the management of costs.
- Reviewing your insurance needs.
- Identification of government grants that might suit your business.
- Reviewing your operations relative to your exposure to the Personal Property Securities Act.
- Advising on implementation of systems to ensure there is proper consideration given to tax invoices and location of assets owned by your business, in determining whether a 'security interest' should be lodged on the PPSR.

If you would like to have a discussion on any of the additional services we can supply to assist you in your operations, please don't hesitate to contact us.

Strategies To Minimise Digital Disruption

Recalibrating Cost Structures

The management of costs is one of the biggest challenges facing small businesses. Indeed, a survey on small businesses, conducted by CCH in April 2013, identified that management of costs is the biggest single issue of concern for small/medium business operators in Australia.

Recalibrating cost structures involves:

- Thinking of changes in terms of personnel.
- Undertaking further training with your team.
- Changes in the supply chain.
- Strategies to reduce business overheads.

Businesses need to be able to compete with 'digitally-powered', low-cost, newcomers.

Replenishing Revenue Streams

This relates to building new sources of revenue across segments, geographies and business models, as traditional streams dry up in the wake of 'digital disruption'. Deloitte are predicting that there will be significant changes in the way successful organisations conduct their businesses.

If you would like to have a discussion with us relative to your cost structures and identifying possible new revenue streams for your business, please don't hesitate to contact us.

Cost Control – Strategies Help

Cost control is a detailed process of collecting, analysing, summarising and evaluating various alternative courses of actions. The goal is to advise management of the most appropriate action, based on the cost, efficiency and capabilities within the business. This can include:

- Investigating procedures to detect variances of actual cost from budgeted cost.
- Diagnostic procedures to ascertain causes of variances.
- Directive procedures to affect the re-alignment between actual and budgeted costs.

Costing also includes a review of new products and services and looking at various components that go with making a product.

- What do they individually cost?
- What is the effect of the cost of the final product by making various changes, adding something to it, or removing something?

The overall exercise is to determine what the final cost of the product or process will be: can that product or process then be effectively marketed so your business earns a profit?

Another field of cost management is in project management, where costs are allocated against the original estimates for a building project or a major construction site.

If you are having difficulties in controlling costs within your organisation, please don't hesitate to contact us for discussions, on strategies to help you with the management of costs.

Characteristics Of A Well Run Business – Part 7

Excellent Staff Management

Communication with the team can be improved by:

- use of job descriptions
- use of budget targets
- staff reviews at least every 6 months
- listen effectively
- review performance - the monthly 'bitch' session
- responsibility/authority delegation creates challenges and provides opportunities for team members
- effective training
- authority to implement strategies

If you would like to have a discussion with us relative to any of these issues, please do not hesitate to contact us.

Personal Property Securities Act – Creating Systems To Protect Your Assets

The biggest change the Personal Property Securities Act (PPSA) has introduced is that 'title is no longer king'. If businesses fail to register their security interest, created under the PPSA legislation and if there's an insolvency event of the business' customer, which would be evidenced by the appointment of an administrator, liquidator, receiver or trustee in bankruptcy, then the original owner of the goods or assets may lose the benefit of those assets, because the insolvency practitioner may be able to sell those goods or assets on behalf of a secured creditor.

We emphasise that registration of a title is not mandatory but is voluntary. It is up to individual businesses to decide whether to self-insure and not register, or to register for some or all of their customers.

Businesses should consider establishing a sum of money and, if an invoice exceeds that sum, then that transaction would be protected by lodging a security interest on the PPSR. Businesses should also determine a minimum value of assets. If assets located on someone else's property are valued at more than the 'minimum' amount, consideration should be given to registering those assets on the PPSR.

This is very important legislation. If you would like to discuss it with us, please don't hesitate to contact us.

Businesses Entities – Companies

Private Companies

The most popular entity for small business is a private company. A private company need only have one director and one shareholder. A company is a separate legal entity from its shareholders and directors and is not subject to a time requirement, relative to being 'wound up', such as a discretionary trust. Company shareholders can decide whether the company will have a separate constitution or adopt what is known as the 'replaceable rules' that are specified in the Corporation's Act.

Every company has to have a registered office. A private company's registered office does not have to be open to the public. A private company only needs one shareholder and can have a maximum of 50 shareholders. Shareholders do not play any direct day-to-day role in the administration of the company, unless they are directors.

Each company has an Australian Company Number (ACN).

A company can be sued, can sue and has the power to operate virtually every type of business, unless prohibited by its own constitution.

The company is liable for the debts the company incurs and not the shareholders and directors, unless the shareholders and/or directors have given a personal guarantee to an external party for debts relating to the company. Directors can be liable if they have allowed the company to incur debts, whilst the company has been insolvent, or the company has not met its super guarantee charge liability, in full, by the due date. Directors will automatically become personally responsible for a penalty equal to the unpaid amount.

Directors can also be liable for payment of PAYG withholding tax that has been withheld from employees' wages, if not paid to the ATO, as well as other company's tax liabilities in certain circumstances.

If you would like to discuss any aspects of utilising a company within your business, please contact us.

What's It Mean?

Terminology – Personal Property Securities Act – Continued

Bailment – a bailment for which the bailee provides value may, in certain circumstances, give rise to a Personal Property Securities Lease. Generally a bailment occurs when a bailee voluntarily receives possession, but not ownership, of goods from a bailor who retains the right to receive the goods back when the bailment comes to an end.

Reducing Debtors' Days Outstanding

In Dun & Bradstreet's latest report on indebtedness to Australian businesses, it is indicated that the average debtors' days outstanding in Australia is 54 days. This does not compare well with the normal trading terms of 30 days. This means that, for a business which has credit sales of \$2million, the debtors' days outstanding would be in the vicinity of \$295,000, if their business were trading in 54 days. Whereas if they are abiding by the terms of trade stated by that business, the debtors' balance would be \$164,000. This is a difference of \$131,000. If this is the scenario in your business (normally 30 days), there is undoubtedly many things you could do with an extra \$131,000 in your bank account.

There are many businesses in Australia that are trading within the 30-day terms. They are utilising debtors' management systems, which comprise written systems to ensure all aspects of debtors' management are appropriately followed and include follow-up action, to keep on top of their debtors' systems.

If you are interested in having a discussion with us relative to the implementation of a debtors' management system for your business, in an attempt to reduce your debtors' days outstanding, please don't hesitate to contact us.

Succession Planning – Important At Any Age

There are thousands of business owners in Australia and New Zealand wanting to plan an orderly succession in their businesses. The situation is complicated by the number of business owners, now described as 'baby boomers', who are planning to dispose of their businesses.

Succession planning isn't just about those who are 60-70 years of age. Succession planning can apply to businesses at any age of the owner. In fact, succession planning also applies to virtually every position within the business.

- Who is going to take over if something happens to a particular person?
- Who should be getting trained and developed through professional development training courses so, in two-three years' time, they will be able to perform specific duties within the business?

Succession planning is part and parcel of the ongoing activity within a thriving business. It is a challenge all business operators should be taking seriously.

What do you want from your business?

- Did you set out to create a legacy? If so, have you?
- Do you need to provide a set inheritance for your children and grandchildren?
- Have you got any dependants, who are relying on you to provide for them as you get older?
- Do you want to develop the business, so you can sell it and move on to another business? There are plenty of people who do that. Not everyone likes sitting in one or two businesses for a long time. Some people get a great 'buzz' out of starting a business, building it up and then selling it.

If you would like to have a discussion with us relative to planning for a succession in your business, please don't hesitate to contact us.

WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting christie@lewistaxation.com.au. You might be interested in requesting a copy of any of these additional informational papers:

- **Companies**
- **Accounting Terminology**
- **R & D Tax Incentives**
- **Operational Issues in Risk Management**
- **Cost Control – An Overview**
- **Succession Planning – Why Is It Necessary?**
- **Introduction to Business Advisory Services**
- **Chief Financial Officer Services Package**

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.



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