

BusinessPlus+ Newsletter



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Sluggish Economic Scene

In the second month of the financial year, the economic scene is sluggish, with lower than normal economic growth, low inflation, no change in interest rates and, at this stage, no likely sign of interest rates going up for a while. There are still major problems in certain business activities and locations around Australia. The key areas for small business operators to monitor are:

- Growth of the Economy (GDP – Growth Domestic Product)
- Inflation
- Interest Rates
- Currency Rates
- Government Policy

Whilst there has been some positive growth, it has not yet returned to the 4% trend at which the economy has generally performed. It is likely to continue in this manner for the remainder of the financial year, unless there is a major wages breakout, which will significantly affect the inflation rate.

The Australian dollar is very high, especially compared to rates that were evident 4½ years ago, when the Australian dollar was 57 cents against the US dollar. The US dollar rate against Australian dollar is currently at \$1.05, which is good news for importers and Australians travelling overseas, but not for Australian exporters or the tourist industry relying on international tourists visiting Australia.

Cashflow management is still a high priority issue for SMEs. If you are preparing budgets for this financial year, it is a good idea to prepare three separate sets of budgets, comprising:

- most likely outcome;
- most optimistic scenario; and
- most pessimistic scenario.

If you would like our assistance in the preparation of budgets and cashflow forecast, or a review of your cashflow management procedures, please do not hesitate to contact us.

Business Plans

Questionnaire – Management

Questions to be considered when utilising the management questionnaire as part of a business plan workshop include:

- Have you instigated procedures to prevent defamatory material leaving your business premises?
- Have you instigated a system to record on a permanent basis personal guarantees given by the directors of the business to any suppliers.
- Are the expectations of shareholders and other key stakeholders recorded in writing?
- What improvements can be made in the corporate governance for the business?
- Do you know enough about the "business of the business"?
- What is your company's "unique selling proposition"?

Australian Taxation Office "Hit List"

Every financial year, the Australian Taxation Office (ATO) releases its "hit list" or yearly compliance program. This year is no exception. Some interesting observations can be drawn from the "hit list" in regards to all levels of businesses. One of the big focuses of the program, across all levels of taxpayers, is the increase in 3rd party data matching for work and business related deductions, omission of income both from Australian sources and foreign sources, Fringe Benefits Tax reporting and GST treatment of property transactions.

The ATO is also increasingly conducting more site visits to small/medium enterprise operators for the review of:

- GST Transactions
- Superannuation Registration
- Compliance with Taxation Laws
- Taxation Payments

The ATO is also checking:

- companies with loans to shareholders;
- trustees' compliance with the requirements for written agreements and trust minutes for trustee resolutions made prior to 30th June 2012; and
- comparing these minutes with the trust income tax returns lodged, along with the income tax returns of all beneficiaries of the trust.

All in all, this updated program seems to be focusing on ensuring people are complying with more areas of the law, rather than simply Income Tax and GST, which has been the focus of the ATO for some time.

If you have any concerns about any aspect of your business relating to the ATO, please do not hesitate to contact us.

Other Items To Consider In Budget Preparation (continued from July Issue)

Last month, we reviewed the establishment of key targets for Budgets and Cashflow Forecasts. Some of the other key items for consideration in the preparation of a budget includes:

1. Checklist of cashflow items:

Loan Draw Down(s)	<input type="checkbox"/>	Drawings	<input type="checkbox"/>
Loan Repayments	<input type="checkbox"/>	Dividends Payment	<input type="checkbox"/>
New Hire Purchase Contracts	<input type="checkbox"/>	Loan Payments - Associated Persons	<input type="checkbox"/>
Hire Purchase Repayments	<input type="checkbox"/>	Capital Expenditure	<input type="checkbox"/>
Repayments	<input type="checkbox"/>	Extra Superannuation (above statutory requirements)	<input type="checkbox"/>
New Lease Contracts	<input type="checkbox"/>	Property Acquisition	<input type="checkbox"/>
Lease Payments	<input type="checkbox"/>	Sale of Assets Planned	<input type="checkbox"/>
Income Tax	<input type="checkbox"/>		<input type="checkbox"/>

2. Working capital requirements targets:

Is it expected that the business will require increased working capital during the period covered by the cashflow forecast?
Yes No

3. Bank Covenants – have you reviewed your obligations on any facility received from a bank or financial institution?

Bank covenants that may affect Budgets and Cashflow Forecasts can include the following:

Debtors' Days Outstanding	Current Ratio
Interest Times Covered	Quick Ratio
Stock Investment – Days	Debtor Ratio to Borrowed Funds
Stock Turn Rate	Working Capital Ratio To Borrowed Funds
Work In Progress Days	Debt To Equity Ratio
Net Profit To Sales Percentage	Gross Profit Percentage
Submission of Progressive Financial Amounts During The Year	EBIT (Earnings Before Interest And Tax)

This is a summary of some of the targets that you need to bear in mind when preparing Budgets and Cashflow Forecasts for the 2012/13 financial year.

If you would like to have a discussion with us relating to the preparation of budgets and cashflow forecasts for your business, please do not hesitate to contact us.

Do Your Customers Recommend Your Business?

- Do your customers say “Wow”?
- Do they recommend your business to their friends and associates?
- Do you acknowledge long-term clients for their continuous support of your business?
- Do you send letters to new customers thanking them for their patronage?
- Do you encourage customers to give you referrals to their friends and associates?
- Do you ask clients for testimonials which you can post on your website?
- Do you give guarantees so your team understands the lifetime value of a customer?
- Do you have a customer database?
- Do you understand the demographics of your customers?
- Do you have procedures in place for handling complaints?

We can assist you in the review of services being offered to your customers.

Leadership Skills

In Human Resources (HR) circles, a distinction is made between “hard” and “soft” skills, with leadership being classified as a “soft” skill, while technical skills such as operating machines of any sort (including computers and IT devices and systems) are considered “hard” skills. In terms of difficulty in learning and application, it is much harder and challenging for people to acquire and apply leadership skills than it is for any manager to do the same with their technical and management skills. It is a misnomer to identify leadership, indeed any skill in dealing with people as a “soft” skill, for leaders often must make hard decisions in the face of dissenting views.

Anyone appointed to a management or supervisory position must first understand what they must do to be an effective leader. This includes ensuring functions such as defining goals and objectives, planning, organising, evaluating, controlling, motivating and setting the example are accepted and implemented by all team members.

Managers must also develop “people” skills such as developing relationships and trust, coaching and counselling, problem solving and decision making. Developing skills in motivation and delegation will help managers win the hearts and minds of the people who work with and for them.

We can assist you in the development of management skills for your business. If you require more details, please contact us.

Government Grants For SMEs

Creative Industries Can Obtain Grants Of Up To \$20,000

The Australian Government’s Enterprise Connect Program has grant funds available for eligible businesses operating in creative industries, which can include:

- Design
- Publishing
- Writing
- Architecture
- Photography
- Visual Arts
- Television/Radio Advertising
- Film
- Performing Arts
- Music
- Games and Interactive Content

Grants can help creative industry businesses improve their operations, productivity and competitiveness by funding professional business advisory and development services. To be eligible, businesses must be operating in the creative industry area and have filed Business Activity Statements (BAS) for at least three consecutive years. Applicants must also have a turnover of a minimum of \$1M and a maximum of \$100M. The first step in the process is a free business review undertaken by a contracted Enterprise Connect Business Advisor. From this review, a decision is made on the type of services that Enterprise Connect will financially support. An eligible entity can obtain funding on a 50/50 basis.

If you are interested in obtaining more details on the operations of Enterprise Connect, please contact us.

REMINDER: Export Market Development Grant

Export Market Development Grant applications for 2011/12 financial year **must** be lodged with Austrade by **30th November 2012**.

If you are an exporter, please contact us on 1300 35 22 35 for a review to determine your eligibility.

Cashflow Management Is Important

The recent comments by the Australian Taxation Commissioner, that small businesses are approximately \$9B in debt on Business Activity Statements, has highlighted the significant importance of effective cashflow management for SMEs. Two years ago, the total debt for the same group of taxpayers was approximately \$4B.

This level of debt, together with the debtors' outstanding figures, as disclosed by Dunn and Bradstreet, (debtors' day outstanding of approximately 53 days at present) highlights the severe cashflow problems that many small business operators are experiencing. We can assist our SME clients to manage their business affairs better by conducting a cashflow management review. In this issue, we discuss Debtor Management Review for:

Debtors

Complete review of the debtors' system including review of:

- Debtors' Procedure Manual
- Application for credit account form
- Welcome new customer letter
- Procedures for obtaining and safe keeping of private company directors' guarantees
- Debtors' Days Outstanding Calculation – if you would like a copy of the form, please contact us
- Procedures for collecting debts
- Debtors' Reduction Checklist – if you would like a copy of the form, please contact us

Next month we will discuss the other components of cashflow management – Stock, Work in Progress, and Bank Covenants.

If you would like to have a discussion with us in relation to the cashflow management system operating for your business, please contact us.

What Does It Mean?

Overheads – Overheads includes all of the expenditure that has to be paid out of gross profit. This could include:

Accountancy Fees	Motor Vehicle Expenses	Travel And Accommodation
Audit Fees	Payroll Tax	Wages
Advertising	Electricity	Superannuation On Wages
Bank Charges	Gas	Webpage Expenses
Electricity	Rent	Workers Compensation Insurance
Fringe Benefit Tax	Salary	Other Expenses
Insurance	Staff Training	
Marketing	Superannuation On Staff Salaries	

Overhead expenses should be continually monitored to ensure that unnecessary expenditure is avoided.

WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting our office on 1300 35 22 35 or simply email mail@lewistaxation.com.au.

You might be interested in requesting a copy of these additional informational papers:

- *Paper 900-001 – Leadership – Index And Introduction*
- *Paper 021-051 – Business Planning Questionnaire*
- *Paper 014-083 – Enterprise Connect – Creative Industries*
- *Form BAS128 – Budget And Cashflow Forecasts And Cashflow Targets*
- *Paper 014-030 – Export Market Development Grant*
- *Form BAS166-01 – Debtors' Days Outstanding Calculation*
- *Form BAS166-02 – Debtors' Reduction Checklist*

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.



growing your business with you.

Alan Lewis
Accountants

T 1300 352 235 F 02 4392 433