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July 2011**Happy New Financial Year!!**

We'd like to take this opportunity of wishing you a very successful 2011/12.

Do You Have A Cashflow Strategy?

There seems to be little doubt that, in Australia at present, a two-stage economy is operating. Whilst it is generally accepted that the peak economic development is being driven by the mining industry, it is interesting to note that in April 2011, the two highest industry groups facing insolvency problems were mining and retailing. So whilst the high economic activity in some parts of Australia is very welcome, there are also some danger signs in other parts of the Australian economy, including:

- the highest rate of insolvencies recorded this year have occurred in the month of April 2011;
- the recent closure of some major retail businesses in the book selling and clothing industry, highlighted problems that retailers are having;
- the high A\$ as compared to the US\$ and other major overseas currencies is making life very difficult for exporters and the Australian tourism industry;
- debtors' days outstanding continues to blow-out. Dun & Bradstreet's latest report indicated that debtors' days outstanding has moved by 2 days to 56 days;
- whilst the Reserve Bank, at its July meeting, left the official interest rate at 4.75%, there is considerable speculation by economists that interest rates could continue to rise later in 2011.



Another problem that needs to be factored into decision-making by SMEs is the continuing problems being experienced in Greece, Ireland and Portugal, which could lead to further banking problems in Europe; the effects of which could also be felt in Australia.

The American economy is not performing at a high efficiency and this is the prime reason for the high value of the Australia dollar -v- the US dollar.

What does all this mean to you, as an SME, in the determination of a cashflow strategy?

Cash is king. Have you implemented strong cashflow management strategies to benefit your business?

Do you need to improve the management of debtors, work in progress and stock?

What are your cashflow forecasts indicating will be the cash requirements of your business during 2011/12? Will you need to raise an additional bank overdraft, loan facility or investment capital during the next twelve months?

What effect is the Australian government's carbon tax (at a charge of \$23 per tonne), scheduled to commence from July 2012, going to have on your business?

Now is the time... at the start of a new financial year, to review your marketing plan, budgets & cashflow forecasts and business plan to calculate your business' capital requirements and have discussions with your banker/lender or, if you need to, prepare documentation for submission to business angels, in an attempt to raise additional capital for your business.

If you would like to discuss these matters with us, please don't hesitate to contact us to arrange a meeting.

Cashflow Forecasts & Budgets Are Important

There are a lot of uncertainties at present relating to interest rates, exchange rates, property values, unemployment, carbon tax, debtor payments, the cost of fuel, banks' attitudes to SMEs and the Australian Taxation Office's increased scrutiny in the small/medium enterprise market area.

All of these uncertainties highlight the necessity for businesses to spend some **critical quality time** working "*on the business*" in planning budgets & cashflow forecasts for the next twelve months. A budget will show the expected income and expenditure for the business and the emerging profit. You can calculate various "*what if*" scenarios to factor in a potential change in circumstances e.g. higher interest rates, higher fuel costs and, if you are an exporter or importer, changes in currency conversion rates.



Accurate budgets let you identify problems in advance. You can then try to do something about the problem or arrange finance to cover the additional costs. Cashflow forecasts reflect the figures contained within the budget, as well as taxation commitments, loan repayments, dividends or drawings, capital expenditure, cash receipt expectations from debtors and payment to creditors. You can also factor in the anticipated movement in the investment that you have in debtors, stock and work in progress.

We can assist you in the preparation of budgets and cashflow forecasts to help you develop an effective plan for the next twelve months.

Tradex Scheme Helps Importers' Cashflow Management

Importers can avail themselves of the Tradex Scheme to preserve cashflow by not having to pay upfront payments for custom duty, GST or other taxes, if it is expected that the imported goods are to be subsequently exported or incorporated in goods that are exported, within one year. If you would like assistance to register for the Tradex Scheme, please don't hesitate to contact us.

Review Debt Covenants

Now is a good time to review your bank/loan facility documents and prepare a summary of those documents highlighting the covenants that you've entered into with your bank. These could include:

- working capital to borrowed funds ratio
- debt to equity ratio

- dates when regular reports need to be lodged with the bank, including:
 - Trading and Profit & Loss Account
 - Trading and Profit & Loss Account Ratio Analysis
 - Balance Sheet
 - Balance Sheet Ratio Analysis
 - Debtors' Aged Analysis
 - Creditors' Aged Analysis
 - A summary of investment in Work in Progress
 - A summary of investment in Stock
 - Updated Cashflow Forecast

The review will help you ensure that you're complying with the covenants that the bank established when they created the facility with your business.

Directors' Responsibilities On Accounts

The Federal Court has made a very important judgement on directors' duties in the CENTRO Properties case. The court has decided that it is the directors' responsibility to ensure that there has been correct treatment of items within the Balance Sheet. The case arose over a challenge as to the treatment of some liabilities which the court has decided should have been treated as current liabilities and not long term liabilities. The court found "that the directors failed to take all reasonable steps required of them, and acted in the performance of their duties as directors without exercising the degree of care and diligence the law requires of them". Even though the court case involved a major public company, decisions made in cases such as this relate to all companies and therefore this judgement needs to be reviewed by all company directors, as it emphasises a very important aspect of company directors' duties in that the directors are signing off on the financial accounts and therefore need to have satisfied themselves that the financial accounts have been correctly prepared. If you have any queries on the composition of the items within your company's Balance Sheet or Profit & Loss Account, please do not hesitate to discuss these questions with us.



Characteristics Of A Well-Run Business

There are many characteristics of a successful business. Here we list some of them. Not all of them will be applicable to each business. Approximately 80% will apply to all businesses. Characteristics are:

- | | |
|------------------------------------|--|
| 1. Personal Capacity & Development | 11. Staff Management & Motivation |
| 2. Customer Knowledge & Service | 12. Marketing Expertise |
| 3. Product/Industry Knowledge | 13. Ability to Change with Market Conditions |
| 4. Excellent Systems | 14. Assessment of Competitors |
| 5. Excellent Analysis of Results | 15. Capital Base |
| 6. Cash Control | 16. Use of Professional Advisers |
| 7. Stock Management | 17. Networking |
| 8. Work in Progress Control | 18. Excellent Planning |
| 9. Debtor Control | 19. Quality Management |
| 10. Cost Control | 20. Excellent Management/Administration |

Would you like to receive further details on these items to enable you to review your business operations?

Carbon Tax Announcement By Government

The government has announced some grants to SMEs as part of the carbon tax:

- The motor vehicle write-off for businesses with turnovers under \$2M will be \$6,500 on motor vehicles purchased after 1st July 2012.
- Manufacturers can apply for grants of up to \$25,000 to help reduce their energy use. The grants will be on a 1/3 government contribution basis.
- Grants will be available for food manufacturers and metal foundries.

What's It Mean?

Romalpa Clause - tax invoices for some goods should include a Romalpa Clause. This is a retention of title clause which is a provision in a contract for the sale of goods, that the title to the goods remains vested in the seller until certain obligations (usually payment of the purchase price) are fulfilled by the buyer. *"Property in and title to the goods shall remain with the seller and does not pass to the customer until all monies payable pursuant to this contract (including any interest, freight or insurance charges) have been paid to the seller. The goods shall be at the customer's risk immediately upon delivery".*



Business Plans - Questions To Consider

Bank Relationship

Some of the questions that need to be considered, as part of the business planning process, relative to banks include:

- Is your business able to provide prompt, accurate information to your bank or lender, including:
 - Trading and Profit & Loss Accounts?
 - Profit & Loss Ratios?
 - Balance Sheet?
 - Key Performance Indicators?
 - Debtors' Aged Analysis?
 - Three-Monthly Cashflow Forecasts?
 - Updated Budgets?
- Have you prepared a list of the bank covenants that have been included in the bank loan documents?
- Do you ensure that your business is able to satisfy the bank covenants?
- Do you have periodic discussions with your banker to review the actual performance of your business?
- Do you maintain a permanent file of all agreements reached with your banker, together with details of all guarantees issued to the bank?

There are over 50 questionnaires relating to the preparation of a business plan. In the next issue we'll consider "business funding".

Important: This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential.