

INDEX

Lull Before The Storm	1
What's It Mean?	1
What Services Can Accountants Offer – Part 2.....	2
Characteristics Of A Well Run Business – Part 8	2
Government Grants and Assistance for SMEs	2
Pre-Emptive Rights – Private Companies	2
Businesses Entities – Large Propriety Companies	3
Credit Application Form – Helps Effective Debtors' Management ...	3
Gross Profit Percentage – A Good Indicator	4
Third Party Reporting To The Australian Taxation Office.....	4

May 2014

Lull Before The Storm

Most commentators in the media of late have been talking about the forthcoming Federal Budget. However, there's been some other news, which has pleased some segments of the SME market, including:

- The announcement of the Japanese Free Trade Agreement has pleased some industry group, whilst others think it was not as good as they expected. Most importantly, the deal will introduce more income into the Australian economy.
- The Australian dollar has been moving upwards over the last couple of weeks. Each time it moves, it makes trading more difficult for exporters.
- The uncertainty for small business operators has not been helped by the Federal government's decision to place about 100 Federal government grant programs into 'recess' until after the Federal Budget is announced. The grants in 'recess' include the two largest grant programs, targeted at SMEs – Commercialisation Australia and Enterprise Connect. A number of SME operators are expressing dismay at the notification of the 'recess' months after they submitted their applications to the government organisations.
- There are some speculations about interest rates rising. The Reserve Bank has left the prime rate at 2.5%. The 10-year bond rate is currently at 4.096%.
- The International Monetary Fund (IMF) has sharply downgraded its estimate for Australia's economic growth by 2.6% (2.8%) this year and by 2.7% (3%) in 2015. Commentators believe this will mean the economy will remain in the 'slow lane' for at least the next two years.

In these uncertain times, it is best for small business operators to be closely watching business performance, by monitoring debtors, stock, work in progress, preparing weekly estimates of profitability and monthly financial accounts. Businesses should also be monitoring their potential exposure to the problems that have been caused by the Personal Property Securities Register (PPSR) by not registering security interests on the register.

Hopefully, some clear indication will be given on the government's monetary proposals, grant programs, etc, when the Federal Budget is delivered on Tuesday 13th May.

What's It Mean?

Terminology – Personal Property Securities Act – Continued

Collateral Class – the following classes of collateral are prescribed in the PPS Regulations:

- | | |
|--|-----------------------|
| • agriculture | • intangible property |
| • aircraft | • motor vehicles |
| • all present and after-acquired property with no exceptions | • other goods |
| • all present and after-acquired property with exceptions | • watercraft |
| • financial property | |

Each registration must only relate to a single collateral class.

Financing Statement – the data registered pursuant to an application for a registration.

PPS Lease – a lease or bailment for an indefinite period or for more than one year. However, for serial numbered goods (eg motor vehicles), a PPS lease need only be for a term of 90 days or for an indefinite period.

What Services Can Accountants Offer – Part 2

Costing on Ideas

Many CEOs and general managers dream of strategies but, unfortunately, a lot of them come unstuck because they haven't been subjected to a proper cost analysis. Sometimes, the business has gone ahead with a project without proper input on what the costs are likely to be.

You accountant, acting as a Chief Financial Officer (CFO), can offer you an insight into the costings of particular projects.

Business Plans

Business plans are very important. They're like maps for tourists. If you haven't worked out where you're going, how are you going to know when you get there?

Assistance in Raising Capital and Loan Funds

More and more businesses are turning towards angel investors, in an attempt to raise capital to expand their business operations. Unfortunately you will not achieve a satisfactory outcome, unless you have a properly prepared and supported:

- business plan;
- budget and cashflow forecasts;
- intellectual property strategy; and
- proper basis for the proposal to the potential investors.

Expansion Advice

Expansion advice has been identified as a major concern for small business operators from the CCH survey. There are a lot of matters to consider:

- When deciding whether to expand your business.
- What is happening in the general economy?
- What are the competitors doing?
- Is the proposed location a good location?

Characteristics Of A Well Run Business – Part 8

Excellent Marketing Expertise

Besides marketing expertise, business persons also need to develop the ability to assess marketplace opportunity. This will need identifying:

- What are your customers' needs?
- What pricing strategies can be implemented?
- What is the activity of your competitors?
- What are your customers' profiles?
- Do you understand the amount of your customers' disposable income?
- Businesses need to plan promotional schedules around specific activities that are going to affect your customer base.
- You need to identify your 'unique selling proposition' and centre your marketing strategies around your 'unique selling proposition'.
- Ensure you implement strategies to increase average sales:
 - companion selling
 - selling higher quality
 - merchandising/displays
 - in-store signs
 - stock mix

Government Grants and Assistance for SMEs

Reminder – Research & Development Registration

Research & Development registration closes on 30th April 2014. If you operate your business as a company and you incurred more than \$20,000 on eligible research and development expenditure, in respect of the year ended 30th June 2013 and you wish to claim research and development rebate of 45%, you must register with AusIndustry prior to 30th April 2014.

Registration is required even if you registered for research and development in the year ended 30th June 2012.

Pre-Emptive Rights – Private Companies

A private company has a 'pre-emptive rights' requirement, which means that, before directors of a private company can issue additional shares in a company, or approve a share transfer, they should offer those shares firstly to the existing shareholders (who have the same class of shares). The board of directors can also reject a proposed purchaser of shares in the company from becoming a shareholder.

Businesses Entities – Large Propriety Companies

The Corporations Code has created a specific type of private company known as a 'large propriety company'.

A 'large propriety company' is a company that has two of the following:

- The consolidated revenue for the financial year of the company and any entities it controls is \$25million or more.
- The value of the consolidated gross assets at the end of the financial year of the company and any entities it controls is \$12.5million or more.
- The company or any entities it controls have 50 or more employees at the end of the financial year.

The company that complies with any two of these statements is classified as a 'large propriety company'.

Large propriety companies must prepare and lodge a financial report and director's report for each financial year. The accounts must be audited, unless Australian Securities & Investments Commission (ASIC) grants relief.

A large propriety company can apply to ASIC for audit relief. ASIC will generally only give audit relief if:

- all the directors and shareholders of the company agreed that an audit is not required;
- ASIC is satisfied that the company is well managed and in a sound financial condition, mostly directly relevant to the interest of the creditors;
- the company's total liabilities must not exceed 70% of the total assets;
- the company must be profitable from ordinary activities and remain solvent;
- the company's financial report must be prepared by a prescribed accountant;
- the company's financial reports must be lodged on time;
- there is no proposed modified audit report or material disagreement with any auditor; and
- the company lodges its financial report within the deadlines in the Corporation's Code (ie four months after the end of the financial year).

A company applying for audit relief is required to lodge a form (Form 382) with ASIC after the resolutions of directors and shareholders are obtained.

A notice must be lodged during the period commencing three months before the start and ending four months after the end of the first financial year in which relief is to be applied or re-applied.

The ASIC Class Order indicates that ASIC will not grant extensions of time to lodge Form 382 or to pass annual resolutions of directors and shareholders.

The Class Order indicates that audit relief is a privilege rather than a right.

The ASIC Class Order indicates that the items that will be taken into account to determine whether to approve an application, to dispense for the appointment of an auditor include, 'does the company have appropriate internal management systems, which enable the directors to assess the financial condition and the solvency of the firm promptly?'

The Class Order indicates that, as a minimum, the assessment by directors must include:

- a quarterly assessment of profit and loss statement;
- balance sheet; and
- cashflow statement,

prepared for management purposes.

Credit Application Form – Helps Effective Debtors' Management

An effective debtors' management system commences with a written credit application form. Do you ask your potential customers to complete a credit application form, which encourages them to identify exactly who they are, the business name with which they will be trading with you, their business address, contact address, etc?

The form should invite them to supply details of the type of business they are operating. After all, they want you to supply the goods and services to them and take at least 30 days to pay you. You're entitled to know:

- if they are operating in their own premises;
- if they are leasing their premises;
- their turnover;
- their average investment in stock; and
- the names, addresses and contact details of at least three of their current suppliers as trade references.

This also gives you the opportunity to specify your terms of credit, as per your credit application form.

Gross Profit Percentage – A Good Indicator

A good indicator, to determine whether you have purchased stock at a higher cost than what you would normally do, is to calculate the 'gross profit percentage' at least on a monthly basis.

Gross profit is determined as the difference between your selling price and your cost of goods sold. The calculated figure, the gross profit, is then divided by your sales figure and multiplied by 100/1.

Example:

Sales – \$140,000 Cost of Goods Sold – \$86,800

$140,000 - 86,800 = 53,200$ (Gross Profit)

$53,200 / 140,000 \times 100/1 =$ the gross profit percentage is expressed as 38%.

If your normal gross profit percentage was, say, 49%, this would give you an indication that the 11% variance could have been caused by:

- paying more for your purchases than you normally have, or perhaps paying more for your freight in;
- damaged or deteriorating stock, which has been written off – the effect of which is reflected in the gross profit calculation;
- paying for stock you haven't received; and
- there may have been a reduction in effective selling prices for the stock items sold.

Continually evaluating your gross profit percentage, in your various departments and lines of stock if you can, is a great way to give you a quick key performance indicator (KPI) on the efficiency of your purchasing within your stock control area.

If you would like us to review a gross profit percentage earned within your business, please don't hesitate to contact us.

Third Party Reporting To The Australian Taxation Office

The Australian Taxation Office (ATO) now receives information from third parties, for each taxpayer, in relation to:

- wage and salary data;
- dividend income; and
- government welfare payments;
- private health insurance details.
- interest income;

Tax Compliance – Improving Compliance through Third Party Reporting and Data Matching

From 1 July 2014, the third party reporting regimes will be extended to include:

- the sale of real property;
- sale of shares and units in unit trusts;
- sales through merchant debit and credit services; and
- taxable government grants and other payments

and will also result in more frequent reporting of information throughout the year to the ATO, on an event-based style reporting.

An ATO discussion paper mentions that, for an investment of \$80million, the ATO expect to recover an additional \$610million from taxpayers because of the third party reporting process.

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