

Business Plus+

swan &
baker
BUSINESS ADVISERS
AND ACCOUNTANTS

PTY LTD
ABN 81 010 796 219

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Cashflow Monitoring Is Vital for Success

Events in the past week in the USA and Europe have highlighted the necessity for small/medium enterprises to continue to monitor their cashflow very closely.

When you read about a major American bank losing 20% of its share value overnight, you realise the magnitude of the problem that is facing the world; there is high unemployment in the United States and there are real problems in Europe, particularly with countries such as Spain and Italy, who are now being talked about in the same context as Greece, Ireland and Portugal. All of this could lead to a tightening in the lending position of Australian banks because of the Australian banking systems' reliance on borrowing money from overseas. The Reserve Bank has left the prime bank rate at 4.75% and Dun and Bradstreet has indicated that debtors' days outstanding is now approximately 54 days. Even though this has reduced slightly, it is still well above traditional 30 day payment terms with which many businesses try to operate.

Now is the time to closely monitor the key components of cashflow control. These are:

- Debtors - you need to ensure that the administration for the opening of accounts for new customers in your business is being closely supervised to ensure you're not just attracting someone else's problem customers.
- Have you considered ways of reducing your debtors' days outstanding? Have you considered outsourcing debt collection?
- Inventory - how much money do you have tied up in your inventory system? What is your stockturn rate? Could it be improved? What do you need to do to reduce your investment in inventory? Are you building up old and damaged stock? Should you be liquidating that stock as soon as possible so as to return the cash to the business?
- Work in Progress - are you closely examining to ensure that jobs are being finalised and invoiced out of work in progress as soon as possible?
- Creditors - whilst the prime concentration on cashflow management will always be on debtors, stock and work in progress, it is a good idea to also check creditors. What is the creditors' days outstanding? Are you taking longer to pay than what your major creditors have stipulated? If so, what would be the position if your creditors demanded payments to be made in accordance with their stipulated trading terms? What would be the position if they refused to continue to deal with you? This is happening in more and more cases around Australia at present.

The analysis of your cashflow position may indicate that you do require additional funding. If this is the case, the quicker you determine whether you're able to introduce additional funding from private resources or need to have a discussion with your bank, the better. We can assist you in these reviews. Please do not hesitate to contact us.

Business Plans – Questions To Consider

Business Funding

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

- How is the business funded at present?
- What are your projected sales over the next 3 years?
- Details of your current borrowings from banks, finance companies, hire purchase commitments and other loans
- Details of any debtors' financing/factoring facilities that you may have.
- Details of any inventory financing facilities that you may have.
- Do your Cashflow Forecasts indicate that you should be trying to raise additional funds?

Next month we'll discuss organisational matters.

Correction: We made a mistake in the June issue. The ATO system to monitor payments in the building industry commences on 1st July 2012, not 2011. We apologise for this error.

Time For A Business Health Check

The end of a financial year is a good time to have a business health check prepared on your business. Business health checks are just as important to businesses as medical checkups are for humans. A business health check can highlight some potential problems before they cause real problems and cost a lot of money.

The types of activities that we can undertake, on your behalf, include:

- preparation of key performance indicators for your business and ratios on your Profit & Loss Account and Balance Sheet; and
- comparing these figures to your Budgets and benchmarking those results against similar businesses operating in other parts of Australia.



A key segment of the business health check is to undertake a financial evaluation of your business, particularly relating to:

- what is the break-even level of sales required to cover overhead costs.
- what does the analysis of working capital reveal?

Working capital comprises the key current assets, including debtors. This raises questions like:

- Review of Debtors' Aged Analysis and calculation of debtors' days outstanding.
- Stock investment, the calculation of the stockturn being achieved and the days of investment in stock.
- Work in Progress - calculation of the days of investment in work in progress.
- Bank Account - how does the level of your bank account compare to your negotiated bank facility?
- Creditors - calculation of creditors' days outstanding and Creditors' Aged Analysis.

This then enables the calculation of the Working Capital and the Current Ratio. The Current Ratio is the relationship between Current Assets and Current Liabilities. This is a key indicator closely examined by banks and is calculated by dividing Current Assets by Current Liabilities. Banks currently have an expectation that the Current Ratio will be 2+.

Bank Covenants - we will also review the various ratios, against the requirements of your bank (if any) as specified in the bank covenants for any loan facilities that the bank has given to your business.

A business health check enables answers to be determined very quickly and strategies developed. It is very useful if you have borrowed money from a bank, or are proposing to borrow money from a bank, in that a review can be undertaken to ensure that your business is going to comply with your bank's covenants for loans of this nature. If you'd like to discuss a Business Health Check, please don't hesitate to contact us.

What Is The Purpose Of Your Business?

The end of a financial year is an appropriate time to do some thinking and planning as to what is happening in your business. A good place to start is - *What is the purpose of my business?*

How much do you want to earn? How many hours are you prepared to work? What is your overall objective?

Are you trying to build up the business to sell it?

Are you wanting to franchise or open other similar offices/stores in other locations?

Are you wanting to build a lifestyle whereby you can employ managers to run the business, but you don't have to be there every day?

Are you operating a business that you want to operate for the rest of your life... because you absolutely love what you're doing in your business?

The strategies you develop to operate your business will be determined on which of these questions you've answered positively. If you're building your business so you can franchise it or replicate it in other locations, then it's very important that you create very detailed systems, manuals and strategies so that the business can be easily replicated and managed by other people.

If you're building a business to sell, it's also necessary to ensure that systems are in place, that your team is adequately trained and that the business can run without your day-to-day presence, as a potential purchaser might not want to work in fulltime and will want to know that the team can continue to operate the business without you. Have you recorded everything that's in your head? Have you documented the business' intellectual property system? If you're wanting to build a lifestyle business, you also need to introduce systems so that the business can operate effectively without you being involved on a day-to-day basis. You need to have systems that you can review weekly to satisfy yourself that the business is on target.

This will require a system of controls built around the preparation of:

- a weekly profitability estimate
- key performance indicators; and
- having internal staff who can produce accurate information assisted by your accounting firm acting as Chief Financial Officers to produce detailed monthly financial accounts. If you'd like our assistance in implementing appropriate systems and controls and conducting internal reviews of the business' systems please contact us.

ATO Targets

The Australian Taxation Office has announced its targets for 2011/12. This summary relates to the Taxation Office's indicated targets for individuals, micro-businesses (turnover up to \$2M), small/medium enterprises (turnover \$2M to \$250M). The key areas that the ATO are closely examining are:

- work-related expenses - this includes claims for home office expenses, internet connection, mobile telephone costs
- overseas income - remember the ATO has very sophisticated systems to track money moving overseas
- split loans (business and private loans are attracting greater attention)
- correct PAYG Withholding Tax deducted from wages
- superannuation payments made
- "sham" contracting - i.e. if someone is working for your business fulltime, it's very difficult to establish that they're a bona fide contractor
- internet trading
- cash businesses; and
- in all cases, the ATO is comparing micro and SME businesses to the benchmarks that they've established for the various industries.
- The ATO is also very concerned about Phoenix Company activities where a company is liquidated and then basically commences business under a new name the next day.
- The ATO is also monitoring shareholders' loans and small business capital gains tax concessions.

If you have any concerns on any aspects of your taxation affairs, please don't hesitate to contact us.

Carbon Tax Planning

Whether you agree with the carbon tax or not, the reality is that the government has said it will commence in one year's time... in fact, only 10.1/2 months time now, so all small/medium enterprises need to get ready for it.

It will be a good idea to review your costs of operation to isolate the items which might increase because of a carbon tax. These will primarily relate to fuel prices and electricity, but in some instances, could be affecting other cost inputs for your business.

There may be an opportunity for you to change your fuel/electricity usage so as to reduce costs in this area.

The government is very confident that it can pass the legislation to commence from the 1st July 2012, so now is the time to review all of your operations to see what the extra cost inputs might be and to determine whether you're able to offset those costs by other cost reductions or will you be able to pass on the extra costs to your customers.



What's It Mean?

EBIT - Earnings Before Interest & Tax.

EBIDT - Earnings Before Interest Depreciation & Tax.

EBITDA - Earnings Before Interest Tax Depreciation & Amortisation.



Key Aspects To Achieve Business Success – Part 1

Business success will normally not occur unless the SME operator has undertaken some detailed planning and introduced systems which enable regular financial analysis, so that the business' performance can be compared against budgets and be benchmarked against industry standards.

The analysis of resources - is to enable the assessment of the capabilities of the business and determination of improvements required.

Marketplace review - so as to ensure the business has recognised the opportunities and is also aware of any threats in the market place.



Telephone: +61 7 5572 0900
Facsimile: +61 7 5572 0970
www.swanbaker.com.au

Suite 3, 'Santa Cruz House'
56 Santa Cruz Boulevard
Clear Island Waters Qld 4226

PO Box 287
Broadbeach Qld 4218
Australia

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