

Business Plus+

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What's In Store For 2011?

Various forecasts have been made on Australia's likely economic performance through 2011 including:

- Reserve Bank of Australia cash rate of around 5%, currently 4.75%.
- Growth to be around 2.6% (just under 3% last year).
- Retail sales are expected to be a little stronger.
- Unemployment rate is expected to be as high as 6%.
- Currency fluctuations are expected during 2011, but \$US to \$AU is expected to be around 90 cents, as compared to last year's range of 87 cents to \$1.02.
- Although the Gold Coast has escaped floods and the effects of the cyclones, international tourism will probably still suffer from the high \$AU and the effects of the Queensland floods and Cyclone Yasi.

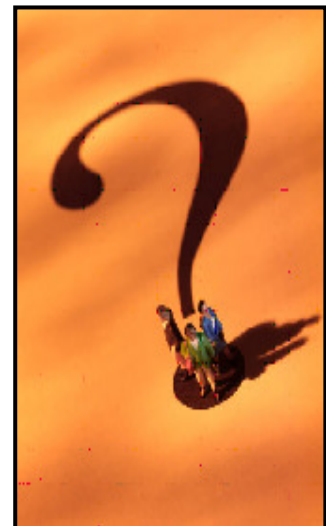
Added to this mix are the significant economic costs and strains from floods, cyclones and bush fires which have affected virtually every part of Australia, with the Queensland economy suffering a severe blow from the central and south Queensland floods and the effects of Cyclone Yasi on North Queensland.

Government assistance packages, including grants and loans, have been announced for small business and primary producers for which, if your business is in a declared disaster area and you are eligible, we recommend that you lodge an application.

On the world scene, China is still very strong and continues to be a major customer for many Australian minerals. High debt nations are expected to continue to be a drag on confidence during 2011. Many other countries around the world will continue with weak economic activities.

Small business operators need to be vigilant in the monitoring of debtors, investment in stock and work in progress, continually reviewing their business' economic performance. This can be enhanced by preparing regular budgets and cashflow forecasts, preparing regular financial accounts and benchmarking your business' performance against other similar businesses to identify strengths and weaknesses as compared to your counterparts.

We can assist you with a wide range of business development activities, including applications for government assistance; preparation and monitoring of budgets and cashflow forecasts; review of periodic financial accounts and analysing benchmark comparisons of your business against other similar businesses. Please do not hesitate to contact us if you wish to discuss any aspects of your business' performance.



Director Penalty Notices

Recent changes have been made to Director Penalty Notices (DPN). These are notices served by the Tax Office to a company director which set out obligations of the director in relation to certain outstanding tax debts of the company. If appropriate action is not taken by the director or the company, the tax, which is the subject of the DPN, will become a personal liability of the directors.

When a DPN is received, the director has 21 days from the date of issue to comply with either of the following:

- Have the company pay the amounts to which the DPN relates; or
- Ensure the company either:
 - enters into administration pursuant to the Corporations Act 2001; or
 - winds up pursuant to the Corporations Act 2001.

There are defences available to directors which have been reduced under these recent changes. The onus of proof relies on the director to prove that they did not take part in the management of the company because of illness or some other good reason at the time the company incurred the tax debts which are the subject of a DPN and that it was unreasonable to expect the director to take part in the management of the company at the time.

DPNs are one of many tools available for use by the ATO, but they are effective in that they make directors liable for company debts. If a DPN is received and the company is unable to meet its obligations with the ATO, we recommend that you immediately seek our advice or contact an insolvency specialist.



GST - Are You Managing It Effectively?

The Australian Taxation Office has issued a report which indicates that outdated or unreliable business systems could be costing small businesses time and money due to incorrectly reporting GST. The report indicates that last year the Australian Taxation Office identified \$21M in unreported GST liabilities after contacting 503 small and medium enterprise (SME) taxpayers who were at risk for incorrectly reporting the GST. The ATO reported that the SME industries that had the highest number of GST reporting adjustments were:

- retail trade (25.3% of adjustments)
- wholesale trade (19.2% of adjustments)
- financial and insurance services (13.25% of adjustments)
- manufacturing (13.25% of adjustments)

Businesses going through a change, such as rapid growth, restructure or staff turnover are most at risk of making mistakes which the ATO said included:

- accounting system failing;
- incorrect or incomplete activity statements;
- incorrectly interpreting GST legislation and classifying taxable supplies as GST-free or non-taxable.

The ATO has prepared a checklist to assist SMEs to check the effectiveness of their GST systems covering areas such as:

- correctly classifying all sales and purchases;
- correctly classifying mixed supply;
- not leaving incomplete information on Business Activity Statements;
- systems which track the flow of invoices to ensure GST credits are claimed on time; and
- prices are adjusted to include GST.

SMEs need to manage cashflow and reflect the correct financial position so that GST can be recorded correctly in the Business Activity Statement. The system needs to accurately track the GST paid and charged, for both electronic and paper based transactions.

If you would like to have a discussion relative to the GST management systems implemented in your business, please do not hesitate to contact us.



Protection From Credit Card Fraud

Virtually every day you hear stories of credit card fraud. The Commonwealth Bank has released an advisory document which indicates that, with the increasing tendency to shop by internet, phone, mail order and fax, an unfortunate side issue has been the increased risk of fraud. *"Fraudsters can illegally access customer card data through computers used to process transactions and unsecured data"*.

It is not only the customer at risk - card fraud poses a serious danger to the reputation and survival of your business. The Commonwealth Bank has issued some tips and hints for keeping customer card and data security:



- **Install anti-virus software.** *"Install all anti-virus software on all of your computers even if you only have low volumes of card transactions and keep it up-to-date"*
- **Use strong passwords.** *"Use passwords on all of your computers that can't be easily guessed and change them regularly. Preferably passwords should include a combination of letters and numbers and upper and lower case"*
- **Keeping and disposing of customer card information** *"Only keep customer card information on a computer or laptop if you have a legitimate business reason to do so. If you do retain card information ensure that it is password protected. If you need to dispose of physical records of card data, make sure to shred the document and not throw them in the bin"*
- **Card validation code.** *"You are not required to keep customers authentication details such as a card validation code"*
- **Lock up your data.** *"Store all physical records of card holder's data under lock and key. It is important that your computer and associated equipment (e.g. servers) are also locked away from unauthorised users"*
- **Control access to customer data.** *"Ensure that only authorised people have access to customer card data"*
- **Printed receipts.** *"Ensure printed receipts do not include card data. Exclude it or cross it out so that it is illegible so that it cannot be re-used"*

If you have any concerns in relation to the security of your credit card systems, please contact us.

You Need Customers To Be Successful

Risk management in small business is very important. The biggest single risk for small businesses is to make sure that they don't run out of cash. Many of the concerns about cash management can be significantly reduced if the business has a strong policy towards the development of customers. If the business focuses on developing customers, in most cases, the business will enhance its cashflow prospects. Customers who pay their bills are the most important ingredient for business success. Does your business have a customer retention system including:

New Customers:

- Do you communicate with them, advise them of your terms of trade (especially if they are a credit customer)?
- Do you obtain their up-to-date details to ensure they're on your mailing database for promotional brochures, etc?
- Do your tax invoices include a "Romalpa Clause"?

Checking Of New Customers:

The best new customers are the ones that pay on time. Measures that can help you avoid taking on risky customers include:

- A standard credit check.
- Trade references.
- Bank references.
- Directors' guarantees (if the customer is a company)



Romalpa Clause:

Tax invoices for goods should include a Romalpa Clause. This is 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."

What's It Mean?

Current Liabilities – those amounts owed by the business which will normally be paid within the operating cycle of the business, usually 12 months. Examples of current liabilities are:

- Bank Overdraft;
- Sundry Creditors;
- Accruals;
- Loan repayments due within the next 12 months;
- Taxation payments;
- Long Service Leave for employees that is now due;
- Sick and Holiday Pay due to employees; and
- Dividends declared by a company, but not yet paid.

Current Ratio – relationship between Current Assets and Current Liabilities. This ratio is an indication of the business' ability to meet ongoing liabilities.

It is calculated:
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Example:
$$\frac{\text{Current Assets - Total \$420,000}}{\text{Current Liabilities - Total \$267,000}}$$

It would be said that the business had a **Current Ratio of 1.57**. You will find that your bank manager often uses the term "*Current Ratio*" because it is a key performance indicator that banks regularly use in assessing the credit worthiness of their clients or an applicant for financial assistance.



Business Plans - Questions To Consider

Benchmarking - is very important to enable the small business to compare its business operation with other similar businesses. Does the business have its performance figures compared to other businesses? Benchmarking comparisons can assist in measuring your business performance in a wide range of key performance indicators including:

- income per employee;
- wages cost percentage to turnover;
- gross profit percentage;
- net profit percentage;
- sources of income;
- key expenses for the business;
- rent percentage of income;
- advertising percentage of income;
- investment in working capital items;
 - debtors;
 - stock;
 - work in progress;
- key calculations;
 - debtors' days outstanding;
 - stock turn

Running a small/medium enterprise business can be a lonely affair. The effective use of benchmarks can enable a small business operator to have a far better idea of how his/her business is performing as measured against similar operating businesses. There are over 50 questionnaires relating to the preparation of a business plan..... in the next issue we will consider Budgets & Cashflow Forecasts.



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