

Business Plus+

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INDEX

Navigating Your Business	1
Carbon Tax Impacts	2
Are References Worthwhile?	2
What Are Business Buyers Looking For?	3
Fringe Benefits Tax Reminder	3
Business Plans - Questions To Consider	4
What's It Mean?	4

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Navigating Your Business

The two major issues on the horizon, which could have a significant effect on SMEs, are the carbon tax and mineral resources rent tax. Both of these are taxes that could have significant impact on your business' operations. In this issue of Business Plus+ we have included some comments on the proposed carbon tax. We recommend that all SMEs start thinking about what effects the proposed carbon tax will have on their business and start to plan now for strategies to minimize this effect.

There are also a number of other issues affecting the economy that could (and will) affect some small businesses over the balance of this year and into 2012. The Australian dollar continues to rise against the US dollar resulting, not from the strength of the Australian economy, but obviously from the weakness of the USA economy. An American economist, visiting Australia last week, forecast the Australian dollar could go as high as \$1.70 to the US\$1.

What effect will this have on your business? If you are an exporter, the returns are going to be very low. If you are an importer, you should be able to introduce product into Australia at a very cheap rate and, if you are a local manufacturer in Australia, you will need to be prepared for a possible major challenge from imports (unless you are producing very unique products within Australia). Reports from Federal Treasury indicate lower household spending as many Australians are cautious about extending debt levels, when there is obviously a lot of uncertainty in the world.

The government has forecast that its debt will increase by \$24.2B to \$106B by 30 June 2012. The interest rates on these borrowings is staggering and, when combined with forecast inflation rates, will more than likely lead to higher interest rates later in the year.



BUDGET 2011-12

Another ongoing problem for small businesses is securing skilled labour. The government has announced a change for the recruitment of skilled persons wishing to migrate to Australia. If you are trying to employ skilled personnel, then perhaps you should have a closer look at the government's proposals relative to the online matching system which will allow employers to "cherry pick" from the government's database of skilled persons wanting to migrate to Australia. If you are interested in employing apprentices, we would suggest that you closely follow the developments on the overhaul of the apprenticeship scheme that the government has announced.

What could emerge as the biggest problem is in China, where it is reported that the Chinese government is attempting to clamp down on domestic inflation. These measures could slash the demand for Australian minerals and other products.

Now is the time to sit and reflect on these various matters and consider how your business might be affected. At this time of the year, many businesses seek advice from their accountants on their planning for a new financial year and we would be happy to have planning discussions with you.

Carbon Tax Impacts

The government appears to be proceeding with the concept of introducing a carbon tax which could commence in Australia as early as 1 July 2012. Have you considered what impact a carbon tax will have on your business?

The government has announced a commitment to reduce Greenhouse Gases (GHG) by 5% by 2020 (from 2000 level). This is equivalent to 160M tonnes. The government intends to apply a fixed price for the first 3-5 years then move to a cap and trade system. During this initial fixed price period, businesses will have no ability to use international greenhouse gas emissions units they earn from other countries. There is some good news for farmers in that the government appears to be heading towards a decision that carbon units, created under the carbon farming initiative, may be used by liable entities to reduce their carbon tax. More than 50% of Australia's total emissions are produced by stationary energy (electricity industry etc.) with transport generating approximately 14%. The other generators are agriculture and de-forestation 20%, industrial processors 5% and waste 2%.

The government expects that approximately 1,000 businesses will be liable for carbon tax. The exact price is being widely debated in Australia at present. The general consensus seems to be that it will be approximately \$20/tonne. The government is proposing some industry assistance but will that cover the costs inputs to your business? Therefore the questions you need to consider are:

- What is the impact of the carbon price on your supplier price increases?
- Can you pass on any carbon tax that you are charged to your customers?
- If you are negotiating long term contracts with your customers now, can you include clauses to cover the introduction of a carbon tax?
- Have you identified opportunities for government assistance?
- If so, have you made approaches, commenced lobbying etc., to government departments to gain assistance for problems you envisage your industry will suffer?
- What changes will you make in your day to day business operations to reduce Greenhouse Gas emissions?
- Are there opportunities for your business to switch to "low carbon" products or other alternative products?



A good question would be "*Why act now?*" With the current government there is no doubt that a carbon tax is on the horizon. In every business, systems take time to plan and implement. Culture within business organizations and suppliers and customers take time to change. You might gain a competitive/first mover advantage by starting to plan for the introduction of the carbon tax now. There might be some opportunities for cost cutting. The world is moving to a carbon restricted economy.

If you would like to have discussions with us relative to planning for the carbon tax, please do not hesitate to contact us.

Are References Worthwhile?

Some commentators believe that references are "*not worth the paper they are written on*". When you contact a referee, ask them specific questions such as;

- How long did the applicant work for your organizations?
- In what capacity?
- Does the referee care to comment on the qualifications and experience of the applicant?
- Would they re-employ the applicant in his/her former position? (probably the most important question).
- Was the applicant a team player?
- Did the applicant exercise initiative in his/her job?



There are significant benefits from the utilization of a referee's form that you could prepare and send to the referee to complete. This will reflect the referee's true thoughts of the applicant.

If you would like to receive a copy of a Referee's Form, please contact us.

Correction - In our special newsletter on the 2011/12 Federal Budget, we indicated that the government was forecasting a reduction of \$5.7M GST forecast revenue over the next 4 years. This figure should be **\$5.7B**. We apologise for this error.

What Are Business Buyers Looking For?

Some people think that the buyer of a business is only looking at the profitability of the targeted business; however there are a number of other matters to be reviewed to assist a prospective buyer make their decision. The reduction of the perceived risk is a very important factor.

Astute buyers will look beyond the profit and loss account.

- What do the Key Performance Indicators (KPIs) for the business indicate?
- How does the business compare when it is benchmarked against other businesses?
- What written systems does the business have?
- Can the current business owner be replaced or is he/she making all the critical decisions and carrying around "in their head" vital information for the business.



If you want to sell your business and maximize its value, attention needs to be given to the peripheral aspects of a business:

- Key Performance Indicators.
- Benchmarking.
- Written systems.
- How effective is the current management team in running the business?
- Do they have regular meetings?
- Do they compare their performance to the KPIs?

Business buyers are very interested in systems, management and the people involved in the business.

Management and people are normally rated at a higher benefit factor than the product the business is selling. This is because management and people make businesses work - "products" can't do that on their own. So the key questions that a buyer will be looking at are:

- Is there stability in the business?
- Does the management team know what they are doing?
- Is there a loyal work force?
- Are there systems and controls in place?
- Will there be alarms triggered if certain KPIs are not achieved?

Therefore, to minimize the perceived risk in the business, it is a good idea to take some "time out" to review and document the systems that are necessary for the effective management of your business. If you want to sell your business, you have to make yourself replaceable. Therefore the key factors are:

- Prepare a detailed list of what you currently do.
- What, of the current workload, can be delegated to other members of the management team or to external part-time consultants or staff?
- What additional training is required for your team members?
- Have they kept up to date with technology and systems?
- Do other members of the team know the key customers and suppliers to the business?

In summary, written systems and adherence to those systems, will make your business more efficient, with less risk, and therefore more attractive to potential purchasers. The high number of businesses currently for sale, and the higher number of businesses likely to go up for sale in the next decade or so, means that business owners, wishing to sell, should seriously review all aspects of the business to ensure that the business will pass a due diligence review.

If you would like us to review your business' systems or have discussions relevant to the suitability of your business for sale, please do not hesitate to contact us.

Fringe Benefits Tax Reminder

Fringe Benefit Tax returns need to be lodged by the 28 May 2011.

If you haven't contacted our office as yet in relation to your Fringe Benefit Tax return for the FBT year ended 31 March 2011, please contact us as soon as possible.

Business Plans - Questions To Consider

Periodic Financial Accounts

- Are periodic financial accounts prepared throughout the year?
 - If so, how often?
- Are other periodic accounts prepared on a detailed management basis to assist management to "drill down" into the figures?
- Do you compare your performance for a month (or quarter) against budget expectations?
- Do you compare your emerging financial performance against benchmark organizations?
- Do you prepare Key Performance Indicators on the business' performance?



There are over 50 questionnaires relating to the preparation of a business plan, in the next issue we will consider Budgets/Cashflow Monitoring.

What's It Mean?

Creditors' Days Outstanding

This is a means of checking how a business is paying its creditors as compared to negotiated payment terms.

Calculations are as follows:

Purchasers from creditors (not cash) divided by 365 = average daily credit purchases.

The creditors' balance outstanding at the end of the month divided by the average daily credit purchases = creditors' days outstanding.

Example: Credit purchases for the year \$1,205,000

Daily credit purchase figure:

$$\frac{\$1,205,000}{365} = \$3,301$$

Creditors' outstanding \$162,000

Creditors' days outstanding calculations:

$$\frac{\$162,000}{\$3,301} = 49.1 \text{ days}$$



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