

BusinessPlus+ Newsletter



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Do You Want To Form An ESIC?

The Tax Laws Amendment (Tax Incentive for Innovation) Act 2016 for Early Stage Innovation Company (ESIC) commenced operation from 1st July 2016. Are you interested in finding out more details about the eligibility requirements for a company to be deemed an ESIC?

The key components relate to a number of tests that the company must be able to satisfy. These include the “preliminary test”, which relates to:

- When was the company incorporated?
- What was the company’s total expenses in the last income year?
- What was the company’s total assessable income in the last income year?
- Is the company listed on a stock exchange?
- Further questions relating to whether the company is registered on the Australian Business Register (ABR).

If the company passes this “preliminary test”, the company is then required to pass further series of tests known as the “Gateway Test”, which relate to particular items such as:

- Research and Development expenditure.
- Has the company received an Accelerating Commercialisation grant?
- Has the company participated in an Accelerator Program?
- Has the company received at least \$50,000 from arms-length equity investors to acquire shares in the company?
- Has the company’s equitable rights under a patent, plant breeder’s patent, innovation patent or a registered design?
- Does the company have a written agreement within an institution registered under the Higher Education Funding Act or an entity registered under the Industry Research and Development Act, relative to the commercialisation of a process?

If the company can earn in excess of 100 points from these series of questions, it has qualified as an ESIC. Otherwise, the questions then move into a further section, which relates to the activities that have occurred relative to the commercialisation of new or improved products, processes, services, marketing or organisational methods.

There are five specific questions under this section. If you can answer each of these questions in a positive manner, the company will be in a position to self-assess as to its compliance with the regulations relating to an ESIC.

We have a program to assist us in identifying whether your company will meet the requirements to be deemed to be an ESIC.

Potential investors in companies claiming to be an ESIC will require confirmation that the company has carried out a series of tests to determine the company’s eligibility and the status of ESIC. This is very important for investors because a sophisticated investor can obtain up to \$200,000 as a tax rebate based on the investment that has been made, whilst a retail investor can claim up to \$10,000 tax rebate on maximum investment, which is \$50,000. Investors can also utilise CGT exemption for investments in an ESIC from the end of year one of their investments up to the end of year 10. A sophisticated investor is an investor with a net worth of \$2.5M or minimum annual income of \$250,000 for each of the last two years, with the information being verified by a practicing accountant.

If you would like have a discussion with us on whether your company will meet the requirements to be deemed to be an ESIC, please don’t hesitate to contact us.

Risk Management – Issues For SMEs

There are a wide number of risks that can pertain to small/medium enterprise operations. This edition will cover few of these risks and we will comment on other risks in future editions.

Commercial Risk

This category includes risks associated with:

- the market and the sustainability of the business
- potential growth of the business
- export opportunities

Is the business diversifying its operations to minimise risks in the marketplace?

Compliance/Legal Risk

Businesses can encounter a number of significant compliance and legal risks, including:

- changes to laws through changes of governments
- product safety
- trade practices legislation
- defamation
- non-performance of a legal agreement resulting in legal action

Larger businesses need to be aware of the consequences of not complying with a number of laws relative to dealings with smaller businesses such as unconscionable conduct.

Businesses need to be aware of the operations of the Australian Competition and Consumer Commission (ACCC) relative to dealings with the public and other businesses.

Environmental Risk

This category includes consideration of environmental issues that might affect the business, including weather issues (cyclones, sandstorms, floods, tsunamis, droughts and storms). Other environmental issues include:

- incorrect storage of chemical
- incorrect disposal of products into stormwater drain
- biological issues (virus, bacterial, fungi, human tissue)
- physical issues (noise, temperature such as extreme heat or cold)
- carbon footprint position
- tree removal

Businesses should regularly monitor whether their activities are likely to result in a claim that the business is not abiding by environmental rules because the cost to defend such an action can be very expensive.

Insurance Review Of Your Key Assets

Various reports have indicated that many Australian businesses are not carrying adequate insurance for one of the key assets within the business – the human beings that work within the business.

The type of insurance policies that should be considered include:

- Sickness and accident cover – particularly for owners and directors
- Key person insurance – directors/shareholders
- Insurance cover within buy/sell agreements – this relates to partnerships and companies to enable funds to be available to enable a buy out to occur in the event of a death or serious injury/illness of a shareholder

Have you reviewed the adequacy of these types of insurance policies on the key people within your business?

If you would like us to review your life insurance arrangements within your business, please contact us.

How Does A Business Development Manager Add Value?

The main point of running a business is to generate income. To achieve that, a business needs to generate customers, leads and clients. This is where a Business Development Manager (BDM) could help.

The main role of a BDM is to generate leads and develop clientele for your business, as well as developing an effective marketing plan, to give your business the required “exposure”.

BDMs identify the organisation’s market position, seek business contacts for the business, identify big opportunities, facilitate deals and supply marketplace feedback. Businesses could employ a BDM on a full time basis or contract to engage a freelance BDM to work for a stipulated number of hours each week.

If you’re interested in understanding a BDM’s role in detail, [click here](#) to watch a webinar presentation on the role of a BDM.

Meetings – Waste Of Time Or Productive?

Businesses need team members to communicate. One of the key ways to communicate is through meetings. This means that careful planning should be undertaken to ensure that all meetings are productive.

Some of the ingredients for productive meetings include:

- Setting an agenda.
- Appointing a Chairperson.
- Preparing minutes of meetings and circulating them to all who attended.
- preparation of an action plan out of each set of minutes showing an item, to whom that item has been allocated and when is the report on the item to be submitted.
- Meetings should commence on time irrespective of who is not there.
- Meetings should conclude at the earliest opportunity.
- Everyone present at the meeting should have a clear reason for being there and a role to play in the meeting.
- Each meeting should have a designated person to prepare the minutes and the action plan, after the minutes have been reviewed by the Chairperson, to ensure that the minutes and the action plan are distributed to all attendees.
- Sometimes, it's educational to calculate the cost to the business for the persons to be attending the meeting and to then determine whether the subject under consideration is worthy of that cost allocation for the people present.
- It's preferable to have small number of people attend the meeting who are vitally interested rather than a large number turn up for the meeting who only have a marginal interest.

Firm, Fair And Strong Leadership Is Vital

A government study into [leadership, culture and management practices of high-performing workplaces in Australia](#), conducted by Christina Boedker of the Australian School of Business, revealed the following:

- The most important element in improving productivity is leadership.
- Well-led organisations are 12% more productive and up to three times more profitable.
- Higher performance is created through quality and inclusiveness of leadership as well as innovation.
- Leaders have the greatest impact on productivity and profitability at all levels.
- Frontline managers have the greatest impact.
- Participation and involvement in key decision-making processes makes employees feel of value.
- Of 78 Australian companies, the difference between high and low performers averaged \$8.8M per organisation or \$40,051 per full time employee.

Management Of Costs Is Important

In the CCH survey of small/medium enterprises a couple of years ago, [management of costs](#) was identified as the biggest single issue confronting small/medium enterprises.

Businesses need to be continually reviewing costs and the business expenses to see where savings can be made. A dollar saved in expenses goes directly to bottom line profitability. Many businesses have found that, by embarking on a strict cost control review, they've achieved the same profitability improvement that would otherwise have to come from a substantial increase in sales, which might not have been available to the business at that time.

Some ways that a lower cost can be achieved include:

- Asking three firms to quote for the supply of a product or service and, subject to quality being OK, select the lowest quote.
- Negotiating prompt payment discounts from suppliers.
- Negotiating for a "package" of additional services that you can usefully utilise for your business.
- Appoint a cost consultant to review utility costs such as water, electricity, gas and telephones.
- Implement a travel policy if appropriate (airlines, accommodation, meals).
- Appoint an insurance broker to review all insurance policies, including travel insurance.
- Check bank statements for bank fees, interest charges, etc.
- Have a discussion with your landlord if business conditions are very tough and see if you can negotiate a rent decrease or a rent increase deferral.
- Ensure that payments have been made to your credit cards by the due date, to ensure that interest is not being charged.
- Check supplier's tax invoices to ensure that there has been no other charging and that all goods and services have been received.
- Review stationery purchases. Are all purchases necessary for the business?

If you would like us to assist you with the review of the management of costs in your business, please don't hesitate to contact the accountant/advisor with whom you normally have dealings.

Charge Rates For Trade

If you're a tradesperson, one of the difficult tasks is regularly reviewing your charge out rates for employees and the management personnel within the business, to achieve a targeted profitability figure.

Setting charge out rates is difficult. You have to be careful that don't under-price as this would reduce profits. Whilst at the same time, you should be aware that over pricing could be done at the risk of losing customers.

Charge Rates For Trade (cont'd)

Setting charge out rates is just as important as market awareness, product development and advertising. You could do all these things in an excellent manner and then undo it by setting charge out rates too low or too high.

There are number of common fallacies relating to setting of charge out rates. These include:

- Charge out rates is the only thing about which customers worry.
- It's best to set your charge out rates at the same level as your competitors.
- Do you if your competitors are trading profitably?
- Price your low to gain market entry and, once market entry has been obtained, then increase your charge out rates.
- Ask your customers what the charge out rate should be and price at the charge out rates that they tell you.

The strategy should not be that charge out rates have to be the lowest in the market to attract customers. There's no doubt that the charge out rates are of concern to customers, however it's not the only thing that the customers consider when deciding whether to engage one tradesperson as an alternative to another.

Astute customers tend to choose tradespersons primarily for reliability. Other factors which enter into the buying decision include:

- quality
- technical and backup service
- reputation in the marketplace
- punctuality/turning up on time
- tidiness
- location of the tradesperson's business
- guarantee issues
- refund policy

We can assist you with setting charge out rates for your trade business. If you would like to have a discussion with us, please contact the accountant/advisor with whom you normally have dealings.

Introducing A Job Costing/Stock System – Part 2

Operating the System (continued from last month)

- The weekly production figures need to be entered in to the computer system.
- Weekly utilisation of stock items and consumable items needs to be entered into the computer system for each individual job.
- The week's payroll needs to be calculated. Payments relating to holiday pay, holiday pay loading, personal leave and statutory holidays should be debited to the provision for labour oncosts. The net payroll is then able to be allocated based on team hours to the job numbers that have been worked on during the week.
- A journal entry should be raised for labour oncosts by debiting labour oncosts, calculated at 18% on the payroll allocations and crediting that amount to the provision for labour oncost account.
- As part of the process, an overhead budget should be prepared for the financial year and, based on the labour costs to be allocated to jobs, an overhead recovery percentage can be calculated. This should be journalised each month to the individual jobs with the credit amount shown in the Profit & Loss Account as a recovery of overhead expenses to be offset against the total of the overhead expenses incurred for the month/year.

At the end of each month, the job costing system will produce a detailed job costing report, highlighting for each completed job, the income received less the cost for labour, labour on-costs, material, subcontractors and overhead recovery. The net result will show the profit or loss that has been earned on each job.

The benefit from this type of system is that instead of receiving an overall Profit & Loss Account (Statement of Financial Performance) for the month or year, which shows income less cost of goods sold, labour on cost, materials, subcontractors, gross profit less overhead expenses and net profit/loss. These financial reports don't give any indication as to what the performance was on individual jobs.

The benefit of the job costing (work in progress/stock/inventory/system) is that management will have a detailed result of the performance for each job that has progressed through the workshop. This approach is converting traditional accounts into management accounts, which can convey key information to the management personnel involved in the actual performance within the workshop.

If you would like to have a discussion with us relative to a job costing system for your business, please don't hesitate to contact us.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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