BusinessPlus+ Newsletter

CMA Collins Mellody

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Is Your Debtors' Days Outstanding under Control?

Debtors' management is an enormous problem for a significant number of small/medium enterprise operators.

The Small Business and Family Business Ombudsman indicated last year that Australia had the highest debtors' days' outstanding figure in the world at 56.4 days, thus debtors' management issues are a significant contributor to cashflow management problems confronting small/medium enterprises.

The Australian Prime Minister announced in late 2017 that he had instructed all Australian government departments to pay bills owing to SMEs within twenty calendar days of the date of the invoice.

This is great news for the small/medium enterprise community – especially for those SMEs that have dealings with Federal government departments.

Hopefully, State and Territory governments and big business will follow the initiative of the Federal government.

However, another significant problem that many small/medium enterprises have is that they have not implemented appropriate debtors' management systems nor do they regularly calculate their own "debtors' days outstanding".

A Debtors' Management System would include:

- a written policy manual for all aspects of debtors' management for an individual business;
- procedures for checking credit applications;
- procedures for the approving of a credit limit and terms of trade for a new customer;
- confirmation letter to be sent to a new customer including Terms of Trade Agreement and Retention of Title Agreement;
- processes to ensure that there is a prompt follow-up with a new customer to receive the signed Terms of Trade Agreement and Retention of Title Agreement back from the new customer before any goods are provided;
- procedures for the decision making process as to whether the new customer is to be registered on the Personal Property Securities Register;
- if a decision is made to register a customer on the Personal Property Securities Register, is the registration process being completed within the very short time allowed by the legislation?
- an emphasis on ensuring that tax invoices are sent promptly to customers and that the due date for payment is clearly identified on the tax invoice;
- processes to ensure that at the end of a month the Debtors' Aged Analysis is prepared promptly and, if Debtors' Statements are still being sent to customers, that emphasis is being given to ensuring that the Debtors; Statements are sent no later than forty-eight-hours after the end of the month;
- the debtors' days' outstanding figure is calculated at the end of the month and the figure is treated as a key performance indicator and is circulated to all personnel involved in sales and debt collection.

This type of system will contribute to a reduction in debtors' days outstanding in virtually every type of business.

If you would like to have a discussion with us relative to the introduction of systems to reduce debtors' days outstanding in your business, please do not hesitate to contact us.

Business Plans Are As Important As Maps For Tourists

The business planning process gives business operators the opportunity to spend some quality time with your accountant analysing every aspect of your business to assist your business to add value by going to the "next level".

The planning process should be undertaken on an annual basis, with a periodic review during the year so as to ensure that the business is on track to fulfil the targets that have been set in the Business Plan.

Most small/medium enterprises find benefit in a "think tank meeting" which would involve the management team and possibly other team members sitting down to evaluate every component of the businesses operations. This means that a SWOT Analysis (Strengths Weaknesses Opportunities and Threats) would be prepared on the various components of the business.

Some of the key components that would be reviewed in a business planning process include:

- Review of the business
- Financial analysis
- Review of the business' objectives – have they changed?
- Resources of the business – does there need to be significant new investments made?
- What is the team's experience? Does the team's experience need to be bolstered?
- Who are the business' customers? Are they happy with the services they receive?
- Where is the business located? Is the location(s) still suitable?
- Who are the competitors to the business? Has the business developed a strategy to compete with competitors?
- Who is responsible for marketing? Has a policy been developed for social marketing and digital marketing?
- Who is responsible for advertising?
- Who are the business' suppliers? Have satisfactory arrangements been implemented with the suppliers? Does this relationship need to be improved? Are suppliers contributing resources and financial assistance to various campaigns undertaken by the business?
- Are quotes/proposals being prepared in a professional manner? What is the success rate on quotations? Does this need to be improved?
- Is the costing system taking into account all costs relative to the business operations?
- Is management happy with the selling process utilised by the business?
- Is the business' distribution network working satisfactorily?
- What changes are needed relative to people issues within the business?
- Is there an adequate team training and team development strategy in place?

These are just some of the questions that would be given in-depth consideration at a "think tank meeting" as part of a business planning process.

If you are interested in having a discussion with us, relative to the preparation of a Business Plan for your business, please do not hesitate to contact us.

Every Business Needs a Succession Plan

Succession planning is something to which every business should give consideration.

Many business operators prepare Succession or Exit Plans regularly so they are in a position to react promptly to any opportunity to change direction in their business.

While succession planning can apply to shareholders, key management personnel and all team members, this article will concentrate on the key owner/CEO within the business.

There can be many succession issues relating to a business.

- Are members of the family involved in the business?
- Do any of the family members have aspirations to manage and own a significant amount of the business?
- Has the family member got enough money or borrowing capacity to be able to buy out the shareholding held by the current owner?
- Has the current shareholder got sufficient funds not to require a prompt payout but to self-finance their successor?
- Is the potential new key shareholder acceptable to any other shareholders and the management team?
- Are all the secrets and agreements that have been entered into recorded in writing or are they in "the head" of the current key shareholder?
- Has all of the business' intellectual property been recorded and protected?
- In the event of a change in the key person within the business would this trigger any changes from key suppliers or bankers?
- Has any consideration been given to the company attempting to raise capital as a Crowd Sourced Funding Company so as to fund (or partly fund) the retiring key shareholder/CEO?
- Does the business have a Family Charter or Constitution? If not, is there support for the creation of this type of document?
- Does the family support the formation of a "Family Council"? This can be particularly relevant where a number of members of the family are not employed as executives of the company.

There are many other issues relative to succession planning in a business.

If you would like to have a discussion with us relative to the development of a Succession Plan and or Exit Strategy for your business, please do not hesitate to contact us.

Deaths Highlights Workplace Health and Safety Issues

A recent incident where two men, with substantial experience in their industry, were found dead at the bottom of a tank they had been cleaning has highlighted the necessity for business owners and management to be very vigilant on workplace health and safety issues.

The National Workplace Health and Safety Laws require business owners, directors and managers to assess the potential risks inherent in work practices utilised in workplaces.

The business should only be utilising practices which minimise the possibility of injury occurring.

If a potential risk is identified the business needs to prepare work plans to address that particular risk in the workplace.

Many businesses will find it necessary to engage a Workplace Health and Safety Expert to create appropriate systems for the business, especially if the business does not employ personnel who have adequate experience in the implementation of appropriate systems under the Workplace Health and Safety Regulations.

If you would like us to refer you to a Workplace Health and Safety Consultant, please contact us.

The ATO is Looking at Interest!

Have you ever woken up in the morning thinking that it was going to be a great day and then you get a letter from the Australian Taxation Office? In particular, the letter is in regards to interest deductions where an individual had purchased land for the development of a unit complex and derivation of rental income.

The Australian Taxation Office’s Taxation Ruling on interest deduction states “Deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities”. Helpfully this ruling is only 18 pages long and quickly sets out the main points and, after setting these out in easy to understand terms, starts to explain the matter in depth for each of the four points below:

- Deductions for interest
- Can interest be capital
- Interest incurred prior to assessable income
- Interest incurred after assessable income

The Australian Taxation Office is currently reviewing individual tax returns for the 2016 financial year. In particular, properties which have large losses from interest expenses and no or little income.

Currently investigations seem to be happening where the Australian Taxation Office has identified continued large and long term losses from investments held by individuals. So far, the Australian Taxation Office's focus is on interest incurred prior to assessable income because the units have not been constructed within a three year time period, without consideration of local conditions in the economy and lending positions.

The second situation is a rural parcel of land treated as a rental property, deemed to be non-commercial in purpose after review by the Australian Taxation Office, because the property is used for agistment purposes and drought conditions have resulted in significantly lower income for several years. The Australian Taxation Office has denied deductions for interest and all other expenses limiting the deductions to the amount of income derived.

The Australian Taxation Office has a mandate to ensure that these matters are investigated and that government revenue is not misappropriated by taxpayers incorrectly making claims for deductions to which they are not entitled. The concern is that, where taxpayers make decisions based upon information that they are aware of, how time can affect matters and change the nature of interest from being deductible to being treated as capital due to the length of time between the initial purchase and the final construction of the investment or when the Australian Taxation Office conduct the audit.

The taxation treatment of losses from rental properties and the Australian Taxation Office's focus on these matters, particularly where the land is held for more than three years, can be complex. If you have any concerns from these types of transactions, please do not hesitate to contact us.

Are You Using the PPSR to Safeguard your Assets? – Part 2

Some of the industry potential problem areas are:

- Ingredients supplier:
    - Supplying ingredients to a manufacturer who utilises the ingredients in the manufacture of product.
    - Supplying ingredients to a manufacturer who has on sold the new product to a customer.

- Paintings, Works of Art:
  - Supply of artwork/sculptures to a business.
  - Supply of artwork/sculptures on a consignment basis.

These are some of the items that should be examined to determine whether a registration should be made on the Personal Property Securities Register to protect the business' assets. If you would like to have a discussion about the implementation of a strategy, appropriate for your business, please do not hesitate to contact us.

Subdued Growth Expected for 2018

Economists have forecast subdued growth for the Australian economy during 2018[1]. The key figures from a business perspective contained in the economic forecasts published by the Fairfax Group include:

- GDP – Australia – an average of 2.7%
- GDP – China – an average of 6.5%
- GDP – USA – an average of 2.5%

The economists who participated in the survey do not believe that there will be a recession in Australia in 2018 with the probability of a recession being forecast at 15% with the range being from 0% to 20%.

The ASX 200 is forecast to be in the vicinity of 6,200 points by 31 December 2018. This is a reflection of the overall confidence in the market based on forecast profits and capital gains.

The Reserve Bank of Australia's cash rate is expected by most of the economists to increase from the current 1.5% to around 2.25% by December 2018 with the average forecast rate for 2018 being 1.7%.

The exchange rate of the Australian dollar and the USA dollar is expected to be in the vicinity of $0.78 USA per Australian dollar (with a range from $0.65-$0.84).

The scene is set for a continuation of the economic activities that were evident in 2017. If you would like to discuss the effect that these forecasts might have on your business, please do not hesitate to contact us.

What's It Mean?

- "Accounting Period" means….
  Any period of time utilised to measure accounting performance e.g. one year, one month, three months.

- "Benchmarking" means….
  The comparison of operating figures, both financial and non-financial from one firm with another, or a group of others, to assist in comparing your business to other similar businesses so as to assist in achieving best practice management by comparing your business to others undertaking the same sort of work.

- "Capitalisation Rate" means….
  In valuing businesses, the future maintainable profit is expressed at a capitalisation rate. The capitalisation rate is the rate of return that a prudent arm's-length interested, but not anxious, investor would require for an investment in this type of business after the allowance for reasonable management salaries.

Contact us:
CMA Collins Mellody
P: 03 9836 1533
F: 03 9836 3025
E: admin@colmel.com.au
W: http://www.cmagroup.com.au
259 Whitehorse Rd, Balwyn, VIC, 3103

[1] Business Essentials