

# BusinessPlus+ Newsletter



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## Issue – April 2018

### Research and Development Registration

If your company has undertaken research and development activities with a value of \$20,000 plus in 2016/17 you need to register the research and development activities with AusIndustry by 30th April 2018 to be eligible to claim the Research and Development Rebate which, for companies with turnovers under \$20 million, is 43.5% of the eligible research and development expenditure and, for companies with turnovers over \$20 million, is 38.5% of the eligible research and development expenditure.

Research and Development Applications can be lodged at any time after 1st July, but need to be lodged no later than 30th November 2018.

If you would like our assistance on the preparation of the required forms, please contact us as soon as possible.

### Grants Update

#### Export Market Development Grant

This grant assists exporters or businesses proposing to export to defray some of the costs involved in establishing export markets. Eligible expenditure can be claimed under a number of separate categories including:

- overseas market visits (maximum \$350 per day)
- overseas representation expenditure (representatives to act on your behalf on a long-term basis to market/promote your product/services)
- free market samples
- trade fairs, literature and advertising
- marketing consultants (maximum \$50,000 per application)
- overseas buyers' visits to Australia (maximum \$45,000 per application)
- promotional literature and advertising
- registration and/or insurance of intellectual property

The maximum claim for an Export Market Development Grant is \$150,000.

The grant is available for any type of entity with income under \$50M and any type of industry, including the tourism industry.

If you would like to discuss an Export Market Development Grant claim with us, please do not hesitate to contact us.

#### Accelerating Commercialisation

The Australian government has a special grant program to assist entrepreneurs, researchers, inventors, start-ups, commercialisation offices at universities and small/medium enterprises address the challenges associated with commercialising novel intellectual property in the form of new products, processes and services. This program is known as the Accelerating Commercialisation Grant Program and is part of the Entrepreneurs' Program.

Eligibility is open to businesses with turnovers from \$0 - \$20 million. Initially, the applicant can be from any enterprise category but, if a grant is offered, the applicant must have incorporated as a company.

Grants of up to \$1 million are available on a 50% grant basis. The commercialisation activities that are funded by the grant have to be completed within a maximum of 2 years.

If you would like to have a discussion with us relative to the Accelerating Commercialisation Grant Program, please do

not hesitate to contact the accountant in our firm with whom you normally deal.

## Corporate Governance is a Topical Subject

With more and more boards of directors giving consideration to the potential to raise capital as Crowd Sourced Funding Companies or Early Stage Innovation Companies, many directors are thinking about improving their "corporate governance knowledge".

Corporate governance covers a wide range of issues because this is what company directors need to cover – a wide range of issues.

Corporate governance for company directors and for committee members of not-for-profit's and charities includes:

- company legislation and the legislation affecting not-for-profit's and charities
- duties and responsibilities of directors and committee members
- understanding "all things financial" relative to the organisation, including understanding Profit and Loss Accounts, Balance Sheets, Source and Application of Funds, Budgets etc
- people management including an understanding of how Fair Work Australia operates
- understanding of Workplace Health and Safety issues
- leadership issues and an understanding of a director's role in establishing appropriate cultures within an organisation
- understanding of marketing and selling as it relates to the organisation
- understanding of the key taxation issues affecting the organisation
- understanding of government grants available for which the organisation might apply

In addition there are many other aspects pertaining to the role of a director or committee member – this all relates to "corporate governance".

If you would like to discuss corporate governance issues within your organisation, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

## What's It Mean?

- **Crowd Sourced Funding (CSF) means...**  
A type of corporate capital raising whereby a company seeks funds, in small amounts, from a large number of individual investors in return for securities in the company.
- **Maximum amount of capital to be raised by a Crowd Sourced Funding Company means...**  
\$5 million in 12 months.
- **Maximum investment by a retail investor in a Crowd Sourced Funding Company means...**  
\$10,000 per company in a 12 month period.

## Tax Office Win Major Fraud Case

The Australian Taxation Office has released their 2017/18 ATO Fraud and Corruption Control Plan. This plan sets out the details of how the ATO is taking proactive measures designed to help reduce fraud, what measures they are using to uncover incidences of fraud and how the ATO will respond to fraud with default assessments, recovery actions and criminal prosecutions.

Tax fraud is simply making a false representation to the Commissioner of Taxation. This is based on evidence that the person made this representation knowing it was false or with such a degree of indifference or lack of concern about its correctness that it can be concluded that no real belief was held in the truth. SMEs need to be aware of tax fraud and the consequences for simple mistakes and omissions to declare all income they should, claiming a deduction they are not entitled to, or failing to remit PAYGW and or superannuation guarantee.

The consequences of tax fraud vary and can be extremely punishing and range from simple penalties, criminal convictions, fines and prison sentences. If penalties are applied for an individual, the monetary penalty can be up to \$900,000 and for a company, \$4,500,000.

A recent case handed down in the NSW Supreme Court resolved around the creation of false losses overseas to evade corporate tax in Australia.

## "What If" Calculations to Set Retail Pricing Strategies

Setting retail prices to achieve a predetermined profit is an important strategy for retailers. The following is a summary of a "what if" calculation approach to planning business operations. We can assist you with the preparation of this type of calculation suitable for a retail or wholesale business.

Firstly, we need to identify the labour costs and labour oncosts that are applicable to the various categories of team members working in the business covering:

- annual leave
- shift worker allowance (if applicable)
- statutory holidays
- personal carer's leave
- superannuation
- payroll tax (if applicable to this business)
- work care
- training
- long service leave entitlement

The number of team members in various classifications expected to be required to enable the anticipated sales to be made needs to be determined. A schedule would be prepared identifying the various categories of team members and the annual salaries applicable to each classification.

The calculation of the labour oncosts and the labour costs will give the business a projected labour budget for the forthcoming 12 months.

Let us assume that the total estimate for labour and labour oncosts for the 12 month period was \$460,000.

The expected overhead costs for the 12 months' operation of the business then needs to be estimated. This budget would include all expected business outlays excluding labour, labour oncosts, direct material purchases for products to be sold to customers, capital expenditure, loan repayments etc.

For this exercise we have assumed that the total budget for overhead costs will be \$535,000.

The next calculation to prepare is how much profit do you want to achieve from this business? This is normally based on a realistic return on investment.

How much is the business worth? What rate of return would you like to achieve on this investment?

If we assume that the business is worth approximately \$700,000 and that the rate of return you require is 20%, this would mean that the projected profit for the year, if everything works to plan, would be \$140,000.

Where this type of strategy will be very important is if last year the business only achieved a profit of \$20,000 and you are seeking advice as to how you can earn a realistic profit from the effort that you are putting into the business.

The next calculation to determine is the targeted gross profit for the business for the 12 month period.

Based on the hypothetical costs that we have mentioned, the following figures would be taken into account in determining a projected gross profit target for this business:

• Labour Cost (including Labour Oncost)	\$ 460,000
• Overhead Budget	\$ 535,000
• Projected Net Profit	<u>\$ 140,000</u>
• Projected Gross Profit	<u>\$1,135,000</u>

- labour cost (including labour oncost) \$460,000
- overhead budget \$535,000
- projected net profit \$140,000
- projected gross profit \$1,135,000

The next phase on the "what if" calculations is based on your business knowledge of what you expect your average gross profit percentage to be over the full 12 month period?

Based on your previous trading history you might think this figure could be in the vicinity of 53%. This would be your targeted gross profit percentage for the year for the initial "what if" calculation."

With a projected gross profit of \$1,135,000 and an expected gross profit percentage of around 53%, this would mean that sales would need to be \$2,141,500 (Gross Profit/Gross Profit Percentage multiplied by 100/1 = Sales).

It would be a very rare retail business that is able to achieve an identical mark-up percentage for each type of product that is purchased by the business. Every retail business has different categories of stock which can be identified as:

- "Stars" (great products to sell – the main reason that you are in business)
- "Cash Cows" (price promotions, price sensitive lines)
- "Problem Lines" (dead stock, ex-promotional stock)
- "Dogs" (difficult to sell)

Each of these stock classifications would normally have different, and in many cases, multiple mark-up percentages applicable to them.

In undertaking the "what if" calculation, an analysis will be made on the mix of purchases that apply to this business

showing the expected purchase price to be paid for various types of products and the normal mark-up percentage that you expect to apply to each product category. This will then enable the calculation of a projected mark-up amount and a sales figure for each component of stock to be purchased by the business.

By totalling the purchase price, the value of mark-ups and the sales, you will be able to determine how close you have come to the targeted figures relating to sales of \$2,145,000. If there is a shortfall it is then necessary to "tweak" the stock purchases and perhaps the mark-up percentages to determine what the results might be.

There can be various types of "what if" calculations made depending on the types of product that have been purchased for the business, the purchase price that you might be able to negotiate with a wholesaler or manufacturer, and the mark-up percentage that you might be able to charge. All of these calculations will result in projected sales figures.

The idea is to get as close as possible to your sales expectation of \$2,145,000 and to achieve your targeted net profit.

If you adopt this approach to setting strategies for your business you will need to monitor, on a regular basis e.g. monthly, the trends for purchases and the sales actually achieved to try to ensure that, over the 12 month period, you achieve the various targets in the strategy.

If you would like us to work with you to develop a retail business strategy along these lines utilising "what if" calculations, please contact the accountant that you normally deal with in our organisation for a discussion.

#### Advance Notice

In May we will discuss setting of trades businesses charge out rates to achieve a targeted profit. In June we will review setting of professional firms charge out rates to achieve a targeted profit.

## **The Consequences Of Not Registering On The Personal Property Securities Register Can Be Very Expensive**

Every business should give consideration to developing a policy of registering customers on the Personal Property Securities Register so that the business has some protection in the unfortunate event that a customer has an insolvency problem.

Businesses which are undertaking contracts with other organisations that relate to services being provided over an extended period of time and the business receiving progress payments can also incur significant problems if their customer has had a liquidator, trustee in bankruptcy or administrator appointed in that the liquidator etc., could issue a claim relating to alleged preferential payments.

If the business has registered that customer on the Personal Property Securities Register there is very little opportunity for the liquidator to be able to make a successful claim against the business.

If your business has placed assets on someone else's premises and an insolvency event occurs, this can also be a considerable problem if you have not registered that transaction on the Personal Property Securities Register.

If you would like to have a discussion with us relative to protecting your business by developing an ongoing policy to consider registering customers and others that you are dealing with on the Personal Property Securities Register, please do not hesitate to contact the accountant in our firm with whom you normally deal.

#### 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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