

BusinessPlus+ Newsletter



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Issue – August 2018

"Future Proofing" Important for Businesses

Challenge – are you and your business developing strategies for "future proofing" your business to meet the challenges of the next few years?

Some of the challenges facing businesses include:

- Finding and keeping quality staff – this relates to the employment process, induction, training, feedback that your team members are receiving.
- Maintaining "corporate memory" – are important matters being documented so that they are available for other team members to refer to at a later date to obtain information on decisions that have been made previously so that current team members do not have to "reinvent the wheel"?
- Developing strategies to combat "digital disruption" – many businesses are being affected by digital disruption – the important thing is what strategies are you implementing to overcome the problem?
- How is your business reacting to "new market trends" particularly trends initiated by your competitors?
- Have you implemented systems to reduce your business' debtors' days outstanding?
- Have you implemented appropriate procedures so as to ensure that your business is able to make the correct decisions as to whether to register a particular customer or a business with which you have stored assets, on the Personal Property Securities Register so as to minimise your business' potential exposure to the loss of an asset?
- Are there systems implemented within your business to protect your business' intellectual property – trade secret agreements, intellectual property identification, patent registrations?
- Has your business implemented marketing systems that coordinate general marketing with social media and your website?
- Have you reviewed the selling process that is being utilised? Are these processes coordinated with marketing and production so that all team members know what is happening within the organisation in an attempt to maximise the sales effort?
- Is there an awareness of the necessity to identify a potential research and development activity, to document that activity and then to maintain appropriate records so that the company will be able to lodge a Research and Development Rebate application as part of the company's income tax return?
- Has your budget for 2018/19 been finalised? Have segments of the budget been supplied to the persons responsible for managing individual business units within your organisation?
- Has there been a review of your business with Workplace Health and Safety requirements relating to both team members, customers and visitors to your premises?
- Does your management team understand the "people resources" strategies that are required in 2018/19 relative to compliance issues announced by Fair Work Australia?
- Are you satisfied that your financial accounts are being prepared on a basis that enables the responsible manager to be able to read and analyse financial performance for the individual business units that he/she is responsible for including key performance indicators, ratio analysis, benchmarking against other similar organisations?
- Are you evaluating your competitors' strategies by maintaining a confidential file on your individual competitors which you are evaluating in an attempt to determine individual competitors' strategies on a regular basis throughout the year?
- Are you monitoring government grants and other assistance that is available for businesses similar to yours?
- Have you considered utilising our firm to provide you with a wider range of financial management services?
- What do you want your business to look like 3 to 5 years' time?
 - revenue and profits
 - cashflow
 - services/products
 - clients/customers
 - technology utilisation

- team members
- brand
- marketing strategies – coordination of social media with your website
- corporate governance
- Are you interested in expanding your business by internal promotion or the acquisition of other businesses?
- How will you finance this type of expansion?
- Have you considered capital raising utilising:
 - Crowd Sourced Funding Equity Raising (the legislation to enable private companies to directly raise capital from the public of up to \$5,000,000 every 12 months instead of having to convert to an unlisted public company is currently in the Senate – hopefully this new capital raising opportunity will be available for private companies in 6 months' time). Is this a strategy for your business to consider?
 - Capital raising under section 708 of the Corporations Act – a private company can raise up to \$2,000,000 every 12 months from a maximum of 20 investors. Is this mode of raising capital of interest to you?
 - If you are operating a young company and the company has developed a new product, process, service, organisational or management methodology, you could utilise Early Stage Innovation Company Capital Raising process to raise capital.

For any of these ventures and for any other business planning its future, the business will need a business plan.

These are some of the issues that are important to be considered as part of the strategy relating to the development of “future proofing strategies” for a business.

If you would like to discuss any of these ideas with us, please do not hesitate to contact the person in our organisation with whom you normally deal.

Depreciation on Property

Property depreciation is the wear and tear of buildings and assets within a property over time. The Federal government allows the owners of income producing properties to claim this depreciation as a tax deduction.

To claim a tax deduction a depreciation schedule is required to be lodged with the entity's income tax return.

For the owner of a residential/investment property being able to claim legitimate depreciation deductions can make a big difference to the owner's cashflow.

The Federal government has introduced new rules affecting secondhand residential properties, however owners can still claim on these properties if they have owned the property prior to 9th May 2017.

They can claim on new assets that have been installed into premises which are being rented. If you would like further information on claiming depreciation on rented properties, please contact us

Pitfalls in Starting a Business

If you are contemplating starting a business, you will need to avoid the pitfalls by seeking advice from an accountant before signing any contracts, either to buy the business or to enter into the lease of business premises or a financing agreement.

The key items are

- obtain good advice from an accountant, solicitor and bank manager
- market analysis and verification
- a realistic business plan
- honestly review your management skills
- undertake training to overcome management deficiencies
- prompt and regular financial accounts
- regular monitoring of stock, work in progress and debtors
- closely monitor debtors
- staff training, motivation and leadership
- some knowledge of the trade or business
- a clear understanding of the hours you will have to work in the business

You need to remember that, whilst there are many potential rewards in running your own business, owning a business can be very difficult.

Challenges, hard work, anxiety, mistakes, problems long hours and more problems are much more likely to be the story of the average small business person than a lightning path to fame and fortune!

The key challenge for all business people is how you manage the “business of the business”.

If you are contemplating commencing a small business, please do not hesitate to contact us.

Knowing Breakeven Helps!

Breakeven is the level of sales necessary to cover all variable and fixed expenses i.e. the point of no profit or loss.

The formula for the calculation of breakeven sales is:

Total of Fixed and Variable Costs ÷ Gross Profit Percentage x by 100/1.

Do you know what the breakeven amount is for the various operations being conducted in your business?

A fixed expense is an expense that does not vary relative to production or turnover within reasonable production or sales levels.

- Rent would normally be considered to be a fixed expense and would not vary until such time as it is necessary to obtain larger premises.
- Management salaries would normally be considered as a fixed expense.
- Some staff salaries would also be considered fixed expenses, however in the main, staff expenses, that relate to production or sales, would normally be termed a variable expense, as variable costs normally move directly in relationship to increases in production or sales of the business.

To calculate the breakeven amount, you also need to know the gross profit percentage for that particular operation within the business, or the overall gross profit percentage for the business.

To determine your breakeven sales figure for a particular operation within your business, you need to prepare a list of the fixed expenses relating to that business or to that activity and then prepare a list of the variable expenses that relate to that activity and add the 2 items together.

For example:

if the fixed costs were	\$195,750
and the variable costs were	<u>\$392,000</u>
Total of Fixed and Variable Costs	<u>\$587,750</u>

If the business was achieving a gross profit of 32% then the calculation of breakeven sales would be as follows:

$$\frac{\text{Total of Fixed and Variable Costs } \$587,750}{32} \times \frac{100}{1} = \$1,836,718$$

Proof:

Sales	\$1,836,718
Gross Profit Percentage 32%	\$ 587,750
Less Fixed Costs	<u>\$ 195,750</u>
Variable Costs	<u>\$ 392,000</u>
Total Costs	<u>\$ 587,750</u>
Profit/Loss	<u>Nil</u>

Management of individual business units should understand what their breakeven sales figure is for each week/month.

If you would like to have a conversation with us relative to the determination of the breakeven sales figure(s) for your business operation, please do not hesitate to contact us.

Risk on Faulty Goods

These days small businesses can easily become importers. As a small business operator, you could import a container of goods and sell them through your business or by your e-commerce website to customers all over Australia.

Under the Australian Consumer Law, you are deemed to be an "importer".

The Australian Consumer Law deems importers to be the manufacturer of the goods in some circumstances. Importers may be liable for defects in the goods they import, as if they were the actual manufacturer. This could occur where the manufacturer does not have an office in Australia or the importer applies their own branding to the product.

Under Australian law the importer is responsible for product safety and liability issues and is exposed to potential claims resulting from any defects in the goods it sells.

Every business in Australia that sells goods and services to "consumers" are deemed to be covered by a warranty that the goods are free from defect and fit for their intended purpose. The Australian Consumer Law does not allow you to exclude that warranty in your terms of contract with your customers.

It is possible that claims under this deemed warranty can be passed back up the chain of supply by the importer.

In practice, an importer may encounter difficulties in enforcing those rights where the manufacturer is located overseas or can hurt your business by refusing to supply you with any further goods, if you proceed with a claim.

This highlights that importers should undertake due diligence on the manufacturers and other businesses that you are dealing with overseas to ensure that those businesses will compensate you for any claims that you may encounter relative to products that they have supplied to you.

The Role of the ABN Under Review

The Australian Business Number (ABN) was created with a central role for the roll out of the Goods and Services Tax.

Since that time, almost 20 years ago, this role has not changed, but the use of an ABN has evolved with the evolution of the economy and the increasing flexibility of the workforce.

Due to the increasing number of ABNs in sham contracting situations, the Federal government has commissioned a review of the ABN and its role in the labour force and the opinion that there may be revenue leakage in this area due to unpaid taxes for GST, income taxes, superannuation, workers' compensation and payroll taxes.

At the heart of the review is the issue of sham contracting relationships, but the results of this review will affect all ABNs and businesses should be aware of some of the ideas being floated in this review which include:

- making it harder to get an ABN (without further supplying details on the "how")
- making ABNs in some or all industries register for GST from sales dollar zero. This is proposed on those industries currently subject to Taxable Payments Annual Report regime which itself appears to be growing each year
- Requiring every ABN to pay a yearly renewal fee, similar to the Annual Return Fee, with the fees being used to monitor the system, but will likely end up in general consolidated revenue without a flow on improvement in services from the user's point of view.

These deliberations, whilst seeming academic, could have long term repercussions that, if they get implemented, will likely be around for at least another 20 years until the Federal government at the time reviews the role of the ABN again.

Emergency Relief for Drought Stricken Farmers

The Prime Minister, Malcolm Turnbull, announced that the government was making available emergency "special" payments for eligible farmers, to be made through the Farm Household Allowance (FHA) scheme.

The announcement will provide households with \$12,000 in additional lump sum payments for couples. (Payable in two lump sums of \$6,000 each) and \$7,200 for single farmers without children (payable in two lump sums of \$3,600 each).

The first payment will be made on the 1st September 2018 direct to bank accounts for families who are already on the FHA. The second payment will be made on 1st March 2019 direct to bank accounts.

Currently, those on the FHA scheme can access the payment, equivalent to the unemployment benefit, worth about \$16,000 a year.

The government says the money can be used for basic household expenses.

The government has already extended the time period to receive the FHA from 3 to 4 years.

The government has also announced that the eligibility criteria for accessing the FHA will also be relaxed so that people with up to \$5M net assets will be able to apply. Previously the cut-off was \$2.6M.

"This will help farmers who may be notionally asset rich but cash poor, access additional support without having to jeopardise the income producing capacity of their farm by selling farm equipment".

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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