

BusinessPlus+ Newsletter

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Research and Development Expenditure – 49% Paid By SMEs

By Peter Towers, Managing Director, **ESS BIZTOOLS**

In the September edition of Business Plus we included an article “Research and Development – Are SMEs Under Attack?”

This was in response to an article published in Accountants Daily on 30 August 2022 “Ditch R&D Tax Concessions for Direct Funding” attributed to the Deputy Vice Chancellor of the University of Sydney, Professor Emma Johnson.



According to the Australian Bureau of Statistics data for 2019/20 financial year (the last reported summary) research and development, business expenditure was \$18,171,000,000. There was no dissection shown for the various business categories.

The Australian Small Business and Family Enterprise Ombudsman has prepared a report based on research and development expenditure in 2017/18 (the last reported summary) with details of expenditure by the various business categories.

This report identified that small businesses (1 – 19 employees) expenditure on research and development was \$4,060,675,000 equivalent to 23% of the total research and development business expenditure.

The report indicated that medium-sized businesses (20 – 199 employees) expenditure on research and development was \$4,537,147,000 equivalent to 26% of the total research and development business expenditure.

The Ombudsman has indicated that the total business research and development expenditure for SMEs was a total of \$8,597,822,000 equivalent to 49% of the total business expenditure on research and development.

This highlights the very significant investment in research and development that SMEs are incurring on behalf of their businesses and their clients.

SMEs should resist any attempt by universities to have the Research and Development Taxation Offset Incentives transferred away from SMEs who are undertaking legitimate research and development activities.

If you would like to discuss any aspect of research and development being undertaken for your company please contact the accountant in our organisation you normally have conversations with.

How Financial Forecasting Adds Value

Running a business is not a rerun of history. It is all about going into uncharted waters and creating a business that supplies services that their customers want, creates worthwhile employment for the team and earns a reasonable return on investment for the owners.

The problem with all this is that not enough attention is given to “charting how that future will emerge.”

If you are going to build a new house, you would normally engage an architect to prepare a sketch of the type of house that could be built on your land and, after you have examined this, you would indicate whether the sketch drawings reflect what you are hoping to achieve. You would then commission the architect to prepare the detailed plans, followed by appointing of a builder who will be entrusted with the task of creating the architect’s impression.

This is basically the same as the Financial Forecasting process.



The business' Leadership Team sketches out their thoughts on what might happen over the next few years.

Where they would like to expand to?

Research and Development to develop a new product or process they would like to undertake?

Where will they produce the products or services that they are planning?

How will they finance the operations?

If they are planning to borrow money, have they thought about the security that the lender will require?

Alternatively, the Leadership Team may have nominated share capital raising – does the business meet eligibility requirements?

The unfortunate reality is that not every business does this and, in many cases, this is where the process ends – why?

When you decide to build a house, most of us would normally need to engage the services of an architect. The architect will interpret your sketch into a building that meets your specifications for the type of house you need, fits within your budget and conforms to all local government requirements.

This process breaks down primarily for two reasons when it comes to a business.

In the first case

The business does not realise that their accountant can offer these types of services, to act as the “Financial Storyteller” to interpret the vision that the Leadership Team have developed, then document that vision into a workable series of documents comprising:

- + Budgets for each individual business unit within the business, with Key Performance Indicators (KPIs) for each business unit that enables comparison to previous years KPIs and to benchmark against other similar businesses
- + Key driver subaccounts relating to the forecast position for:
 - Inventory of raw material
 - Labour manning requirements
 - Stock of completed products
 - Debtors
 - Creditors
 - Capital expenditure
 - Research and Development projects
 - Expansion activities
 - Marketing and endorsement programs
- + Cash Flow Forecast for the business; highlighting any forecast cash flow problems in the future so that strategies could be implemented beforehand to try to overcome that problem
- + Projected Balance Sheet; which examines what the business will look like in a number of years' time.

The Projected Balance Sheet is a very important document because it is able to illustrate in a few pages what the results will be of decisions being made now in three, four or five years' time.

This entire process would have been extremely valuable to the Leadership Team of that business, because it gives them the ability to formulate changes if necessary. It also gives them the assurance that, as long as they can implement the plans, they have a very good idea of what the end result will look like.

In the second case

Accountants have not successfully articulated to their clients that they are able to perform a virtual CFO role and be the “architect” to document the Leadership Team's vision into a set of Financial Forecasts that can be utilised to guide the Leadership Team and the entire business team in their day-to-day operations, because the vision has already been documented.

This approach is a significant improvement to what most SMEs currently do and that is virtually operate their day-to-day activities, without the benefit of a written document that has been signed off by the Leadership Team and Board of Directors or the business owners.

The discipline of preparing Financial Forecasts ensures that future problems are unearthed and researched long before the problem actually emerges, so that a remedial solution is available or the funding process has been organised long before the funding problem actually emerges.

This whole process, known as “Predictive Accounting”, is all linked – undertaking only one part is unsatisfactory, because there could be a problem that would have been identified in another part. However if a shortcut has been adopted, the other part and its associated problem will not have been revealed.

If you are interested in the preparation of Financial Forecasts using the 3 in 1 process that is now required by Banks, please make an appointment for a discussion with the Accountant in our firm that you normally deal with.

Directors ID Deadline

The Australian Small Business and Family Enterprise Ombudsman has commented that many small business owners do not realise if they run an incorporated company or registered body or are a director of one and this includes directors of companies acting as corporate trustees for SMSFs, then they are required to have a Director Identification Number (Director ID).

The deadline to register for the Director ID is **30 November 2022**. [Click here](#) to register.

You do not need a Director ID if you are running a business as a sole trader or partnership.



The registration process is being conducted by the Australian Business Registry Services.

It is free to apply, you only need to apply once, and you keep your fifteen (15) digit director ID number forever.

There has been a slow uptake rate for the registration. The ATO has indicated that about 1.6 million directors (which is two thirds of the total) have yet to apply for an ID number.

Directors need to apply in person. This means that accountants and other finance professionals are unable to apply on your behalf unless the Registrar (Australian Business Registry Services) is satisfied that the individual director cannot apply themselves.

To apply online, directors need to already have a unique my GovID, with at least a standard level of identity check, prior to starting the process.

The ATO have indicated that 90% of people applying were doing so online and that the ID number was granted instantly. Non-digital options were available to those unable to apply online.

Different deadlines apply to directors of companies registered with the office of the Registrar of Indigenous Corporations.

Director ID has been introduced to crack down on the use of false or fraudulent director identities and catch people who might engage in "illegal phoenix activity", move interstate or even change their name.

"Illegal phoenix activity" is when a company is liquidated, wound up or abandoned to avoid paying its debts. A new company is then started to continue the same business activities without the debt. In these cases employees can miss out on wages, superannuation and entitlements, suppliers or subcontractors can be left unpaid and other businesses are put at a competitive disadvantage.

If you have any questions relative to this requirement, please contact us but please note you need to apply in person.

Written Systems Help!

Whether you are starting a new business or you have been operating a business for some time you will find that businesses that are utilising written systems manuals, similar to a written franchise system, normally give themselves a far better chance of being a successful business. The time and discipline required to draft a written Systems Manual should assist in ensuring that when problems arise management and the team can refer to the systems manual to get guidance on what should be done in a particular situation.



The business system should be able to produce key information including:

- ✚ Daily bank balances
- ✚ Daily sales
- ✚ Number of customers
- ✚ Average sales
- ✚ Weekly Performance Reports
- ✚ Team productivity
- ✚ Monthly debtors' aged analysis
- ✚ Cash flow position
- ✚ Departmental Financial Accounts compared to Budgets
- ✚ Key Performance Indicators for the individual business units within the business

The systems manual would also summarise business records to be maintained including:

- ✚ Procedures relating to opening of accounts with suppliers
- ✚ Procedures relating to any personal guarantees that had to be given to a supplier, bank, lender etc. so that the business has an up-to-date record of all current personal guarantees that have been issued
- ✚ Purchase orders

- ✚ Checking supplier's tax invoices against delivery
- ✚ Payment of tax invoices
- ✚ Electronic payment authorisation
- ✚ Substantiation of expenditure
- ✚ Operation of the business' bank accounts
- ✚ Checking of takings summaries from electronic registers
- ✚ Stock purchases
- ✚ Records of all stock movements
- ✚ Single Touch Payroll
- ✚ Capital expenditure
- ✚ Research and development expenditure
- ✚ Research and development records relative to experiments undertaken and results identified
- ✚ Insurance covers
- ✚ Business Activity Statement preparation
- ✚ Updating of Budgets, Cash Flow Forecasts and Projected Balance Sheets
- ✚ Personal Property Securities Register system to ensure that registration procedures are completed within the stipulated time period specified in the legislation

As part of the systems review we recommend a periodic examination of the files been maintained within the computer system and filing cabinets to ensure that the system is not being clogged up with unnecessary files.

Does your filing system produce all information that you require?

We would be happy to conduct a detailed review of your systems. If you would like to discuss this please contact the accountant in our organisation that you normally deal with.

Watch Out For Waste

Monitoring of "waste" in a business is an ongoing activity. Waste comes in a whole range of formats. Waste could relate to:

- ✚ Too much transportation
- ✚ Too much stock
- ✚ The unrealised potential of team members
- ✚ Time wasted finding parts and equipment for a job
- ✚ Inattention to the shipping date required by the customer

After a business achieves some initial gains on waste management it is desirable that the business adopts a continuous improvement program so as to add to the initial gains that have been made.



Reduction of waste is enhanced if the leadership team members are able to influence the culture within the business that waste needs to be eliminated. A successful waste management campaign incorporates:

- ✚ improvement in customer service
- ✚ enhancement in team member engagement within the business
- ✚ achievement of the business' overall goals

If you would like to have a discussion with us relative to the introduction of a waste management strategy for your business please don't hesitate to contact the accountant in our firm that you deal with.

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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