

BusinessPlus+ Newsletter



INDEX

| | |
|--|---|
| Government Loans and Grants for Natural Disasters | 1 |
| Australian Government's Coronavirus Stimulus Package for SMEs | 1 |
| Cashflow Forecasts, Budgets and Projected Balance Sheets Are Important | 2 |
| Banks/Lenders Negotiations in Difficult Times..... | 2 |
| Business Financing | 3 |
| Steps to Ensure Peak SME Fitness..... | 3 |
| Business Monitoring/Benchmarking..... | 3 |
| Team Member's Contribution in Difficult Times..... | 4 |
| Shrinkage..... | 4 |
| Customers | 4 |
| Debtors Management | 5 |
| Research and Development Registration | 5 |

Issue – March 2020

Government Loans and Grants for Natural Disasters

The Australian, State and Territory governments have introduced a series of loans and grants targeted at primary producers, farmers, fishermen, some exporters and small businesses to assist people whose farming and/or business activities have been significantly affected by the disastrous drought, bushfires, floods and cyclones.

The natural disaster loans and grants can be summarised as follows:

- Loans – Primary Producers and Farm Businesses
- Grants/Relief – Primary Producers
- Primary Producers and Businesses, Loans
- Small Business Loans
- Small Business Grants

If your farm or business is located within a “declared disaster area” you might be eligible to apply for a loan or grant from the government. If you would like to discuss this matter with us, please contact the accountant within our organisation with whom you normally deal.

Australian Government's Coronavirus Stimulus Package for SMEs

The Prime Minister has announced a stimulus plan to curb the economic impact of the coronavirus and keep “*Australians in jobs and businesses in business*”.

The package, which aims to provide an immediate stimulus to the economy, will be worth \$17.6 billion of which \$11 billion is expected to be spent before 30 June 2020.

Targeted at SMEs:

- Businesses with turnovers up to \$50 million will receive a tax free cashflow boost worth up to \$25,000, designed to help pay wages.

To ensure integrity, businesses which pay the Australian Taxation Office income tax on their employee's salary and wages either quarterly or monthly, will receive a payment equal to 50% of the amount withheld, up to a maximum of \$25,000 over the 4 month period.

The money will be available over the 4 months of March, April, May and June and the maximum that a business will be entitled to access in that period is \$25,000.

Eligible businesses that pay salary and wages but are not required to withhold tax will receive a minimum payment of \$2,000.

- The government is providing assistance to businesses with less than 20 full-time employees to keep apprentices employed at 1 March 2020 in work by paying up to 50% of their salaries with a maximum of \$7,000 each quarter in wage assistance for each apprentice so small businesses can retain existing apprentices and trainees, or re-employ apprentices and trainees who lose their positions from a small business because of the coronavirus downturn.

Where a business can't afford to hold onto an apprentice, the subsidy will be available to a new employer.

Initiatives Targeted at Businesses with Turnovers up to \$500 Million:

- New instant asset write off scheme.

The government will expand the instant asset write off scheme from 12 March 2020 until 1 July 2020 for businesses with turnovers up to \$500 million which will be able to instantly write-off assets valued at up to \$150,000.

- There will also be a 50% accelerator depreciation deduction over and above what these businesses can already deduct in the first year and this will be available for 15 months to 30 June 2021.

If you have any questions on any aspects of these initiatives from the Federal government, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

Cashflow Forecasts, Budgets and Projected Balance Sheets Are Important

There is certainly a lot of uncertainty at present in the Australian economy.

Interest rates are at a record low because the Reserve Bank is very concerned about the state of the Australian economy.

Unemployment is slowly rising - and there is a significant increase in casual and part-time work being performed in Australia.

Debtors' payments have only improved by 0.4 of a day since the revelation in 2016 that Australia had the dubious title of the "longest debtors' days outstanding in the world". At that time Kate Carnell, the Australian government's Small Business Ombudsman, said that late payments are the "*silent killer of small business*".

The debtors' days' outstanding figure that Ms Carnell was commenting on was 56.4 days.

It was reported on 6 March 2020 that research by market analysts East and Partners had indicated that the SME waiting period for payment in Australia was currently 56 days. This highlights the real problem that businesses have in managing their debtors to try to ensure that invoices are prepared accurately, they are emailed to their customers promptly and that prompt follow-up action is implemented to have discussions with any customer who is outside the business' stipulated payment terms.

A Budget will show the expected income and expenditure for the business and the emerging profit. You can then calculate various "what if" scenarios to factor in potential changed circumstances e.g. lower or higher interest rates; fuel costs or currency conversion rates.

Budgeting lets you diagnose problems in advance. If the Budget you prepare doesn't provide you with an adequate profit, then you can decide on appropriate action to take to try to achieve your desired profit, rather than waiting for the events to unfold.

When the Budget is completed it is then the time to prepare a Cashflow Forecast. The Cashflow Forecast will reflect the figures contained within the Budget with appropriate timing differences for debtors' payments, creditors' payments, investment in stock as well as taxation commitments, loan repayments, dividends or drawings and capital expenditure.

The Budgeting and Cashflow Forecast process will benefit from the preparation of Projected Balance Sheets at the end of each financial year as part of the Budget/Cashflow Forecasts scenario. The preparation of the Projected Balance Sheets will enable accurate Projected Source and Application of Funds reports to be prepared which will assist management to understand what is happening to the cash generated within the business.

Most businesses in Australia are now caught in a cycle that could become quite vicious if appropriate planning is not undertaken now! If you would like to discuss with us the preparation of a Budget/Cashflow Forecasts and Projected Balance Sheets for the period through to 30 June 2020 and to 31 December 2020 which you can present to your bank, please contact the accountant that you normally deal with for a discussion.

Banks/Lenders Negotiations in Difficult Times

In tough economic times, banks normally revert to the "Rule Book" in dealing with borrowers.

What this means for SMEs is if you wish to continue to access products from banks, including loans, bank overdraft, leases and debtors' financing etc., it will be necessary for you to ensure that you have complied with you bank's reporting requirements and the various ratios and other financial calculations that your bank may have imposed as part of the loan or facility agreement with your business.

It's a good idea to keep your bank informed of the progress that your business is achieving and ensure that your financial records are up-to-date so that you can quickly supply financial accounts and other business information reports to the bank when required.

Business Financing

If you're unable to secure the finance arrangements that you are seeking with your bank, it might be prudent to have a "Plan B" which could include capital raising from the public.

A company is able to use Section 708 of the Corporations Act to raise up to \$2 million from no more than 20 investors in a 12 month period. To do this the company will require the following documentation:

- business plan for the next 3 years
- budget/cashflow forecast that corresponds with the business plan the next 3 years
- valuation of the company
- share price determination

There is no other formal process required to raise capital utilising s708 of the Corporations Act. The whole process could be completed in 4 weeks. The company is not able to "market" the capital raising process but the company's directors and senior managers can directly communicate with friends, associates, customers, suppliers, employees and other people who are aware of what the company is doing. In most cases this will give a fairly large group of people with which the company is able to directly communicate and give an investment presentation. If you are interested in this process, please do not hesitate to contact the accountant in our organisation who you normally deal with for an initial discussion.

Crowd Sourced Funding Equity Raising can also be utilised by private companies. This process takes more time because it's a regulated process involving Crowd Sourced Funding Intermediaries who have been appointed by the Australian Securities and investments commission (ASIC). The appointment of an Intermediary is a decision that your company directors are required to make. Most Intermediaries will suggest an initial capital raising is made utilising Section 708 of the Corporations Act because this form of capital raising is from people who are aware of your company and the Intermediary is then able to use the fact that people, who are friends or associates of the company, have invested in the company and the Intermediaries then use this "total financial support" as a "testimonial" of the support from people who know the company. This assists the Intermediary in the marketing of the company to a wider group of potential investors who can be situated all over Australia.

When this type of capital raising is implemented, the time involved can be as high as 27 weeks, because of the extra processes that have to be undertaken.

If you are interested in having a discussion with us relative to the possibility of utilising Crowd Sourced Funding Equity Raising to raise capital for your company as part of a strategy to minimise business risks through these "Difficult Times", please do not hesitate to contact us.

Steps to Ensure Peak SME Fitness

The following are some suggestions on strategies that you might implement to assist your business to survive the difficult times:

- Review costs – can any of the costs within your business be reduced or eliminated?
- Review labour productivity – how does it compare to your targets? Have you been able to benchmark your performance against the wider industry?
- Review shrinkage/wastage being generated within the business – what changes could be made to significantly reduce these costs?
- Review management of cashflow – what changes could be implemented to improve the business' cashflow position?
- Review debtors' management – what is the debtors' days outstanding? How does this figure compare to your targets and to benchmarking reports for your industry? Are tax invoices being processed promptly? Are debtors' statements being emailed to customers promptly at the end of a month?
- Review the stock/inventory system. Is there old, damaged or last season's stock on hand that could be liquidated to generate cash? What is the stock turn rate for various categories of stock? How does the stock turn rate compare to you budgeted targets?
- Does the business own plant and equipment, motor vehicles etc., which are not being utilised on a continual basis? Could these assets be sold and the business rent suitable equipment when the need arises?
- Review marketing expenditure – is the expenditure directly targeted to achieving sales in the prevailing market?
- Are key performance indicators being prepared for various reports prepared on a daily, weekly or monthly basis? Does the person who receives these reports understand the information that is being conveyed? If not, should a training program be implemented to ensure that that report recipient clearly understands the information that is being communicated?

Business Monitoring/Benchmarking

It's always a good idea to benchmark your business against others in the same industry so that you can get some comparisons on a range of issues relating to your business' performance when compared to your "peers".

The benefit of benchmarking is more apparent during "difficult times".

The key items that can be compared in a benchmarking report include:

- sales per team member
- average sale price
- productivity of team members
- conversion rate of enquiries received
- customer retention rate
- gross profit percentage
- wages to turnover percentage

Team Member's Contribution in Difficult Times

Has a discussion been held with each team member about their individual productivity and how their productivity might be able to be improved?

Have you empowered your team to make key decisions so that your business not only meets, but exceeds, customer expectations?

Are you asking your team members for suggestions on improvements which they believe could be made to deliver outstanding products/services to customers?

Have you implemented "short daily meetings commonly known as huddles" to keep team members motivated and "in the loop"?

Does your business hold monthly team meetings for management to deliver an update on where the business is going and for team members to raise questions on the business' policies, strategies etc?

Shrinkage

Shrinkage is a very large cost for businesses and in "difficult times" shrinkage should be closely monitored by all members of the team.

Millions of dollars is lost every year through stock shrinkage in retail and many other types of businesses. Shrinkage occurs whenever the business fails to sell an item at its full price. The difference between the planned selling price of the product and the actual selling price is "shrinkage".

Shrinkage can be caused by:

- damage
- theft by an employee
- theft by a customer
- errors in recording label numbers
- not adequately checking goods when they're received into the business
- poor handling techniques
- dropping stock
- leaving perishable products out of refrigeration
- over ordering products, thus having products that need to be discounted to sell them
- stock going out of date – this can be caused by poor stock rotation

Management needs to ensure that staff are aware of the requirements to reduce shrinkage, especially during these very difficult times so as to protect the business' profits.

Major areas of shrinkage on which staff should be concentrating include:

- adequately checking goods received from suppliers
- dishonesty by customers and staff
- careless handling of stock
- not rotating stock properly
- not returning stock to refrigeration or chillers fast enough

A complete review of "shrinkage" is an important part of the process to assist the business to be able to "survive in difficult times".

Customers

Businesses cannot take customers for granted at any time, but especially not during "difficult times".

It's always a good idea to check the credentials of new customers, however it's a very good idea to make sure that a new customer is not someone else's problem who has been encouraged to take their business elsewhere, presumably because of very slow payment or continual complaining about products or services.

Measures that you can implement to avoid taking on risky customers include:

- a standard credit check
- trade references
- bank reference
- director's guarantee, if the company is a private company

You could also ask new customers for their permission to have an external credit check prepared by a credit agency so you can be satisfied on their credit worthiness.

Once payment terms and conditions have been established for a customer, it is highly desirable that these terms and conditions are confirmed in writing and that the new customer signs an acknowledgement that these are the terms and conditions that have been established for their business transactions with your business.

Before any goods are supplied or services rendered to a new customer, it's a good idea to make sure that the terms of trade agreement and the retention of title agreement have been sent to the new customer for signature and that those signed documents are returned to your business within a few days so that management can then decide whether to register this new customer on the Personal Property Securities Register

There is only a very limited amount of time available for that registration process to be made and the customer must have signed the documentation that has been sent to them.

Prompt payments will be enhanced from customers if your business has abided by any specific requests that the customer has made relative to additional information that may have to be provided with a tax invoice, the deadline dates each month for the receipt of the tax invoice and any other information by the customer.

Debtors Management

Ensure follow-up of customers/clients when payment was not received on the due date. If the customer/client has a query, it is important that that query is resolved as soon as possible so that payment is made by the customer/client, thus contributing to the business' cashflow.

Debtors needs to be monitored on, at least, a weekly basis with the calculation of the debtors' aged analysis and debtors' days outstanding being sent to senior management.

The debtors' review meeting should be held monthly and lists prepared of customers to be followed up by specific personnel to encourage customers to make their payments or to resolve any issue that the customer is raising prior to payment being made.

In the "difficult times" that are now emerging, cashflow will be a major issue for many businesses. Therefore the suppliers of products/services need to be diligent to ensure that the communication with the customer/client is fool proof and that everything has been sent to the customer/client that they require so as to eliminate any legitimate reason for the customer/client not to make payment of a tax invoice at the due date.

Research and Development Registration

If your company has spent more than \$20,000 on research and development activities during the 2018/19 financial year and you wish to be able to claim the Research and Development Tax Rebate, the company must register with AusIndustry prior to 30 April 2020.

If you would like our assistance on the preparation of the registration form, please do not hesitate to contact the accountant in our organisation 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.

Contact us:

CMA Collins Melody

P: 03 9836 1533

F: 03 9836 3025

E: admin@colmel.com.au

W: <http://www.cmagroup.com.au>

Ground Floor 1 Chapel Street, Blackburn, VIC, 3130