

BusinessPlus+ Newsletter



INDEX

Significant Changes To JobKeeper.....	1
Research And Development Incentive Can Be Affected by JobKeeper Payments	1
JobKeeper Payment Adjustments.....	1
JobKeeper - Eligibility Date Change	2
New Coronavirus SME Guarantee Loan	2
Research And Development - Commencing A Project.....	2
Knowing Your Breakeven Helps.....	3
Key Performance Indicators Assist In Monitoring Business Operations	3
Business Terminology	4

Issue – August 2020

Significant Changes To JobKeeper

Last week the Prime Minister and Treasurer announced significant changes to the JobKeeper Program.

From 28th September 2020, businesses will be required to reassess their eligibility for JobKeeper with reference to their actual GST turnover in the September quarter 2020, as compared to the September quarter in 2019, to be eligible for the JobKeeper payment from 28th September 2020 to 3rd January 2021.

To be eligible for JobKeeper payments under the extension, businesses will need to demonstrate that they have experienced a 30% decline in turnover.

This changes the original JobKeeper Scheme which was that the business had to have experienced, at least, a 30% drop in turnover in the June quarter as well as the September quarter.

This change will assist businesses in Victoria, which might not have been eligible under the original rules because they did not qualified for JobKeeper in the June 2020 quarter, but with the severe lockdown now in place, many businesses will probably be showing a turnover reduction of more than 30% in the September 2020 quarter. The Prime Minister has indicated that JobKeeper is a national program and therefore these changes will be implemented Australia wide.

Research And Development Incentive Can Be Affected by JobKeeper Payments

The Australian Taxation Office has issued a draft taxation determination relating to “*notional deductions for research and development activities subsidised by JobKeeper payments*”.

This ruling indicates that, under the “At Risk Rule”, if the business has received JobKeeper payments that were paid to employees who were involved in research and development activities, you cannot claim the wage expense that you have received as a JobKeeper payment, as a Research and Development Incentive Claim.

If the employee is 100% engaged in research and development activities, the business can claim any payment in excess of \$1,500 per fortnight paid to that employee. If the employee is working for less than 100% of his/her time on research and development activities, a proportion of the adjustment on the Research and Development Incentive Claim will need to be made up to the \$1,500 per fortnight received from the JobKeeper Scheme.

If your company has been involved in a research and development project, you wish to claim the Research and Development Incentive and you are receiving JobKeeper payments for employees involved in the research and development activities, we suggest that you contact us for a discussion on the treatment of the amounts received from the JobKeeper Scheme prior to finalising the company’s Research and Development Incentive Claim for 2019/20.

JobKeeper Payment Adjustments

The Australian government made a number of very important announcements in late July, including the JobKeeper extension which, from 28th September 2020, will comprise two tiers with a reduction in the fortnightly payments payable to people who qualified at 1st March 2020.

Tier 1 applies to people who were working more than 20 hours per week at 1st March 2020. Tier 2 applies to people who were working less than 20 hours per week at 1st March 2020. In both cases, the people must still be employed by the business/charity.

Tier 1 payments from 28th September 2020 to 3rd January 2021 will be \$1,200 per fortnight and from 3rd January 2021 to 28th March 2021 will be \$1,000 per fortnight. Tier 2 payments from 28th September 2020 to 3rd January 2021 will be \$750 per fortnight and from 3rd January 2021 will be \$650 per fortnight.

JobKeeper - Eligibility Date Change

Expanded eligibility criteria for the JobKeeper Program was announced by the Federal Treasurer last week in response to further lockdowns in Victoria and other parts of Australia.

Under the new guidelines, an employee now only has to have been employed since 1st July 2020 instead of 1st March 2020 to be eligible for JobKeeper payments. The government believes that this will mean that more people will be able to qualify for the JobKeeper payments in the period July to September.

If you have any questions about any aspects of the operation of the expanded JobKeeper Program, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

New Coronavirus SME Guarantee Loan

The Australian government has announced the introduction of a new loan for SMEs and businesses with up to 200 employees which will be available from banks from 1st October 2020.

The new Coronavirus SME Guarantee Loan will be for amounts of up to \$1 million, repayable over a 5 year period. These loans will be 50% guaranteed by the Australian government. Loan applications will be open until 30th June 2021.

The loans can be used for any business purpose, not just for "working capital purposes", as was the requirement for the original Coronavirus SME Guarantee Loans of up to \$250,000.

We anticipate that banks will require full documentation to be submitted as part of the loan application for the new Coronavirus SME Guarantee Loan. These will probably include a Business Plan for the period of 5 years, Budgets and Cashflow Forecasts and financial accounts for the year ended 30th June 2020.

If you are interested in applying for these loans, please do not hesitate to contact the person in our firm with whom you normally deal.

Research And Development - Commencing A Project

To obtain the Research and Development Incentive (for companies with turnovers under \$20 million per annum currently 43.5%) for eligible research and development expenditure.

Only companies can claim the Research and Development Incentive which is conducted on the "self-assessment basis" – the company has to maintain adequate records to substantiate that the research and development activities were actually conducted.

The experiments do not have to culminate in a commercially successful outcome to be able to be claimed as research and development incentive so long as the research and development process has been conducted in accordance with the requirements of the legislation.

The company must have spent at least \$20,000 in the financial year on legitimate research and development activities.

Research and development normally commences from the identification of an 'idea' and some preliminary investigation. The 'idea' would normally have been generated from the company's leadership team or team members having a discussion perhaps over a cup of coffee and deciding that a particular 'idea' might be worthwhile looking at to see whether it would improve a process, product or service that was being utilised within the business.

The team that is working on the project needs to undertake 'prior art searches'. At the beginning, this will be a preliminary prior art search to enquire as to whether there is any evidence that a product, process or service similar to that which is being developed from the 'idea' is already known. Prior art does not need to exist physically or be commercially available. It's enough that someone, somewhere, in the world sometime previously has described or shown or made something that contains the use of technology that is very similar to the idea that is being discussed.

An existing product is the most obvious form of prior art. This can lead many inventors to make a common mistake: just because they cannot find a product containing their invention for sale in any shops, or distributors or on the Internet, they assume that their invention must be novel. The reality is very different. Many inventions never become products, yet there may be evidence of them somewhere. That evidence – whatever form it may take – will be 'prior art'.

If no prior art is identified from this preliminary research, it is reasonable to move on to the next stage which is the determination of a hypothesis or a number of hypothesis. A 'hypothesis' requires a statement to be proven right or wrong by conducting an experiment. A 'hypothesis' relates to a particular matter by conducting:

- experimental activities (whose outcomes can only be determined by a progression of work);
- that proceeds from hypothesis to experiment, observation and evaluation and leads to ultimate conclusions; and
- the systematic progression of work is conducted for the purpose of generating new knowledge.

The hypothesis statement needs to be recorded in writing and then by experiment needs to be proven or disproven.

If the small team developing this concept of a new 'idea' is satisfied that they're able to proceed on a legitimate research and development project, it is advisable to then produce a Research and Development Plan which identifies the hypothesis or hypotheses and outlines the new knowledge to be obtained. It is desirable to prepare a Research and Development Budget on this project and submit the Research and Development Plan and the Research and Development Budget to the Board of Directors for approval. Then the research and development process can begin with accurate records being kept of all experiments and the results, as well as the costs.

If you are interested in having a discussion relative to a research and development project for your company, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

Knowing Your Breakeven Helps

One of the key bits of information that most business operators utilise is knowing their break even sales. Breakeven sales is the level of sales necessary to cover all variable and fixed expenses i.e. the point of no profit or no loss. The gross profit percentage being earned by the business is a very important component of the calculation of breakeven.

If the operating expenses for the business are \$430,000 and the gross profit percentage being achieved is 45%, this means that the breakeven is \$955,555 which is calculated as follows:

$$\text{Operating Costs} = \frac{\$430,000}{45} \times \frac{100}{1} = \$955,555$$

Proof:

Sales		\$955,555
Gross Profit 45%	=	\$430,000
Less Operating Expenses		<u>\$430,000</u>
Profit/(Loss)		<u>\$ Nil</u>

You could calculate your breakeven requirements for each day or each week. This can be very beneficial in planning your business activities and motivating your team to achieve the targeted sales rate.

If you would like some assistance on the analysis of your business, relative to your breakeven calculation, please don't hesitate to contact the accountant in our organisation with whom you normally deal.

Key Performance Indicators Assist In Monitoring Business Operations

The purpose of Key Performance Indicators is to measure value. Key Performance Indicators can be used to manage performance improvement. This is achieved by firstly identifying the key information that is required by management to get a strong 'feel' for how a particular operation of the business is performing. This is primarily achieved by comparing a calculated indicator with the budget amount for that indicator and the results for the previous day, week or month for that indicator, so that it becomes very obvious if there has been a significant variation between what is expected and what has been the norm. Management should then investigate that variation to see first of all whether an error has been made on the calculation and, if not, to explore what has caused the variation to occur.

Some examples of Key Performance Indicators are as follows:

- **Gross Profit Percentage** – this is the answer to a calculation of the gross profit for a period of time being divided by the sales revenue multiplied by 100 over 1. If the business has a similar product mix of sales from one week to the next then the gross profit percentage normally remains consistent, unless there has been a significant change in either purchase price of products or the selling prices of products by the business.
- **Labour to Turnover Percentage** – this can be a guide as to whether the business operation has more employees working at a particular time than what is normal. There could be a good reason for this – a team member may be in training to perform a specific role and the person that normally fills that role is still in situ which means the wages costs for that week is going to be higher. When management investigates they will ascertain what the reason is for the increase in the labour turnover percentage.
- **Reworks** – in manufacturing processes it is very common to calculate the percentage of reworks in a day. This can be achieved by calculating the value of the products that have had to be redone and expressing that as a percentage over the total production to determine the percentage. It is normal for all manufacturing businesses to have a rework percentage but one of the key roles for management is to monitor that percentage. The best way of doing that is for you to determine a Key Performance Indicator so that that figure is compared to what the result was on previous occasions so that management is aware of additional problems that need to be investigated. The problem could be that a new team member has not been properly trained and has had a lot of rejected product. The problem can then be fixed.

- **Key Performance Indicators** - should be calculated on an ongoing basis – daily – weekly – monthly, to give the person responsible for that activity commercial information which can help them manage that particular business operation.

Business Terminology

Benchmarks

Benchmarking is the comparison of a business' operating key performance indicators and financial ratios with best practice and average performance data relating to similar businesses. It is very difficult, in small business, to find authentic data against which to compare your performance to that of your peers, as this information is generally not known or released. It makes it very difficult for small/medium enterprises to know where they stand relative to:

- revenue generated per employee;
- gross profit percentages;
- labour to turnover percentages;
- net profit percentage to turnover; and
- other performance data, as compared to the overall industry performance figures.

B.O.S

Before Owners Salary - this is a term used to indicate what the financial result is, prior to including owner's/management's salaries.

Break Even Sales

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

Capitalisation Rate

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 length investor would require from an investment in this type of business after the allowance of reasonable management salaries.

The capitalisation rate normally reflects a mark-up on prevailing interest rates to reflect the risk of the business, lack of negotiability of shares, economic conditions, restrictions on entry into the business, size of the share parcel (if a company) and general business risks.

Comparative Analysis

A comparative analysis allows you to review your performance during each benchmark period.

Cost of Goods Sold

The figure calculated in a trading account to represent the cost of goods sold in that accounting period.

The figure is the result of the calculation:

Opening Stock	\$
<u>Plus</u> Purchases	\$
Freight Inwards	\$
	<hr/>
<u>Less</u> Closing Stock	\$
Equals Cost of Goods Sold	\$
	<hr/>

Creditor's Turnover

Is the average number of days taken to pay creditors (purchases divided by creditor's balance) divided into 365 days.

Calculated:

$$\frac{\text{Credit Purchases}}{365} = \text{Average daily credit purchases}$$

$$\frac{\text{Creditor's Balance}}{\text{Average Daily Credit Purchases}} = \text{Creditors' Days Outstanding}$$

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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