

BusinessPlus+ Newsletter



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Issue – October 2020

Our theme for this month is "Virtual CFO Services"

Advisory Work Has Increased Because Of COVID-19

COVID-19 has been a catalyst for many small and medium-sized enterprises to ask their accountants to undertake more advisory work.

The key advisory work that has been undertaken includes:

- Calculations to determine a client's eligibility for JobKeeper.
- Budget updates.
- Cashflow Forecast updates.
- Analysis of financial performance for submission to banks.
- Understanding the business' numbers and giving advice on strategies that could be implemented.
- Capital expenditure advice relative to the introduction of instant asset write offs by the government.
- Advising clients on potential eligibility and utilisation of the Loss Carry Back Scheme provisions contained in the Federal government's Budget.
- Participation in regular business review meetings to determine strategies that suited the circumstances that individual clients were encountering because of COVID-19.
- Participation in "think tank" business reviews to determine financing strategies for the next 2 to 3 years. In some of these discussions a decision has been made to attempt to raise capital utilising Crowd Sourced Funding Equity Raising, rather than applying for a bank loan and then having to identify suitable security that could be offered to the bank.
- Discussions relating to research and development activities that some businesses have been undertaking during COVID-19 and giving consideration as to whether the company wishes to claim a Research and Development Incentive Rebate based on the costs that have been incurred or, in some cases, the entity undertaking the research and development was not a company and a decision needed to be made as to whether to incorporate a company to undertake any future research and development activities that are required for a project and to then give consideration as to whether the company wishes to make an application for an Accelerating Commercialisation Grant (up to \$1 million on a 50% funding basis) and then to look at the funding opportunities that the company would have with the prime consideration being given as to whether the company would qualify for the Early Stage Innovation Company classification which assists the company to raise capital because investors can be eligible for an income tax rebate based on their investment and if they hold the shares for longer than 12 months, they avoid capital gains tax on the sale of those shares.

'Virtual CFO Services' Are Being Sought By Some SMEs

The continuing improvement in technology now enables data from accounting software to flow directly from a client's computers to the accounting firm, meaning that accountants are in a position to give advice or raise red flags in real-time if there is a major business issue showing up, rather than waiting for end of quarter or end of year accounting reviews.

A 'Virtual CFO Service' means that the accounting firm partner becomes a "virtual member" of the senior leadership team of the SME client with the main emphasis being on helping the SME to understand the future, rather than just reporting on what has already happened. This is becoming known as "Predictive Accounting".

Other activities that a 'Virtual CFO Service' can offer includes advice on:

- Charge out rates for a tradies' business to determine whether the rates are going to be sufficient to generate the business' targeted profit that will be significantly influenced by the productivity being achieved from the individual team members and the markup that is able to be secured on products and services purchased for installation as part

of the contract. Also the business' overhead expenses have a significant bearing on whether the targeted profit will be achieved.

- Professional service firms' charge out rates also can be determined based on individual productivity expectations and the overhead expenses analysed on a monthly or quarterly basis to determine how the professional firm is actually performing so that a decision can be made as to whether there needs to be any adjustment made to the components of the professional fees that are being used. This approach can apply to a range of professional services firms.
- Retail businesses, whether they are grocery, clothing, cafés or restaurants etc., can be subjected to a due diligence review relative to the product mixes that are applicable to that particular business, the retail selling prices and the business' overheads, to determine whether, in that total mix, the emerging profit will be in line with the original budget expectations. If not, the leadership team can give some consideration to changes that could be made in the pricing policy and/or product mix.
- Costing reviews are an important component of work that can be undertaken in this expanded range of services being undertaken for SMEs. This can include a review of the work in progress system being utilised by a manufacturing business and other types of businesses to determine whether all costs, that could be directly charged to a client, have been treated in an appropriate manner and also to undertake a review of the productivity levels being achieved by various team members and the utilisation of plant and equipment that is intended to be charged on a 'charge for service' basis has been appropriately implemented so that the charges are being made to the client.
- Analysing where a business is going to secure its funding for future operations is a very important component of supplying a 'Virtual CFO Service'. This could include an analysis of the options that are available for a SME to be able to raise capital as a Crowd Sourced Funding Equity Raising Company or for a small start-up company that has undertaken research and development as an Early Stage Innovation Company. There is always the option of raising capital utilising Section 708 of the *Corporations Act* to raise capital.

A brief summary of these capital raising opportunities that apply to private companies are as follows:

- Crowd Sourced Funding Equity Raising Company
 - Group turnover under \$25 million per annum.
 - Group assets valued at under \$25 million – can raise up to \$5 million in a 12 month period.
 - Retail investor limit of \$10,000 per company in a 12 month period.
 - The Crowd Sourced Funding Shareholders are treated as a separate share register and do not count in the "50 shareholder limit" that generally applies to private companies.
- Early Stage Innovation Company
 - Qualifies by passing one of two tests.
 - The company is required to have developed a new product, process, service, organisational or management methodology and now wishes to take the invention to the marketplace.
 - The government has introduced inducements for investors to invest – 20% tax offset based on the level of investment of up to \$1 million for a sophisticated investor and \$50,000 for a retail investor.
- Section 708 of the *Corporations Act*
 - Enables a private company to raise up to \$2 million in a 12 month period from no more than 20 investors.
 - There is no individual investor limit.
 - The company needs to be aware of the 50 shareholder limit that applies to private companies.
- For each of these types of capital raising the company will need:
 - Business Plan that envisages the company's activities for the next 3 years
 - Budgets for 3 years
 - Cashflow Forecasts for 3 years
 - The directors and leadership team members need to have an appreciation of the rules and regulations that apply to the type of entity capital raising that they have selected.
 - Important matters for consideration is that there is no:
 - * security required
 - * personal guarantees required
 - * monthly payments of principal and interest

Other activities that can be conducted as part of the performance of Chief Financial Officer services:

- Financial accounts being prepared for each individual department or activity, rather than all of the business' transactions being reflected in one Profit and Loss Account.

By segregating the financial accounts so that each individual department or activity has separate financial accounts prepared will contribute to sheeting home of responsibility and will enable meaningful Key Performance Indicators to be prepared for each individual business, department or activity.

- Analysis of financial data – instead of financial data being analysed only on an annual basis, the regular preparation of financial accounts facilitates the preparation of regular financial analysis data to assist the leadership team to have a clear understanding of what is happening within the business. This can relate to Trading Profit and Loss Statement Ratio Analysis.

Balance Sheet Ratio Analysis

- Key Performance Indicators – if each department or activity is having Profit and Loss Accounts prepared, this will facilitate the preparation of individual business or activity key performance indicators so as to give the person, who is directly responsible for that department or activity, reports to help that person better manage that department or activity.
- Break Even Calculations – with the business being conducted on an individual department or activity basis, break even calculations could be determined for each individual department or activity, so as to assist the person responsible for the management of that department or activity, to have more meaningful information to guide them in all aspects of the business operation.
- Benchmarking – very important activity is benchmarking individual department and activities performance with others within the same business and with similar activities conducted by other businesses that have contributed their figures to a benchmarking service.

Benchmarking can supply many interesting bits of information which can be analysed to determine overall trends so that the accountant performing the role of Chief Financial Officer is in a better position to guide the leadership team on the intricacies of the financial performance of the business.

- Internal Control – the establishment of a sound internal control system is very important for the conduct of sound business operations. The accountant, acting as the Chief Financial Officer, would be responsible for ensuring that an appropriate system has been implemented for internal control in all aspects of the business' operations.
- Human Resources – in larger companies, it is not unusual for the human resources activity to be part of the responsibilities of the Chief Financial Officer and, for this reason, we have considered human resources in this overview. The 'Virtual Chief Financial Officer' could be responsible for various aspects of the business' human resources documentation and recording systems so as to free up the leadership person, who is primarily responsible for the practical aspects of human resources.
- Treasury Functions – are an important component within a business and are traditionally a key area performed by the Chief Financial Officer. When a business has appointed a 'Virtual Chief Financial Officer' it is expected that accounting firm would be responsible for a range of Treasury functions including:
 - Monitoring the business' funding requirements and reporting to the Board of Directors on any projected shortfalls in funding, together with a recommendation as to the strategies to overcome the funding shortfalls which could include:
 - * raising loans
 - * raising share capital for the company
 - * selling surplus assets to generate cashflow

The 'Virtual Chief Financial Officer' would normally be responsible for the ongoing relationship with the business' bank and financiers to keep them informed of the business' operations and to alert the CEO when he/she should be available to present an overview of the business' performance to the banker/lender.

- Risk Management – this is a very important area which, in many cases, does not receive the attention that it deserves within SMEs. Where a 'Virtual Chief Financial Officer' has been appointed, it would be normal for that accountancy firm to accept responsibility for the documentation of potential risk strategies that confront the business and for the development of risk management strategies and the submission of those strategies to the Board of Directors for approval and then undertaking implementation processes to ensure that all required team members are well aware of the risk management strategies that the business has implemented.
- Budgets and Cashflow Forecast – these are a very important part of the financial tools normally referred to as 'Predictive Accounting'. The annual Budgets and Cashflow Forecasts should be prepared by the 'Virtual Chief Financial Officer' with updates being prepared, on a monthly basis, to reflect current activities and to reflect various changes from the original assumptions that are now going to affect the business.

A very important function of the 'Virtual Chief Financial Officer' is to keep the leadership team and the Board of Directors abreast of financing trends and the implications if these trends are not appropriately managed.

- Working Capital – a crucial area for the 'Virtual Chief Financial Officer' to monitor, on an ongoing basis, is the business' working capital position. This relates to:
 - Sundry Debtors
 - Stock/Inventory
 - Work in Progress
 - Creditors
 - Bank Account Balances

A report should be submitted to each leadership team meeting and Board of Directors' meeting on the current working capital position for the business.

- Grants – there are hundreds of government grants in Australia from the Australian, State and Territory governments. The 'Virtual Chief Financial Officer' would normally be responsible for monitoring government grants and bringing any suitable grants to the attention of the Chief Executive Officer for a determination as to whether a grant application will be submitted.
- Investment Readiness – a key aspect of businesses, which are committed to “scaling up”, is to ensure that the business' records are maintained in a manner so that the business is “investment ready” at any time. What this means is that, if the business receives any favourable enquiries relative to a joint venture, merger or the sale of the business, the business' records are suitable for discussions and negotiations to be held without any undue delay because records are not up-to-date. This is an important aspect of an accounting firm's responsibilities for performing the 'Virtual Chief Financial Officer' role.

“What If” Questions

In larger businesses and public companies Chief Financial Officers receive many “what if” questions on an ongoing basis. These questions can relate to:

- Job costing
- Grants that are available
- International currencies
- Interest rates
- Exporting processes
- Specific business proposals that require financial analysis
- Level of investment in sundry debtors
- Detailed costing review on various aspects of the organisation's operations
- Leadership team training and mentoring on various business activities
- Team training on accounting reports that are being distributed to team members
- Key Performance Indicator compilation and analysis to ensure that all key information has been identified
- How does the business compare via a benchmarking exercise against a competitor's business?
- Updates on competitor's business operations
- Questions relating to corporate governance issues/Board of Directors meetings processes
- Questions relating to matters to be discussed at a monthly business review meeting
- I am thinking about undertaking some research and development activities how do we get access to the Research and Development Incentive Rebate?
- I would like to expand the business – how do we go about raising capital?
- I have heard about “scaling up” what does this mean? How do I go about instigating a “scaling up” process for my business? What assistance are you and your firm able to provide in this process?

Many SME Leaders will be familiar with the same types of questions with many leaders unsure of who to turn to for answers or just to have a discussion. The concept of a “Virtual CFO Service” is that the accountant would be available to answer those “what if” questions.

If you would like to have a discussion with us relative to consideration being given to our firm performing a 'Virtual Chief Financial Officer' service for your business, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

Export Market Development Grant

A reminder that the Export Market Development Grant Applications, in respect of the year ended 30th June 2020, are required to be lodged with Austrade by 30th November 2020.

If you undertook export operations and spent at least \$15,000 on export promotional activities in 2019/20, you could be eligible to lodge an Export Market Development Grant Application.

If you would like our assistance in the preparation of the grant application form, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

A Better You, A Better Business

Extracts from a presentation by Jordan Lowry, Managing Director, [Blackstone Business Group](#).

It's a struggle to be a business owner at present and many of your team are probably facing the same sorts of issues, especially if you're in lockdown.

An interesting system known as “CRIPES” might help you to undertake a self-assessment on your current business fitness level. Why not rate yourself 1 to 10 (with 10 being the “perfect” score) on the following items:

Career: Relate to your job, if you're an employee, if you're an employer. Rate from 1 to 10. How would you think you actually fall when it comes to satisfaction? No 1 would be... *"I hate my job". I hate waking up every day or hate walking into my workplace, my business". "It's terrible". "I hate it". "I don't want anything to do with it".* Right up to 10, where it is *"nothing could be better". "I have the most amazing culture". "I love walking into work every day".* So if you rate yourself, 1 to 10, where do you think you would be?

- Relationships:** Relationships talks about not just one relationship, but what is the quality of your relationships in your whole life. How is it? Do you know the relationship with, not only, your partner, your children, your family and your friends? You are an amazing person. You speak with everyone. You regularly communicate with people, you feel really connected and loved by everyone in your life. So rate from 1 to 10.
- Intelligence:** This is a big one, and quite important. When is the last time you put something into the tank; read a book, do you listen to podcasts, something that actually built you up and helped you? You put some intelligence back into the tank. I'm not talking about watching the news or watching a movie, something where you've invested back in yourself. Write 1 if you've never picked up a book in your life, or never listened to a podcast. Through to 10, which would be that you put some intelligence back into the tank. It's a regular part of your day. Take time out to put something back into the tank – Now after consideration rate yourself 1 to 10.
- Physical:** 10 would be that you're a model on a magazine cover, right through to you have never walked into a gym a day in your life. So where do you sit? Rate yourself out of 10.
- Emotional:** Where do you sit emotionally? Number 1, you're just an absolute mess. You will hear something sad and you want to cry. Your feelings are all over the place. You don't know what to do. Every day is a struggle right through to you are in touch with your feelings. Yes, you can be emotional, but you understand exactly how to respond and manage interactions on a daily basis. What rating have you given yourself 1 – 10?
- Spiritual Connect With The World":** "How You The Spiritual isn't just about religion, spiritual is how you connect with the world. Spirituality will be different for everyone, but whatever it means to you, where you think you're right now? How do you rate 1 – 10?.

Essentially, you should have rated yourself across all of these things. The way you actually work out the average of where you sit in life, is that you add all of the numbers and divide by 6; this tells you where you sit.

As a percentage, a lot of people will come in at 50% or 60%. They're looking at it and thinking that their life is a C or C minus. This is not good. The idea is to actually get a snapshot of where you can look at different things to improve.

How can you improve? I'm not talking about changing everything overnight, because we'd get paralysis by analysis. We don't want to commit to too much. We want to do this incrementally. What's one thing you can do, from a physical point of view, to take you from (say) a 5 to a 6 in a month's time? You could get up and walk twice a week in the morning for about half an hour. That would take you up to the next level.

And when it comes to relationships in your life, take your wife out to dinner, or a partner out to dinner once a week. Call your parents, call your grandparents... whatever it might be. Incrementally and slightly, you'll improve month to month which gives you an overall sense of elevation, happiness and it actually just makes us a better person. And if you're a better person, a better you, you're going to be a more effective teacher, leader, partner, business owner etc. That is what it's all about.... sharing and helping!

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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