WMC accounting

YOUR Knowledge

The top 5 issues holding back your business

Overcoming the biggest problems in business often comes down to the simple things. Here are a few simple things you can do to capitalise on your opportunities and reduce your risks in 2013/2014.

"I didn't get time to…" No more excuses

Most people simply don't set aside the time to do the forward planning they know they need to do. Here's a simple test: write down your goals for the business. Now ask yourself if you are doing something towards achieving those goals every day or every week? If not, it's not a goal. It's just a nice thought.

Set a realistic budget

Financially mapping your business reduces your risk and removes some of the surprises that can occur. Your budget needs to be realistic – not just a percentage increase on last year.

Start with an operating budget and assess each line critically. Map your revenue to see where, how and when the money is coming in to create a reliable estimate of your income for the coming year. Once you have your revenue expectations in place, look at what is required to generate that income. For example, what advertising, marketing and resources will be required?

Once you are comfortable with your revenue, work up your expenditure budget. Be tough on costs. Don't forget to allow for growth and the increases that are likely to flow through.

Once your budget is complete and you have a good idea of your likely profit margins, do a couple of alternative estimates for your key revenue drivers so you understand the impact of changes to your assumptions. Once you have all this in place, track and measure it throughout the year. Where possible, your management team should be a part of this process and take responsibility for achieving the budget numbers they give you. When people don't take the steps that they knew were required to achieve the budget the gaps become obvious fairly quickly. Having a budget in place that you need to report on regularly makes you focus on what really needs to be done.

Map your cash

Even some very large businesses have failed because they ran out of cash. Understanding your cashflow needs is vital particularly for high growth business.

Understanding your cash position is about understanding the timing differences: How long will it take for your customers to pay you? How much stock will you need to hold? And, what are the payment terms required by your suppliers? With your cash flow, don't forget to allow for things like tax payments, loan repayments, dividends and any capital purchases that are planned. These can be 'big ticket' items and if you don't allow for them then you will get caught out.

As part of your cash flow forecast identify your capital expenditure requirements. Don't deal with these on a one-off basis as they arise, plan them in advance.

Expect the unexpected

Growing to death is often the result of unplanned growth opportunities. It's ironic that seizing a major sales contract or big new client can be your business's ruin but its more common than you think.

Many business operators are very good at what they do. Most have an excellent knowledge of the business they conduct and understand their products and services. Most also have an in depth knowledge of sales performance and revenue. Few however, have a high level of financial management expertise, so when a big new opportunity presents, critical financial questions are not part of the vocabulary. As a result, there can be a sudden and unintended impact on their financial position. A rush of sales might be a great thing but it is not always counterbalanced by a rush of income and profit. Free cash and liquidity are the victims.

For businesses without strong financial management and control, there is simply no way of understanding what impact the opportunity will have until they have experienced it. With no background history to rely on, the warning signs of impending financial crisis don't appear.

Take all the tax advantages you can

For small business in particular there are a range of concessions and funding you can access. Many businesses simply don't realise the opportunities available to them. *Continued over…*

Geelong Office 72-76 Ryrie Street, Geelong
(03) 5222 3200

Colac Office 90-98 Wallace Street, Colac
(03) 5231 6711

www.wmcaccounting.com.au

The top 5 issues holding back your business *continued*
A simple example is trading stock valuations. Your trading stock is an asset that is recorded on your balance sheet. In most cases it should be tax neutral to you. The cost of purchasing stock is expensed in your profit and loss account and offset by the value of the stock asset, until you sell it. So, while the amount of stock you are carrying will impact on your cash position, because you have your funds tied up in it, there is no direct impact on your profits or taxable income until you sell that stock. However, if at June 30 some of your stock is worth less than its cost price, you have the option to value it at the lower figure and take the tax write off now, rather than wait until the stock is sold. This reduction in your stock value will produce a tax saving for you.

For tax purposes, there are a number of ways of valuing stock. Once you have done your stocktake (assuming you need to do one), you can choose what method to apply depending on the stock and your circumstances. The different ways of valuing stock can produce different results. Most businesses chose to value trading stock at cost – but you have the option of valuing your stock at the lower of cost, market or replacement value.

For example, if you have stock that is about to become obsolete valuing it at cost price for tax purposes is not going to help you. In this situation you would be better off to value the stock at market value, particularly if it is a large quantity. Take the example of vitamins with a use by date that only has a month or two left on it. Leading up to and once the vitamins reach their use by date they are unsaleable. In this case, you would estimate how much of the stock you are likely to sell prior to the use by date and at what price. Using previous sales as a guide, if you only expect to sell 15% of the stock prior to the use by date, you would use the market value of this 15%. Other than when you sell your stock, your tax return gives you a once a year opportunity to adjust your stock values and realise any losses.

Another classic way small businesses disadvantage themselves is not taking the Government concessions available to them. The R&D concessions and Export Market Development Grants are a classic case. In the case of R&D concessions, if you develop new technologies or products, you might be eligible for a 45% refundable tax offset (equivalent to a 150% deduction). The Export Market Development Grant reimburses up to 50% of eligible export promotion expenses above $10,000 provided that the total expenses are at least $20,000 for existing and budding exporters. While it takes time to manage these grants and concessions, the outcome can be very rewarding.

We can help your business capitalise on the opportunities available to you and make the 2013/2014 financial year a great one for you.

What changed on 1 July 2013?

Here's a brief summary of what changed on 1 July:

- The minimum rate for superannuation guarantee contributions increases from 9% to 9.25%. The rate will continue to increase steadily until it reaches 12% from 1 July 2019 onwards.
- The upper age limit for super guarantee has been removed. That means eligible employees aged 70 and over will receive super guarantee.
- For those aged 60 and over, you will be able to contribute more to superannuation with the concessional contributions cap increasing to $35,000 (up from $25,000). The concessional contributions cap for those aged 50 and over will increase to $35,000 from 1 July 2014.
- An increased tax rate applies on contributions made by high-income earners with a 'total income' in excess of $300,000.
- The net medical expenses tax offset (NMETO) will be abolished although there will be a transitional period for those currently claiming the offset. The NMETO previously allowed you to claim a tax offset for medical expenses above the threshold.
- For the 2013 income year, companies will be able to carry back up to $1m of tax losses incurred in the 2013 income year to recoup tax paid for the 2012 income year. This change assumes the legislation makes it through Parliament. The refundable tax offset that can be claimed is limited to the company's franking account balance for that year.

"Everything we hear is an opinion, not a fact. Everything we see is a perspective, not the truth."
Marcus Aurelius

Geelong Office 72-76 Ryrie Street, Geelong (03) 5222 3200
Colac Office 90-98 Wallace Street, Colac (03) 5231 6711
www.wmcaccounting.com.au