BANYAN CONSULTING PTY LTD

Chartered Accountants
Business Advisors

BANYAN CONSULTING PTY LTD

Suite 9 573 Military Road
Mosman NSW 2088
Tel: 02 9968 4644
www.banyanconsulting.com.au

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Welcome To 2010/11 – Happy New Financial Year!

Another Financial Year

Are You Preparing For A Stop/Start Boom?

The MYOB Business Monitor Report released in April 2010 summarised what 1,000 SME operators had identified as the main pressures on business owners in the next 12 months. These included:

- fuel prices
- cashflow management
- price margins and profitability
- interest rates
- competitor activity
- customer late payments

The survey indicated that *"54% of business owners surveyed by MYOB expect economic recovery to begin to improve from its present position in the next 12 months".* The SME operators identified 6 areas which currently present them with the most difficulty:

- "*knowing which government legislation and compliance changes are relevant to your business;*
- *tracking and chasing up late payments;*
- *knowing what changes to make to achieve your business goals;*
- *managing the cashflow in and out of your business;*
- *getting the right information to make informed business decisions; and*
- *preparing the quarterly Business Activity Statement (BAS)."*

The Dun and Bradstreet Business Expectation Survey identified the following areas of concern for SMEs: *"access to credit, interest rates, and wages growth.*"

Even through banks slightly increased lending to businesses in May 2010, access to credit is still identified as a major problem. Now is the time to review your 2010/2011 forecast factoring in how the foregoing issues affect your business, but there are also some other issues to consider.

Firstly, the good news!

- The government has revised unemployment forecasts... now expected to be 5%, instead of 6.7%.
- The Reserve Bank has left the prime bank interest rates at 4.5% (7 July 2010) with an increase expected at the end of 2010.

Not so good news:

- inflation risks remain;
- sovereign debt issues in Europe remain a potential major problem for the world;
- China slow down; and
- a federal election will be a confidence negative for business until the result is known.

So overall it is likely to be a stop/start boom. There will be winners; but unfortunately there will also be losers. Now is the time to update and prepare your documentation and systems to ensure your success in business. This relates to budget, cashflow forecasts, business plans and then use these documents to negotiate with your banks and lenders to ensure you have sufficient funding available to fund debtors, stock, work in progress and capital expenditure. It is also a good time to get your team ready so you're able to service your customers' demands from the emerging boom. If you would like our assistance in helping you plan for the 2010/11 fiscal year, please contact us.

New Research & Development Bill Not Passed

The Federal government was unable to have its new research and development legislation passed by the Senate, prior to the Senate rising for the winter recess.

The new legislation was scheduled to commence on the 1st July 2010. The government is saying that the legislation will be reintroduced when the Senate next meets; with a retrospective date back to the 1st July 2010. Many commentators however have raised strong objections to retrospective legislation. Also, it is far from certain that the legislation will be passed by the Senate as the Opposition has a number of outstanding issues relating to the legislation. It would appear that, at this stage, the best advice is that the current research and development scheme is the scheme that was operating up to 30th June 2010 i.e:

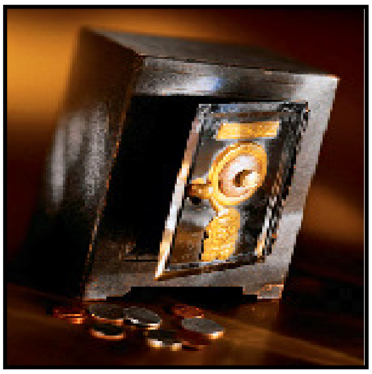
- for companies with turnovers under $5M – R & D expenditure up to $2M can be claimed at 125% of R & D expenditure or 175% for the excess over a three year average;
- if the company is trading at a loss – a rebate calculated at 37.5% of actual R & D expenditure, will be paid by the Australian Taxation Office; and
- if the R & D expenditure has exceeded a three year average – that component will be paid at 52.5%.

For companies with turnovers in excess of $5M, it is recommended that you continue to claim R & D expenditure at 125% or, for the component applicable, at 175%.

If you are planning a major research and development project and you were relying on the proposed new legislation, (companies with turnovers under $20M were to receive a tax rebate of 45 cents in the dollar on the R & D expenditure and companies with turnovers of $20M + were to receive a taxation credit of 40 cents in the dollar of the R & D expenditure) we recommend that, before committing substantial funds to research and development projects, you contact us for our advice.

Have You A Plan If A Business Partner Dies?

What would happen if your business partner died suddenly? Indeed, what would happen if you died?
Planning for the death of a partner in a business must be looked at from both sides of the equation. What are the needs and expectations of the survivors in the business and the members of the deceased estate?



Contingency plans for the death of a business partner can be incorporated into a Buy/Sell Agreement. A properly drafted Buy/Sell Agreement with appropriate insurance covers should ensure that there is sufficient cash to enable the deceased partner's estate to be paid out. What you need to do is periodically update the Buy/Sell Agreement.

Make sure it reflects the current value of the business and try and get insurance covers on the partners that reflect the value of their share in the business. It is very important that a commercial solicitor drafts the Buy/Sell Agreement, checks the company documentation and Wills to ensure that, in the unfortunate event of a premature death, the business will be able to survive and the deceased partner's estate will be able to be paid out.

Planning

The start of a new financial year is a great time for some planning as to where your business is headed in 2010/11, including:

- Insurance
- Taxation Audit Insurance
- Debtors' Management
- Budgets
- Cashflow Forecast
- Business Plan

Enduring Power Of Attorney

As part of forward planning, business people should consider making an Enduring Power of Attorney.

An Enduring Power Of Attorney provides the documentation, relating to the appointment of a Power Of Attorney, to be enacted if the person subsequently loses their mental powers or is incapacitated. Normally, an Enduring Power Of Attorney is made in favour of a spouse, relative or friend, and gives the power to act for you if you can no longer act for yourself.

If you require assistance in preparing documentation for an Enduring Power Of Attorney, please do not hesitate to contact us.

Do You Have A Will?

How long is it since you reviewed your Will? Indeed, do you have a Will?

There is also some basic information that you should be summarising to assist in the administration of your affairs in the unfortunate event that administration is required. This would relate to trade secrets of the business and agreements reached with key suppliers that might not be fully documented. Writing down many of the business' issues will assist your successor in running the business.

It is very important that business people implement proper plans to ensure that, if something does happen to them, due to death or permanent incapacity, there is a structure in place that will enable the business to continue. We recommend that you consult your commercial solicitor for a review on these matters as part of an annual legal check-up.

What's It Mean?

Discount rates used in the valuation of emerging companies.
The discount rate that is used in the valuation of emerging companies is a combination of long term interest rate (e.g. 10-year Commonwealth Bond Rate) and the Risk Multiplier, depending on the stage of the company's development.
Interest Rates
Investors would normally wish to use a market sensitive long-term interest rate such as the 10-year Commonwealth Bond Rate. This is published each week in the Australian Financial Review. As at the 6 July 2010, that rate was 5.052%
Risk Multiplier
The risk multiplier is determined on the stage of development of a company. It is normally determined on an analysis as to whether the company has any sales and any profits. In "Enterprise and Venture Capital", Christopher Golis stated "*growth stages in a company and allocated risk multipliers to those various stages are as follows*:

Stage	*Description*	*Sales*	*Profits*	*Multiplier*
1	*Seed/Start Up*	*No*	*No*	*7-9*
2	*Second Stage*	*Yes*	*No*	*5-7*
3	*Development Stage*	*Yes*	*Yes*	*3-5"*

Calculation of discount rate: If a company was a Seed/Start up company, with no sales and no profits, then the discount rate to be used in the valuation of the company would be calculated as follows:
10 year bond rate: 5.052%
Risk Multiplier: stated 7-9 (say) 8 therefore the discount rate used would be 5.052 x 8 = 40.42%

Example:
In last month's Business Plus under the heading Estimate of Future Earnings Valuation Method, if the Price Earnings Ratio of 5 had been used: multiply the after tax profits forecast to emerge for the new company in three years - $2M to give a projected value on that company in 3 years of $10M.
Using a discount rate of 40.42% the present value of the company would be $3.64M.

Who Can Assist Small Business Operators?

If you are a newcomer to small business you can be assisted by:-

- professional accountants with experience in small business;
- solicitors with commercial experience and an appreciation of small business problems;
- bankers, finance companies, industry groups and government agencies charged with assisting small business operations.

You could also gain assistance by developing networks with other businesses servicing similar industry groups. You can also gain an understanding of how you are performing against your peers by participating in benchmarking surveys for similar businesses.

The management of an SME can be a very lonely affair. Please don't hesitate to contact us if you would like to have discussions or seek our opinion on other allied professionals who will have empathy for your aspirations and concerns.

"If you are failing to plan, you are planning to fail"

Business Plans - Questions To Consider Part 22

Staff Training - Some of the questions that should be considered in reviewing staff training as part of the development of a business plan, are:

- Have you introduced a staff training program?
- Does the staff training program cover all employees?
- Do you have a staff induction program for new employees?
- Does the staff induction program include;
  - a tour of the work place?
  - introductions to fellow workers and management?
  - explanation of safety issues?
  - fire drills?
  - review of the staff manual?
- Are appropriate records being maintained of staff training undertaken?

There are over 50 questionnaires relating to the preparation of a business plan, in the next issue we will consider Imports.

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