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Navigating The Business Minefield

The first quarter of the 2010/11 fiscal year is over. Have you reviewed your business' activities relative to:

- financial performance - actual versus budgets;
- key performance indicators;
- benchmarking your business against comparable businesses or against industry benchmark;
- debtors' days outstanding;
- stock and work in progress levels;
- stock turn rates; and
- cashflow position.

How are current events affecting your business?

- Interest Rates - there is speculation that this month's rate increase by the Reserve Bank will not be the last. Have you factored in the increase in interest costs in your forecast?
- Exchange Rate - the relationship of the Australian versus US dollar is in an abnormal situation. This is the first time in 28 years that there has been parity (or near parity). If you are an exporter, it will be affecting your business. Should you be taking currency contract covers?
- Consumer Law Changes (commencing 1 January 2011). Have you reviewed how the changes will affect your business?
- What does your forward order book look like?
- There is evidence of **higher inflationary** pressures. Are these affecting your business?
- There are still **potential problems** in Britain, Europe and the USA which could cause upheaval in international financial markets. What can you do about all of these factors?
- **Debtors** - Now is an appropriate time to review your debtors, especially debtors' days outstanding. Have you done all that you can to reduce the debtors' days outstanding? Should you be talking to your bank, or a debtors' financing/factoring organisation about raising debtors' finance?
- Now is a good time to review your cashflow forecast, factoring in higher interest charges.
- Its **good management practise** to brief your bank on the performance of your business for the first quarter and present a summary of your expectations for business activities in 2011.



If you would like our assistance in conducting a review on your current business performance, please do not hesitate to contact us.

REMINDER:

Export Market Development Grant applications have to be lodged by 30 November 2010

The ATO Is Using Benchmarks For Tax Audits

The Australian Taxation Office's benchmarking process is now being used to check taxation assessments. SMEs need to keep accurate, clear records of their business affairs to satisfy taxation officer's reviews.

If you fail to keep proper records and the business' financial performance is outside the benchmarks established for a particular industry, then the onus will be on the individual operator to prove that the Australian Taxation Office should not apply the industry benchmarks to that particular small business. This will prove to be extremely difficult if proper records have not been kept to support transactions for the business. The ATO is using the benchmarks business evaluation as part of its monitoring of the "cash economy". The ATO have instigated a program whereby thousands of small businesses will be monitored over the next 12 months and, if a business appears to not be performing within the "norm" established by the ATO benchmarks, then the small business owner will probably be subjected to a "finely tuned" audit.



The ATO has issued guidelines as to how they will undertake benchmarking audits. These include:

- a letter will be sent to the taxpayer, with a copy to the tax agent, advising that the taxpayer's business is outside the benchmarks for that particular industry;
- if deemed necessary, the ATO will request the client's records be submitted to the ATO for review. If the records are found to be acceptable there will be no further action taken by the ATO. (This highlights the necessity to ensure that proper records have been kept of all business transactions).
- should the ATO deem that records are inadequate, the taxpayer will be advised that he/she will need to produce further records to support the variation from the ATO's benchmark for that industry. Without proof, or other compelling reasons, the ATO will then apply the benchmark to determine the taxpayer's assessable income.
- if a small business receives a request from the ATO, relative to a benchmark audit, the taxpayer will have 14 days to respond to the request.

If you have any concerns as to how your business will perform against the ATO's benchmark for your industry and you would like us to conduct a review of your business systems and records, please contact us.

First Impressions Count

Most people make up their minds within seconds of meeting someone whether they like them. Small business operators need to determine strategies to improve the chances of success from the first meeting of a potential customer or client. How are you going to influence these clients in the 5 seconds your business has to offer them outstanding service? Some ways this can be achieved include:-

- determining greeting formats to be used when greeting visitors to your business premises;
- determining telephone answering procedures - telephones should be answered courteously, promptly and in a way that the caller is made to feel very welcome.



Businesses need to consider ways to improve their chances of getting a positive reaction from a first meeting or contact with a potential customer. One strategy would be to think carefully about what impressions you wish to convey to a visitor/prospect. How are you going to give them a positive message about your business? Team managers need to understand that, after the initial judgement has been made by a visitor/prospect, it can be fairly difficult to change a negative view into a positive one. This highlights the necessity to ensure that team members are aware that first impressions count in establishing an outstanding relationship with a visitor/prospect to your business.

Consumer Laws Are Changing

From the 1st January 2011, Australia will have a single National set of laws for consumer protection. The new Federal Legislation replaces the individual legislation previously held by each State and Territory.

There are three key areas in the National Consumer Laws affecting small businesses, these include:

Unfair Contracts:

- If a clause is unfair, it can be struck out by a court. It is recommended that you review the wording of your contracts, including warranties and conditions of sale.

Consumer Guarantee:

- This covers items such as remedies, refunds and fixing defects.

Best Practice Reforms:

- This includes mandatory cooling off periods and clauses relating to lay-by sales.



The National Consumer Laws are monitored by ACCC, ASIC (Australian Securities Investment Commission) and the State Consumer Departments. There are substantial penalties that can be incurred for breaching the National Consumer Laws.

The government has indicated the benefits for small business from the National Consumer Laws are reduced compliance costs, especially relative to businesses that are trading in various parts of Australia, because they will now only have to comply with one set of national rules. This should provide a more level playing field for businesses.

We recommend that you have discussions with your lawyer to review the effect the National Consumer Laws will have on your business' operations.

Insurance Review Of Your Key Asset

Various reports have indicated that many Australian businesses are not carrying adequate insurance for one of the key assets within the businesses - the human beings that work within the business.

The type of insurance policies that should be considered include:

- sickness and accident cover (particularly for owners and directors);
- key person insurance (directors/shareholders); and
- insurance cover within buy/sell agreements (these relate to partnerships and companies to enable funds to be available to enable a buy out to occur in the event of the death or serious injury/illness of a shareholder).



Have you reviewed the adequacy of these types of insurance policies of the key people within your business?

If you would like us to review the adequacy of your insurance covers and determine the current valuation of your business so the adequacy of insurance covers for buy/sell agreements can be determined, please contact us.

Business Plans - Questions To Consider

Stock

- Do you conduct regular stocktakes?
- Do you identify slow moving, obsolete or damaged stock?
- Have you used a stock matrix to identify your stars, problem lines, cash cows & dogs?
- Does your staff know what your "star" stock items are?
- Does your stock ordering system enable you to have the "right" amount of stock on hand?
- Does someone watch "fashion trends" to make sure you are buying stock that will sell?
- Do you calculate stock turn reports on individual stock items?

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

What's It Mean?

Accounts Payable... (also known as **Sundry Creditors**)

are short term or current financial obligations that are created through the purchase of merchandise, obtaining of services etc.

At the end of each month it is normal to prepare a list of moneys owing, (known as Accounts Payable or Sundry Creditors). Many businesses prepare an Aged Analysis for Accounts Payable (Sundry Creditors) which details the relative time period of the outstanding tax invoice e.g. 30-days, 60-days, 90-days. Businesses should keep a close eye on the level of debt owing for accounts payable to ensure that the business is paying its bills in accordance with the terms of trade of the supplier.



Inventory... (also known as **Stock on Hand**)

is the value of goods, being purchased or manufactured, that the business expects to sell to customers during the next accounting period or year. Businesses should closely monitor their investment in Inventory (Stock on Hand). Inventory can tie up a lot of money and can expose the business to financial difficulties if too much money is invested in Inventory.

Investment Allowance

Installation by 31 December 2010:

If you are an eligible small business (turnover under \$2M) and you ordered an eligible asset for investment allowance purposes prior to 31 December 2009, you can claim the 50% investment allowance if you install the eligible asset by 31 December 2010. The investment allowance claim would be made in the 2010/11 tax return.

If your turnover is over \$2M:

If you ordered an eligible asset prior to 31 December 2009 and your turnover is over \$2M per annum, you can claim 10% investment allowance if you install the eligible asset by 31 December 2010. The investment allowance claim would be made in the 2010/11 tax return.



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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