QUANTUM
ACCOUNTING GROUP

BUSINESS INSIGHT SEPTEMBER 2014

inspiring business

NEWS, VIEWS & CLUES.

7 REASONS YOU NEED TO KNOW YOUR NUMBERS

What is the most common reason that you are stressed as a business owner? I am sure that most people would answer cash flow problems.

A simple question for business owners is, “Where does your company stand now?” In other words, what is your current financial position? Many owners can come up with a vague answer such as, “we’re doing really well” or “we could use some more cash”. But they might not have a firm grasp of their numbers.

If you run a business of any size, it’s critical that you understand your financial situation at all times. And here’s why:

1. Your financial position is your unbiased scorecard.

Numbers are not subject to “creative interpretation”. Either your business is making money or it is not. Either it is expanding its market share or it is not. These numbers are completely transparent in your accounting and therefore completely unquestionable in what they show.

2. Your numbers show which parts of your business are working and which are not.

Perhaps one line of products is not profitable but you wish to invest in it because you believe it will become profitable. You can choose to do so, or you can choose to get rid of unprofitable lines and concentrate on the profitable ones. But you can do this only if you know your numbers.

3. Your numbers give you the ability to make decisions based on logic and not emotion.

Emotions can get in the way of making good business decisions. When you remove all emotion (hope, fear, greed) and instead base your decisions on your actual financial performance, you can be sure that your decisions have been made using objective inputs.

4. Small problems can be identified and remedied before they become large problems.

If you frequently update and review your financial statements, you can be sure to spot issues as they arise rather than once they have already been in place for a while. If your market share is dropping in a particular segment, if certain expenses are climbing – these issues can quickly be found, and examined for their cause. You can take steps to remedy a negative situation before it starts to impact your business in a major way.

5. Stakeholders require financial information.

If you want to borrow money in order to grow your business, your lenders will need to examine your financial position in detail. They will determine if they feel you have the ability to repay them. Before you even approach a lender, however, you should have already reviewed your numbers and established for yourself that you are ready to grow your business. You should be able to show where you currently stand and to what degree you believe your new endeavours will increase your profits. If you cannot demonstrate these numbers to a potential lender, you will never get approved for a loan.

6. Familiarity with your financial statements is also one of the best ways to head off any potential funny business among your employees or partners.

If you review your numbers regularly and in detail, there is less opportunity for someone to siphon off some money into their own pockets. You will know what the numbers should look like, and will quickly notice if something is suspicious or out of place.

7. And finally, for your own peace of mind, it’s important that you understand your numbers.

You won’t be worrying that you’re about to go under. You’ll have contingency plans in place – emergency funding lines, insurance – to be able to quickly take care of any problems that arise. You’ll know, without a doubt, that your company is growing and prospering.

Source: smartcompany.com.au

WHAT THE MINING TAX REPEAL MEANS FOR YOUR BUSINESS

The legislation to repeal the Minerals Resource Rent Tax passed the Senate this month, along with a series of concessions funded by the mining tax. Briefly, the measures that may affect your business are as follows:

Loss carry back rules

The loss carry-back rules were intended to provide companies with a refundable tax offset by allowing them to utilise a current year tax loss against a tax liability paid in a previous income year. For companies with a normal accounting period, the loss carry back rules have been repealed from 1 July 2013. For those with a substituted accounting period it is from the start of the period that matches the 2013/2014 income year.

This means that companies are only able to apply the loss carry back rules for the 2013 income year. From the 2014 income year onwards, companies will need to carry forward any tax losses to future income years subject to passing the continuity of ownership test or same business test.

Instant Asset Write off and simplified depreciation

We’re (almost) back to the old rules for small business depreciation. The amendments will reverse the changes made by the previous Government that enabled small business entities (SBEs) to deduct assets costing less than $6,500 from 1 July 2012 onwards. From 1 January 2014, SBEs will only be able to claim an immediate deduction for depreciating assets costing less than $1,000. Any claims utilising the more generous write off amount in 2014 tax returns for assets purchased or installed ready for use from 1 January 2014 will need to be amended.

Depreciating assets costing $1,000 or more from 1 January 2014 should be allocated to the SBEs general small business pool and depreciated at 15% in the income year in which the assets are first used or installed ready for use. The assets will then be depreciated as part of that pool at 30% in subsequent income years.

Accelerated deduction for motor vehicles

The $5,000 immediate deduction for motor vehicles acquired by small business entities (SBEs) has been removed from 1 January 2014. SBEs had until 31 December 2013 to qualify for the $5,000 immediate deduction by acquiring and using a motor vehicle over the value of $6,500 by this date. For taxpayers that have already lodged their tax return and claimed the immediate deduction for a motor vehicle purchased after 1 January 2014, the tax return will need to be amended. No penalties will apply if the amendment is made in a “reasonable time”.

Rephasing of Superannuation Guarantee

In the 2014/2015 Federal budget, the Government announced that they will rephase the increase in superannuation guarantee (SG). To secure the passage of the legislation through the Senate the SG has been rephased again. Now, the SG rate will remain at the current rate of 9.5% until 1 July 2021 when it will increase by 0.5% each year until it reaches 12% on 1 July 2025.

Source: knowledgeshop.com.au

SMSF & PROPERTY.

THE 10 PROS AND CONS OF YOUR SMSF OWNING YOUR BUSINESS PREMISES

More SME owners will focus much more closely in coming months on the pros and cons of buying and gearing their businesses premises through their self-managed super funds. Specialists in superannuation, investment and business advice expect SME owners to consider accelerating any existing plans to gear their business premises through their self-managed super funds.

Here are 10 critical points to consider when deciding whether your SMSF should acquire business premises, typically through gearing, to rent to your family business:

1. Family businesses may make excellent tenants

Martin Murden, a director of SMSF consulting and auditing with the Partners Wealth Group, says family businesses make "great" tenants provided the business is successful. And Murden says dealings between a family SMSF as landlord and a family business as tenant can be smoother – regarding such things as rent reviews – than with an arm's-length tenant.

2. Asset protection

Business premises held in an SMSF are generally out of the reach of creditors if individual fund members are declared bankrupt – subject to claw-back provisions in the Bankruptcy Act.

3. Concessional tax treatment

During an SMSF's accumulation or saving phase, rents are taxed at 15% within the fund while capital gains are taxed at an effective 10% if the property is held for more than 12 months. And once the business premises are backing the payment of a superannuation pension, fund income and capital gains are tax-free. This means that the SMSF may eventually be able to sell a property in the pension phase without paying CGT on any profits.

4. Business succession and estate planning

SMSF trustees aim to keep the premises of their family businesses in their super fund through generations, with the aim of gaining greater security of tenure for the business as well as business succession and estate-planning benefits. Under this strategy, an SMSF will need sufficient other assets to pay member superannuation benefits when necessary for older members such as the business founders.

5. Exception for business property

Business real estate is one of the limited types of assets that SMSFs are allowed to acquire from related parties including members. And business real estate is one of the few types of assets that SMSFs can lease to related parties, including the members' businesses, without a limit on its value under the in-house asset rules in superannuation law.

6. Potential conflicts if family business struggles to pay rent

While the principals of a troubled family business may need the premises to keep trading, the family SMSF's trustees – who are often the same people – must maintain the fund for the core or sole purpose of paying member benefits. Additionally, funds are prohibited from providing financial assistance to members, says Murden. This includes giving rent relief to family businesses in financial difficulties.

7. High-cost business premises can dominate an SMSF's portfolio

When preparing their mandatory investment strategies, SMSF trustees must consider such factors as investment risk, portfolio diversification, liquidity of investments, ability to pay member benefits and the members' circumstances. Peter Crump, superannuation strategist for ipac South Australia, says that super funds are not legally required to diversify their investments but emphasises that trustees must consider diversification when preparing their investment strategies.

8. It may be more tax-effective to gear business premises outside super

Much will depend on the circumstances. First, the superannuation tax rate is much lower than most personal marginal tax rates, thus providing potentially lower tax deductions for negative gearing. Second, lenders usually require a much higher deposit for SMSF gearing, which means a property is likely to remain negatively-geared for a relatively short period – if at all. As well, SMSF trustees should be cautious about relying too much on the possibility that the business premises will eventually be sold when the asset is backing the payment of a pension and thus becomes exempt from CGT.

9. Potential costly traps in conditions for super gearing

SMSFs should gain quality professional advice to ensure compliance with the strict conditions allowing funds to borrow. Mistakes can be costly. SMSF Trustees must enter a limited recourse borrowing arrangement and a geared asset must be held in a separate trust until the load is repaid. Lenders cannot make a claim against any other assets of the super fund in the event of a default on the loan.

10. SMSF could face severe financial setback following loan default

Despite the requirement for a limited recourse loan, an SMSF that defaults on a loan to buy business premises could lose its sizeable deposit plus capital repayments and payments of interests and costs. Upon a property's forced sale, a defaulting fund would be paid whatever is left after the lender recovers any outstanding amounts including the cost of a forced sale and the discharge of the mortgage.

Source: smartcompany.com.au

"Failure is simply the opportunity to begin again, this time more intelligently"

Henry Ford

INTERNATIONAL OUTLOOK.

THE SCOTTISH VOTE: WHAT IT MEANS FOR THE GLOBAL ECONOMY

The decisive defeat of the referendum to bust up the United Kingdom is not only good for Scotland and England but also for Europe, the U.S. and, indeed, Western civilization. A headline this week exemplified the global implications of the vote in Scotland: "After Decisive Scottish Rejection Of Independence, Wan Hopes For Quebec Separatists."

If Scotland had opted for secession, already-potent separatist movements around the world—including those in Spain, Italy and France—would have been immeasurably strengthened. The profoundly disruptive repercussions would have been felt from Canada to India to China to Russia. Despite breakaway movements in his own country, Vladimir Putin would have used a Scottish "yes" vote to justify further moves to seize chunks of Ukraine and effectively make the remainder of that country a Kremlin vassal, not to mention stirring up the Russian minorities in the Baltic countries of Lithuania, Latvia and Estonia—all members of NATO—as a step toward subjugating them.

Most global economies are a mess. France, Italy and other EU states are in recession. Germany is stalling. So is Brazil. The world's third-largest economy, Japan, is slumping. China's economy is in flux. The U.S. economy remains sluggish. Worse, there's no sense that economic authorities have any positive idea of what to do to alter this. Stagnation and hopelessness are lethal ingredients for unrest.

An adverse Scottish decision would have fanned all the forces of political unrest. If Great Britain couldn't keep itself together, then what hope was there for others? After all, the UK has always been seen as a centre of political stability, where the rule of law is inviolate. No wonder fright capital descends on London.

Right now, we should be immensely grateful for this outcome.

Source: forbes.com

CHINA'S ECONOMY - A TEST OF WILL

When Li Keqiang, China's prime minister, spoke at a big business meeting earlier this month, he trumpeted two achievements. Not only had the government overseen steady economic growth, he said, but it had done so without resorting to a big stimulus. Both assertions are now looking rather doubtful.

A barrage of data for August pointed to a sudden weakening in growth, catching many analysts and investors by surprise. Although it is unwise to read too much into one month's numbers, the figures had a distressingly uniform downward tilt. Investment, retail sales and credit issuance all slowed. Industrial output, which is closely correlated with GDP given the size of China's manufacturing sector, grew at its weakest pace since late 2008, when the global financial crisis was battering the economy. Housing sales, already struggling, contracted further; they have fallen 8% so far this year. That has started to eat into the revenues of local governments, since property developers are holding back on land purchases. Yao Wei of Société Générale, a French bank, called it a "shockingly sharp" deceleration.

Until the gloomy data started to pile up, China's economy had seemed to be following an established pattern. A wobbly start to 2014 had prompted the government to come up with a series of policies to revive growth. It sped up spending on infrastructure and cheap housing, while the central bank administered a small dose of monetary easing.

Refraining from large-scale stimulus is the right medicine for the economy in the longer term. But there is no sense in pretending that fast growth can be sustained this year without it.

Source: economist.com

10 REASONS WHY PEOPLE LOVE XERO

1. Automated daily bank feeds
2. Fast, simple and customised invoicing
3. Available anytime, anywhere you're online
4. Real-time collaboration with us, your advisors
5. Safe and secure
6. Smart reports with links to source transactions
7. Dashboard gives a clear financial overview
8. Awesome support at no additional cost
9. No installation or IT maintenance required
10. Full feature Payroll at no extra cost

QUESTION TIME.

Q What is the difference between gross margin and contribution margin?

A Gross Margin is the Gross Profit as a percentage of Net Sales. The calculation of the Gross Profit is: Sales minus Cost of Goods Sold. The Cost of Goods Sold consists of the fixed and variable product costs, but it excludes all of the selling and administrative expenses.

Contribution Margin is Net Sales minus the variable product costs and the variable period expenses. The Contribution Margin Ratio is the Contribution Margin as a percentage of Net Sales.

So let's say a company had Net Sales of $600,000 during the past year. Its inventory of goods was the same quantity at the beginning and at the end of year. Its Cost of Goods Sold consisted of $120,000 of variable costs and $200,000 of fixed costs. Its selling and administrative expenses were $40,000 of variable and $150,000 of fixed expenses.

The company's Gross Margin is: Net Sales of $600,000 minus its Cost of Goods Sold of $320,000 ($120,000 + $200,000) for a Gross Profit of $280,000 ($600,000 - $320,000).

The company's Contribution Margin is: Net Sales of $600,000 minus the variable product costs of $120,000 and the variable expenses of $40,000 for a Contribution Margin of $440,000.

KEY DATES.

21 October 2014

- September 2014 monthly activity statements - final date for lodgement and payment.

28 October 2014

- Quarterly activity statement, quarter 1 – due date for lodging and paying.

21 November 2014

- October 2014 monthly activity statements - final date for lodgement and payment.

23 December 2014

- November 2014 monthly activity statements - final date for lodgement and payment.

21 January 2015

- December 2014 monthly activity statements - final date for lodgement and payment.

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NOTICE BOARD.

Backdated Mining Tax repeal to cost SMEs

Tens of thousands of small businesses which took advantage of tax breaks associated with the mining tax will have to pay back that money to the Australian Tax Office and face further red tape, after the federal government announced it would retrospectively date the abolition of the measures.

ATO increasingly vigilant regarding expense claims

This year, the ATO says it is using extensive data analysis to identify areas requiring attention across all work-related expense claims, rental property deductions, taxable government grants and phoenix operators in the building sector.

Paper Activity Statement forms to be discontinued

You may no longer receive a paper activity statement if you've lodged your activity statement using the Business Portal, Standard Business Reporting (SBR), or electronic commerce interface (ECI) since July 2014.

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