



**Season's Greetings! This is our last newsletter for 2012.**

**Also, our office will be closed from Friday, 21st December 2012 and will reopen on Monday, 21st January 2013. From all of us here at Bayside Business Accountants, have a Merry Christmas and Happy New Year!**



## **Beware the Christmas Cash Flow Grinch**

The GFC and post-GFC era has, and will continue to claim victims. Most business owners accept the risk of failure as part of the 'game' but that knowledge doesn't ease the pain, suffering and stress when it actually happens. Unfortunately business failure can also have a domino effect and lead to relationship breakdowns, divorce, extreme financial hardship and division of families.

In many cases, the failure is a direct result of poor decision making or a lack of capital. Poor service, inferior products, small margins and high debt can all be business killers but the most common cause of business failure is inadequate cash flow. When the economy deteriorates, the business does not have the reserves to see through the tough times and when the banks lose confidence in the business the outcome is inevitable. Banks certainly have their own issues to deal with at these times, but the inevitable consequence of a credit squeeze is that they will call in debt where they fear a deteriorating position. Banks often appear to lack the patience and foresight to see a business through a tough period but significant damage is done to the economy when a business is closed and its capital value and intellectual property is extinguished.



Make no mistake, poor cash flow can even bring a profitable business to its knees. Cash flow is not just a means of keeping a business afloat, it is also the foundation of your future growth plans. With the Christmas trading season upon us we provide the following 6 tips to improve your business cash flow.

### **1. Plan and Forecast Now**

This is probably the most important part of managing your cash flow. You need to

understand your businesses cash flow cycle and prepare a cash flow forecast that takes into account your best and worst case scenarios. This process is designed to establish if you have sufficient cash reserves to get you through the troughs and identify when and how much additional funding is required.

They say, “Forewarned is forearmed” and there is no point running to the bank when your overdraft is about to hit the limit. If your cash flow forecast identifies the need for additional funds, contact your financiers now because finance applications are viewed more favourably when they are lodged before you run out of cash. If you don’t get a positive response from your existing financier, look elsewhere.

## **2. Debt Collection**

In some cases your customers or clients are using you to fund their business (interest free) while you’re possibly paying interest on your overdraft. Clearly outline your terms of trade from the outset to avoid any misunderstanding when you have to chase any outstanding debts. A clear system and process is required where customers stretch your trading terms and never extend credit to customers with a poor credit history.

## **3. Inventory Management**

Remember your stock is really your money tied up on your shelves. There is a fine line between having enough stock and having enough working capital to meet your ongoing financial obligations. Often, 80% of sales come from 20% of a business’s product line so knowing what stock items and what level of stock to carry is a vital management issue. Run down the level of slow moving stock in favour of your best selling items and consider a clearance sale to move some of your slow moving items to free up some cash.

## **4. Equipment Purchases**

Where you need to acquire new equipment or capital items consider financing the equipment by lease or chattel mortgage rather than purchasing the item with your available cash reserves. This may have an impact on your profitability but it will free up cash that would otherwise be tied up in plant and equipment or motor vehicles. Most importantly, consult with us first regarding the finance options so you also understand the taxation and cash flow consequences.

## **5. Monthly not Annually**

By simply rearranging annual payments for items like insurance into smaller monthly payments you can take the pressure off your cash flow. Sure, you might pay a small premium for the adjustment but you don’t need to worry about paying lump sums during your slower months. If your insurer doesn’t offer monthly payments you might need to shop around.

## **6. Use Surplus Cash**

Understand your cash flow cycle so that short term cash surpluses are not seen as 'excess cash'. Where required, isolate these funds to support future cash requirements. Ideally, place the funds in an interest bearing account, an offset account or your overdraft that you can re-draw at a later period. Understanding your cash flow cycle and then implementing a cash management system can be critical.

Cash is the lifeblood of your business and planning can mean the difference between just surviving and potentially thriving. Strategic business planning can prevent business failures and if you need any help with your cash flow projections or if you are looking to fund new plant and equipment call our office today.

## The Tax Office Soften Their Approach

The Australian Taxation Office's annual report published at the end of October 2012 suggests tax collections have increased by \$28 billion or 10% on the previous financial year, however, unpaid tax debts jumped by \$2.5 billion to \$16.6 billion at the end of 2011/12.



This report suggests the ATO is making it easier for small to medium sized businesses to pay back debts and some 280,000 "businesses experiencing short term financial difficulties" have entered into payment arrangements with the Tax Office over the past financial year. This is more than double the 113,000 businesses who entered payment arrangements last financial year. The payment arrangements in place at the end of June were worth \$3.8 billion and of these 35,900 were interest-free arrangements for small businesses with tax debts worth \$688 million.

The ATO has characterised the surge in payment arrangements as part of its more understanding approach to businesses struggling to pay debts since the global financial crisis. The annual report also revealed:

- The ATO raised \$11.4 billion in "active compliance liabilities" targeting tax evaders through audits, risk reviews, investigations and voluntary disclosure campaigns.
- 85,000 businesses were helped via the ATO's Small Business Assistance Program.
- Over 539 million transactions received from third parties were matched to support a range of compliance and service activities, such as pre-filling of tax returns.
- Due to higher compliance activities, the number of objections and reviews completed in the past financial year increased to 33,272, up from 24,255 in the previous year.

If you are concerned about an unpaid tax debt we urge you to contact us immediately to discuss your options. We believe a pro-active approach with the ATO will produce a much better result and the GFC has certainly seen the ATO adopt a more empathetic approach.

## Now is a great time to establish your own super fund



We can show you how to take control of your retirement income through a self managed super fund. We specialise in SMSF establishment, accounting, compliance, tax and auditing. Call us today on **9583 4316** to book a FREE 30-minute appointment for more information.  
(Please mention this offer when booking your appointment)

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