



Bayside Business Accountants is now incorporating financial planning services through our associates, TurnKey Financial Consultants. We look forward to working with you to plan your financial goals and welcome clients to contact us for a complimentary initial consultation.

Business owners, read on to see our guide below for performing a business and financial health check.

Also, are you a target for an audit? Read on to learn about how the ATO is identifying targets through benchmarking.

Haven't completed your 2013 tax return yet? Call us today on **9583 4316** to book your appointment.

How financially healthy is your business?

Find out in our **FREE 30-minute business and financial health check** where we will evaluate the health of your business through our 12-step checklist.

Covering areas such as:

- Financial cashflow forecasts
- Access to financial data within your business
- The state of your debtors
- Increasing revenue and decreasing expenses



We can identify potential areas your business could improve. Our goal is to help you build a stronger, more profitable and valuable business.

Make your free 30-minute appointment by calling us on **9583 4316** (please mention this offer when booking your appointment. Free 30-minute offer is exclusive to business and

financial health check consultation only)

Time for a business and financial health check?

The new year is the perfect time to conduct a health check on your business to assess what is working in the business and what needs working on. We suggest you take a step back to review your business performance for the first half of the year, and your financial goals for the remainder of the 2014 financial year.

Ask yourself these three questions:

1. Where do you see your business at June 30, 2014 in terms of revenue, profit and staff numbers?
2. If you are planning a growth spurt, what marketing activities will drive the growth?
3. What do you plan to change from the last six months to achieve better financial outcomes?



As a starting point, below are four areas in your business that you could put under the microscope.

Business, Financial Planning & Goal Setting

As mentioned above, what are your financial goals for the year in terms of sales and profit? If you plan to significantly grow your sales in the 2013/14 financial year, what marketing strategies do you plan to use? What tools, equipment, software and systems do you need to help you achieve those targets? Remember, if you keep doing things the same way you can't expect significantly better results.

Budget and Cashflow Projections

Now that you have mapped out the goals for your business in 2014, what does that mean from a financial perspective? You should create a cash flow budget to track the financial impact of these changes. How much will each of these strategies cost to implement and what is the timing of the expenditure? You need to identify what extra resources you might need including stock and staffing. Will you need to get funding and when? Is it time to extend the overdraft or finance a van or equipment by lease or chattel mortgage? In this environment you need to plan your funding needs in advance because banks don't take too kindly to last minute funding requests.

Increase Prices

If suppliers have pushed up their prices then you need to think about passing on those costs to maintain your profit margins. Inflationary pressures are a fact of life and what would a 3% increase in prices do to your bottom line? Your rent and payroll costs probably both went up by 3% last year but have you adjusted your prices accordingly? What have your competitors done with their pricing in the last 12 months?

Review of Costs

You should also look to identify any costs you might be able to cut. Start with the big four expense categories on your profit and loss statement bearing in mind your rent is probably fixed until the end of the lease. Some costs might be superfluous to your needs and maybe you could drop some subscriptions or negotiate a better price from your major suppliers. In business, if you don't ask, you don't receive.

Again, you need to measure and monitor what is working with your business. If you need any help with your business planning, contact us today.

How the ATO Use Business Benchmarks to Identify Audit Targets

The Australian Tax Office has been using small business benchmarks for a number of years. Essentially they take data from tax returns and activity statements and calculate a range of industry averages. These averages are in the form of financial ratios that they use to compare against your business performance. Their computer systems then automatically flag businesses whose financial results vary significantly from these benchmarks and they become audit targets.

Clearly, benchmarks don't factor in abnormal transactions and the audits can potentially add to the cost of compliance for business owners. The financial ratios include salary and wage costs as a proportion of turnover, the ratio of Cost of Goods Sold to reported revenue and the ratio of input tax credits to turnover. These ratios are particularly useful for high risk, high cash turnover businesses like building and construction, cleaning, beauty salons, restaurants, cafes and takeaway food, road freight, smash repairs and taxis.

Florist Falls Foul of the ATO

A recent Administrative Appeals Tribunal decision highlighted how the ATO successfully applied the benchmarks to raise additional tax revenue. In fact, the result was an increase in tax of \$57,389 and the GST shortfall was \$16,745.

In this case the taxpayer was a GST-registered florist in Western Australia and her 2008 tax return reported 'Cost of Sales' of \$259,982 on a turnover of \$313,971. This represents a Cost of Goods Sold (COGS) of 83% while the COGS industry benchmark percentage was between 44% and 54%. The ATO selected the business for scrutiny because the figures were significantly different to the industry benchmarks. The ATO initially requested she provide evidence that she was correctly recording and reporting her business income and in response her Tax Agent forwarded documentation to the ATO including EFTPOS statements, a spread sheet summary of cash register rolls, cash register roll receipts, bank account statements and several bank deposit slips. The documentation generally



covered the period from April to July 2008.

Following the audit, the ATO advised the taxpayer that in its opinion, she had not kept adequate financial records and as a result, issued default amended assessments for income tax and GST (including penalties) totalling just over \$130,000. These amendments were based on the COGS small business industry benchmarks. Her objection was partially allowed on the penalty issue (by reducing the administrative penalty for the income tax and GST shortfalls from 75% to 50% and a partial remission of the general interest charge), but disallowed the objection regarding the income tax and GST assessments. The taxpayer then appealed.

However, the Administrative Appeals Tribunal said there was no evidence before it to support the taxpayer's contentions. The Tribunal considered that the taxpayer had failed to prove positively, on the balance of probabilities, that the relevant assessments were excessive. The Tribunal said the evidence did not prove how the taxpayer calculated the gross income of her florist business for the year ended June 30, 2008 and in particular, the cash component. The taxpayer's problems in this regard appeared to arise as a result of the following:

- a defective cash register - the taxpayer said the cash register never worked properly, the roll never followed through correctly and constantly jammed;
- missing till (cash register) tapes for June 2008; and
- the fact that no reconciliations had ever been produced.

The spreadsheet summary of till (cash register) rolls for April and May 2008 was unreliable in that:

- days were missing from the summary and other evidence before the Tribunal indicated that the taxpayer did, in fact, trade on the those days; and
- there was a difference between the total sales recorded on the spread sheet summary and the reported label G1 'Total Sales' amount in the BASs for the business for April and May 2008.

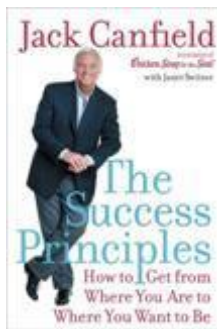
The Tribunal considered that in the circumstances, it was open to the Commissioner to exercise his discretion and apply the COGS industry benchmarks. In addition, the Tribunal considered it was appropriate for the Commissioner to apply a base penalty amount of 50% on the income tax and GST shortfall amounts because those shortfall amounts were caused by her "recklessness".

The Tribunal also stated, "that a reasonable person in [the taxpayer's] position would have foreseen that there was a real... risk that by not reconciling the Z-tapes (i.e. cash register tapes) with the BASs and bank accounts with the florist business for the relevant period and, instead, by relying solely on the deposited cash in the bank to identify the sales of the florist business for the relevant period, her income tax returns and BASs may well be incorrect. Further, a reasonable person in [the taxpayer's] shoes would have foreseen the

risks of operating a business with a faulty cash register which is unlikely to record all sales and/or damage the Z-tapes such that the true sales for a particular day may be unascertainable."

The lessons from this case are clear. Although the taxpayer said her business was struggling because of increased competition from a local supermarket, the lack of adequate systems and records meant she could not prove the amended tax assessments were excessive. Also, high cash turnover businesses are at risk and benchmarks are a powerful part of the ATO's weaponry. Ignorance is not an excuse and the onus of proof is with the business owner.

Recommended Reading - *The Success Principles* by Jack Canfield



This book is full of simple, timeless ideas that anyone can use to move forward in their business, career and life. No matter what your professional circumstances, this book will help you increase your confidence and tackle daily personal and professional challenges. This book spells out the 64 timeless principles used by successful men and women throughout history.

Filled with stories from CEOs, world-class athletes, celebrities and everyday people that are both memorable and inspiring, this book will help anyone achieve their goals and most importantly, live with passion

and purpose.

8 Top Tips for Managing Cashflow

Statistically speaking, over 60% of businesses that go bust are still profitable but they generally just run out of cash. Whether your business is flying or struggling, 'cash is king' and you need to get on top of managing your cashflow. Here are some tips to help you:

1. Working Capital - this is critical because you need to understand how much money your business needs to operate on a weekly and monthly basis. Answer these questions: How much of your cash is tied up in inventory and work in progress? How long is it between paying suppliers and receiving payment from your customers? The answers will give you an idea how much working capital you need to run your business.
2. Ensure your business has enough cash to fund 3 months of outgoings as a minimum. Make sure you also have a financial buffer in the form of an overdraft, personal funds or a revolving credit facility.
3. Cashflow budgets may sound boring but forward projections could help you survive a down season. In business, forewarned is forearmed. If you can't accurately predict sales at least prepare a forecast of the expenses for the year so you know how much you need to cover.
4. A monthly spreadsheet can help with planning too. If there is a shortfall to cover,



advance warning gives you the chance to talk to a lender or your accountant to discuss your options.

5. Check your systems to ensure all customers are invoiced promptly. Do you know how much your customers owe you at any time? Or how much you owe suppliers? Are your terms clearly stated on your invoices and your contracts?
6. Your 'cash conversion cycle' is the time span between you paying for stock and collecting the revenue from your customer. 180 days is quite common in manufacturing or other inventory based businesses. You can ask for a deposit, get your regular customers to pay monthly or cut your inventory levels by organising same or next day delivery from suppliers.
7. Always provide plenty of options for your customers to pay you. Ask for direct credits and always quote your bank account details on invoices and order forms, accept eftpos and credit card payments and set up a PayPal account on your website.
8. Be prepared to take the hard line if something or someone is not saving you money or boosting your income. Get rid of non-profitable, slow moving products, shed the unproductive team members and fire your worst ten, slow paying customers.

Cash management is just that, managing your cash flow through understanding how your business works. Knowing and having access to working capital and careful planning will minimise the chance of running out of cash.

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)

The greatest compliment we can receive is the referral of your family, friends and business colleagues. If you refer business to us, please let us know so that we can show our appreciation.

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