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Challenges Ahead In 2012

Many economists believe that 2012 will bring with it a slow-moving economic environment with the best hopes for business upturn being in 2013. Obviously, the challenge is surviving through these anticipated sluggish conditions in 2012. For most business people, this will probably mean the competition will be intense and it highlights the necessity for every business to differentiate their products and services. Now would be a good time to get rid of products or services which are not performing well.

Businesses need to look at their marketing and selling strategies to ensure that sales are being made. Economists are predicting 2012 will see less growth than 2011 but, in the main, most economists are predicting there will not be a recession. That is the good news. The dampener is that 2011 was not a good year for too many businesses around Australia. Overall economic growth is generally expected to be in the range of 1.6% - 2% throughout 2012 and into the beginning of 2013.

The uncertainty in Europe has affected discretionary spending decisions of many consumers in Australia. Political instability in Australia, as to whether there is going to be a challenge for the leadership of the government and an early election, also affects consumer thinking. Economists are forecasting that inflation will be around 3%. This will be fueled by wage and price pressures expected to occur during 2012. Most economists believe that interest rates will reduce further, probably two to three cuts made by the Reserve Bank during 2012, however you need to bear in mind that a number of the banks have already announced that they will not automatically respond to a Reserve Bank of Australia adjustment of the official interest rate in determining their own interest rates for borrowers.

For exporters and importers, 2012 is likely to be a challenging year relative to exchange rates. The Australian Dollar is the fifth highest turnover currency in the world and this means that it is subject to various speculators from time to time. Most Australian economists are forecasting that the relationship between the US Dollar and Australian Dollar will have reduced to 0.90c from the current \$1.06c by the end of 2012. There can be very significant swings. What this highlights are the benefits for exporters and importers in hedging the currency by purchasing forward contracts. Because of the problems in Europe, the share market is expected to be slow-moving during 2012.

You should be taking these matters into consideration in preparing your strategies for 2012. If you would like to discuss your strategies, please don't hesitate to contact us.

Other Issues To Think About in 2012

Businesses that sell goods under a Retention of Title Clause (Romalpa Clause) should talk to their legal advisors in relation to their responsibility under the Personal Properties Securities Act, particularly relating to the information that needs to be supplied to the Personal Properties Securities Register.

The other change in new legislation affecting small businesses started on the 1st January 2012. This was the new Work Health

and Safety Laws. If you haven't already conducted a review of your business operations to ensure that your business is complying with the regulation, we recommend that you do so at the earliest opportunity.

If you have any queries on your responsibilities under the new legislation, please contact your employment advisors, or contact us and we will refer you to an employment advisor.

Do You Have A Repeatable Process?

Are you constantly looking for ways to improve processes within your business to ensure a better result? To achieve better results, some successful businesses have introduced a "repeatable process" that makes money! The type of process that is successful would normally incorporate a product, service or idea that delivers something of value for a customer.

- The product, service or idea must be something that customers need or wish to purchase.
- The price must be satisfactory to the customer.
- The product, service or idea must satisfy what customer's need or want.
- The product, service or idea must be something that you, as the business owner, are enthusiastic about.
- The product or process must create enough money so as to continue the business operation.

A marketing strategy will then need to be put in place to promote and identify the product, service or idea to the potential customer. If you would like to discuss aspects of the development of a repeatable process for your business, please contact us.

Business Plans

Business Structure:

- Is the business structure, used in your business, appropriate for your needs? If you are contemplating exiting the business within the next three years, is the structure appropriate?
- Have you had discussions with your accountant and legal advisor regarding the structure that you are utilising?
- If you are operating a business with a corporate structure, are you conducting Board of Directors' meetings?
- Are any of the directors external to the normal business operations?
- Who is the chairperson?
- Has your business utilised a board of advisors? Are you careful to ensure that the activities are strictly of an "advisory nature"?
- Have you reviewed your corporate structure documentation to ensure that all is in order? For example, has the company's annual return been lodged; have any share transfers been recorded and have the current directors' names and addresses been correctly advised to ASIC?
- Is the partnership documentation up-to-date?
- Who is your solicitor? How long has it been since you consulted him/her on matters relative to the corporate structure within which you operate your business?

Fringe Benefit Tax Reminder

We are fast approaching the FBT year end on the 31st March 2012. If you would like to have discussions with us on any aspect of the FBT issues that affect your business, please contact us.

The Media Can Help

Many business people do not recognise the significant benefits that can be obtained from issuing regular media releases or conducting a media conference, to announce a new product/service for their business.

News is created out of noticeable change, but you have to be able to inform the media about that change. There are significant benefits for a business to feature in front page headlines or even within editorial comments. To achieve this, the media must recognise the aspects of your business that you wish to promote as "news". If you choose to ignore the use of the media, then you would have lost a key opportunity to promote your business. This is hardly good business sense.

We can give you introductions to public relations consultants who can assist you with preparing newsworthy media releases.

Research And Development Registration Reminder

If your business has operated as a company during the financial year ended 30th June 2011, has incurred R & D expenditure exceeding \$20,000 and has not yet lodged its income tax return; then you have until the 30th April 2012 to register your R & D activity with AusIndustry. This will allow you to claim the Accelerated Income Tax Deduction or, if your turnover was under \$5 million, you can claim the Tax Rebate for R & D.

If you would like to have a discussion with us regarding R & D rules that apply to the year ended 30th June 2011, or for us to process your application with AusIndustry for registration of the R & D projects undertaken, please do not hesitate to contact us.

If you are undertaking R & D activities during the 2011/12 financial year, you have until the date of lodgement of the income tax return for the company, or until 30th April 2013, to register with AusIndustry for the new R & D Incentive Scheme which commenced on 1st July 2011.

We would be happy to discuss any queries relative to R & D with you.

Business Reviews Can Help

A business review, covering a wide range of business, financial and corporate governance items affecting a business, can assist in identifying the key issues to successfully achieve goals set by the business. A business evaluation workshop is a great way to undertake a business review to ensure all aspects of a business are appropriately reviewed.

The evaluation workshop includes reviews of:

- financial matters
- market
- customers
- cashflow
- performance analysis
- business operations review
- succession planning

In the workshops we use individual questionnaires on approximately 30 different key aspects of running a successful business, to assist in the "Think Tank Process" so that we can ensure that all aspects of a business have been considered in the business review.

A business review workshop normally takes 7 hours, however we can also conduct the workshop in two 3½ hour segments, if that is more convenient.

If you wish to have discussions with us relative to a business evaluation workshop being conducted for you and your key personnel (this could include your whole team if you wish), please contact us.

We can send you a list of the segments that are covered in the business evaluation workshop. If you would like to receive a copy, please contact us.

Budgets & Cashflow Forecasts Help Business Management

Now is a good time to review or prepare budgets and cashflow forecasts. Preliminary work needs to be undertaken to obtain a realistic Budget and Cashflow Forecast, preferably during a meeting with your accountant.

This involves **goal setting** - what are your goals for the next 12 months, including your salary, targeted profit before income tax etc?

How is the **economy** likely to affect your business? This covers interest rates, debtors' days outstanding, gold and oil prices, unemployment.

Your **business' expectations**? What do you think will happen relative to:

- labour costs?
- cost of materials?
- support from your suppliers?
- market confidence etc.?

during 2012.

Sales targets - have you given consideration to the matters that have already been discussed? What do you think is going to be your business' realistic sales performance for each week and month during 2012?

Stock purchases – does your business have to supply stock? Do you need to create a stock purchases budget? This will reflect the number of days you are budgeting to invest in stock on hand.

Overhead Expenses - the start of a new year is a great time to subject the various expense categories within your business to a detailed review and questioning as to whether the expenses are necessary or whether the current suppliers are the best ones to continue to deal with during 2012.

Break Even Analysis - what is your break even going to be in various business operations? Are the managers/supervisors of those activities being informed of the break even calculations for which they are responsible?

Currency Fluctuations - the Australian Dollar will no doubt continue to fluctuate during the year. If you are an importer or exporter, should you be trying to lock in currency cover?

“Profit” is not the same as “cash” - In the Budgets and Cashflow Forecasts prepared, you need to examine how much money is going to be tied up in debtors, stock and work in progress. This is where a lot of your profit can end up; meaning that you don't see it in your bank account. Could the level of debtors or stock be reduced so that you can utilise more of the profits earlier?

Projected Source & Application of Funds Statement - it is a good idea to have a projected source & application of funds statement prepared because this will give a clearer outline of what is projected to happen in your business in the forthcoming 12 months.

Key Performance Indicators – once the Budgets and Cashflow Forecasts have been finalised, Key Performance Indicators can then be prepared so you can have these targeted amounts in mind to compare your actual financial performance against during the year.

If you wish to discuss the preparation of Budgets and Cashflow Forecasts, please contact us.

What's It Mean?

Historical Cost

Is the original cost for which the asset is acquired. In a Balance Sheet, many assets are normally reflected at their cost price, thus being expressed as “historical cost.”

Interest Cover

Indicates the number of times that interest charges are covered by EBIT (Earnings Before Interest and Tax) generated by the business. For example, a business has Earnings Before Interest and Tax of \$208,000, with an interest cost of \$47,000. The interest cover is:

$$\text{Interest Cover} = \frac{\$208,000}{\$47,000} = \underline{4.4 \text{ times}}$$

Welcome to our first newsletter for the 2012 year. Each month we will bring together a summary of new developments and informative articles to help you understand the current tax and financial environment.

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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