

Does your business measure up?

Knowing where your business is up to day to day is an essential piece of management information. Too many business owners get caught out believing that their business is doing ok or getting by, only to find out that the reality is a different story.

Good measurement systems are not difficult to establish and the start of the financial year is a good time to put in place or fine tune your existing systems to deliver reliable and useful information. Where it gets hard is when you are trying to play catch up, finding out where all the pieces are and trying to build them into your system when you need them. Your measurement systems need to provide you with both financial tracking and management information.

Here are the key elements of a good system:

- Operating budgets and cash flow forecasts to map out what you expect to happen over the coming year.
- Track your actual position and measure it against your expectations. To achieve this you need to have in place an accounting system that tracks your operating performance and tells you whether you are making profits or losses.
- Track your cash flow position. The maturity of your business and its growth cycle will determine how often you need to track information. For example, in a start up business or a business growing quickly, the general rule is to track cash daily and profits monthly.

Once your systems are in place to track the numbers the key then is to know what to look for. Don't fall into the trap of tracking the numbers in absolute terms. You should be tracking them against your expectations. As an example, it is not uncommon for a high growth business to make losses and have negative cash flow. These results are not necessarily bad news. If they are following the forecasts that you previously signed off on, then this is ok. What you are looking for is variance from the forecasts and trends against forecasts. You need to be concerned where there are significant adverse departures from your forecasts.

From a financial perspective these systems will provide a foundation level of information; but what about some effective business or management information?

Every business should be managed around some key performance indicators (KPIs). These provide fast and reliable guides on business performance. As an example, if you are a retailer you can reliably predict business performance around customer traffic and conversion rates. So, a KPI for you could be the number of people coming into the shop each day and the conversion rate on those customers.

The strength of KPIs is that they are easy to access, reliable in their predictive results and can be produced in quick time. They give you instant access to what is happening in your business.

What's new from 1 July?

The new financial year triggers a series of important regulatory and legislative changes for business. Here's a brief summary of some of the key issues:

Changes to individual tax rates

Personal income tax rates announced in the May budget come into effect from 1 July. It's important that you update any payroll software to reflect the new rates. If you calculate PAYG manually, you can get the latest withholding tables from the ATO website. The ATO also has a tax withheld calculator available to assist (see PAYG withholding section of the site). The new rates are:

2005/2006 Income Tax Thresholds (\$)	Tax Rate %
0 – 6,000	0
6,001 – 21,600	15
21,601 – 63,000	30
63,001 – 95,000	42
95,000 +	47

Choice of Superannuation Fund

Choice of fund becomes a reality from 1 July. Existing employees must be offered a choice of superannuation fund by 29 July 2005 using the standard choice of fund form (see www.superchoice.gov.au for details). New eligible employees must be offered a choice within 28 days of starting work.

Superannuation Contributions Surcharge abolished

The government has abolished the Superannuation Contributions Surcharge on superannuation contributions made from 1 July 2005 onwards. However, the surcharge still applies to affected contributions up to 30 June 2005.

Shareholder loans to a company

Many small business shareholders lend money to their company.

What's new from 1 July?

Generally, this money is repaid to the shareholder at the discretion of the directors and is often when the company can afford it.

Under rules that take effect from 1 July, when a shareholder lends money to a company if certain conditions are not met (such as the loan being in writing), there is a possibility that the loan will be treated as if the shareholder has acquired additional equity in the company, not as debt. The problem is that if the loan is treated as equity, repayments made to the shareholder are taxed as dividends and the company cannot claim a tax deduction.

The rules are part of the Debt/Equity provisions introduced back in 2001 which seek to regulate how money transfers between shareholders and a company and back to the shareholder again and determine whether the money should be treated as debt or equity for tax purposes. However, loans from shareholders have generally been excluded from these provisions up until 1 July.

Lending money to a company is very common and the rules that came into effect this month can have an undesirable impact for shareholders that will increase their tax liability. This is not something that can be ignored and a few simple steps will help prevent much larger problems down the track.

Simplified Tax System extended

The Simplified Tax System offers a series of benefits to small businesses including the ability to write off depreciable assets at a faster rate, a simpler method of treating trading stock and a differential method of treating prepayments. Up until 1 July this year, to access STS business had to calculate their taxable income on a cash basis. Now, the rules have been changed to allow a business to access STS and calculate their taxable income using the most appropriate method for their circumstances.

The entrepreneurs' tax offset

For very small businesses with a turnover of less than \$75,000, you can now access the entrepreneurs' tax offset. The offset allows for an income tax discount of up to 25% applied to business income. This offset only applies to businesses operating within the Simplified Tax System.

GST on long term non-reviewable contracts

Under special transitional rules, certain long term contracts entered into prior to the introduction of the GST were not liable for GST until 1 July this year. Certain rules apply to how the parties work out how the GST will now apply to these agreements where there has been no opportunity to review the contract. This framework helps prevent the situation where one party to the agreement is disadvantaged by being liable for GST payments that were not contemplated when the agreement was first entered into.

If we can assist you with any additional information or advice on the issues impacting on business from 1 July, please contact us.

Does your business measure up?

Most SME businesses can be tracked and managed effectively on six KPIs. More doesn't mean better. The key is to identify the areas of your business which are most likely to impact business performance. So a part of the question is what are the key fundamentals to your business? What are the key business drivers and what are your critical success factors? Work through these and the KPIs will quickly identify themselves.

Once you have your financial management system in place and your business performance measurement system in place you have access to both financial and non financial information that will not only tell you where your business is up to but where it is heading. This type of information separates businesses that are well managed from those that hope they will make it.

For advice and assistance on managing your information systems, contact us today.

Quote of the month

The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency.

Bill Gates