

HOW EFFECTIVELY DO YOU MANAGE YOUR WORKING CAPITAL?

Working capital is the money needed to fund the normal, day to day operations of your business. It ensures you have enough cash to pay your debts and expenses as and when they fall due.



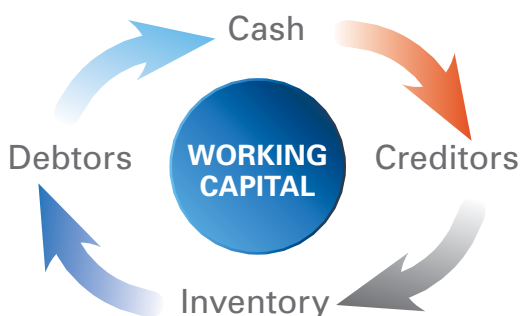
THIS IS AN AREA OFTEN OVERLOOKED by new start-up businesses given very few are profitable in the first 12 months.

THE WORKING CAPITAL CYCLE

The working capital cycle is the time between paying for goods supplied to you and the banking of cash from their sale. A short cycle indicates an effective use of working capital.

The working capital cycle is made up of four core components:

- CASH
- INVENTORY (stock on hand)
- CREDITORS (accounts payable including GST)
- DEBTORS (accounts receivable)



The key to successful cash management is to be in control of each step in the cycle. If you can quickly convert your sales into cash, you will be increasing the liquidity of your business and will be less reliant on extended credit terms from suppliers, the ATO or your bank.

WHAT'S THE RIGHT LEVEL OF WORKING CAPITAL?

The right level of working capital depends on the industry and the particular circumstances of the business. For example, businesses that only sell services (e.g. accountants) do not need to pay cash for inventory thus require a lower level of working capital. Businesses that take a substantial amount of time to make or sell a product (e.g. heavy mining equipment) require a high level of working capital.

It is important you work out the right level of working capital you will need. If the working capital is too:

- **HIGH** – your business has locked-up surplus cash which is not earning a return;
- **HIGH** – your business may be carrying obsolete stock; and
- **LOW** – may indicate that your business is facing financial difficulties or may miss out on potential sales e.g. where a business has insufficient inventory on hand to satisfy demand.

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The basic formula used to calculate working capital for your business is:

$$\text{WORKING CAPITAL (\$ value)} = \text{CURRENT ASSETS} - \text{CURRENT LIABILITIES}$$

Although this formula calculates your working capital in dollar terms, the working capital ratio (current ratio/liquidity ratio) will give you a better measure of your business's liquidity.

WORKING CAPITAL AS A PERCENTAGE % OF SALES

However, as most business owners have a clear idea of their weekly or monthly turnover, a more relevant formula is to calculate how much working capital you need as a percentage of sales.

The formula used to calculate an estimate of working capital as a percentage of sales for your business is:

$$\text{WORKING CAPITAL} = \frac{(\text{INVENTORY} + \text{ACCOUNTS RECEIVABLE} - \text{GST})}{\text{SALES}}$$

and...

$$\text{WORKING CAPITAL (\$ value)} = \text{SALES} \times \text{WORKING CAPITAL AS A \% OF SALES}$$

FOR EXAMPLE: Working capital as a percentage of sales of 20% means that you need \$20 for every \$100 of sales to fund the sale to allow for the time delay in your working capital cycle.

This method is useful for businesses going through a period of growth and expansion to work out how much extra working capital you need if turnover increased by a certain amount.



QBCC – MINIMUM FINANCIAL REPORTING REQUIREMENTS

Some good news for builders and trades persons that were previously required to lodge a QBCC Independent Review Report (Financial Report).

FROM 1 OCTOBER 2014, the QBCC (formerly the BSA) have significantly reduced their reporting requirements. In most cases, there is no requirement to provide a financial report or declaration to the QBCC at licence renewal.

Licensees who are currently in categories 1–8 only need to notify QBCC at time of renewal if they **do not meet the minimum requirements**.

CATEGORY 1	\$300,001 to \$600,000
CATEGORY 2	\$600,001 to \$3,000,000
CATEGORY 3	\$300,000,001 to \$12,000,000
CATEGORY 4	\$12,000,001 to \$30,000,000
CATEGORY 5	\$30,000,001 to \$60,000,000
CATEGORY 6	\$60,000,001 to \$120,000,000
CATEGORY 7	\$120,000,001 to \$240,000,000
CATEGORY 8	\$ > \$240M

CHANGES TO SUPERANNUATION EXCESS CONCESSIONAL CONTRIBUTION CAP

From 1 July 2013, individuals who exceed their concessional contributions cap will have the excess amount included in their assessable income, and taxed at their marginal tax rate, plus an ECC charge (similar to interest charge).

THE INDIVIDUAL MAY CHOOSE to release up to 85% of their excess contributions from their super fund by completing an election form. If the individual elects to release an amount, the ATO will issue the nominated super fund with an excess concessional contributions release authority.

The fund must pay the amount to be released to the ATO, as well as return the release authority statement within 7 days.

A unique payment reference number will be provided with each release authority. The released amount must be paid directly to the ATO and is to be treated as a non-assessable, non-exempt benefit payment to the member.

The ATO has recently commenced issuing individual income tax notices of assessment containing excess concessional contribution amounts and the associated election forms.

RESEARCH & DEVELOPMENT – IS YOUR R&D ELIGIBLE FOR A GOVERNMENT TAX INCENTIVE?

FROM THE GOVERNMENT:

Core R&D activities are experimental activities whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that is based on principles of established science; and proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions.

Core activities are conducted for the purpose of generating new knowledge (including about creating new knowledge or improved materials, products, devices, processes or services).

A supporting R&D activity is one that is directly related to core R&D activities or, for certain activities, has been undertaken for the dominant purpose of supporting core R&D activities.

Complicated – Yes! So please call us if you would like to discuss Research & Development in more detail.



SMSFS – MINIMUM PENSION PAYMENT REQUIREMENTS

A minimum annual pension payment amount is required to be paid annually from all Account Based Pension's based on the pension account balance at the end of the previous financial year.

THERE IS NO MAXIMUM amount other than the balance of your pension account, unless it is a Transition to Retirement Income Stream (TRIS) in which case the maximum amount is 10% of the pension account balance at the end of the previous financial year.

For Account Based Pensions (including a TRIS) commenced part way through the financial year:

- If the Account Based Pension is commenced prior to the 1st June in a financial year, the minimum pension withdrawal is pro-rated based on the number of days remaining in the financial year.
- If the Account Based Pension is commenced after the 1st June in a financial year, there is no minimum pension withdrawal required.

AGE	MINIMUM % WITHDRAWAL	MAXIMUM % WITHDRAWAL (TRIS)
Under 65	4%	10%
65–74	5%	N/A
75–79	6%	N/A
80–84	7%	N/A
85–89	9%	N/A
90–94	11%	N/A
95+	14%	N/A

TAX TIP

FOR MEMBERS WITH MULTIPLE PENSIONS:

Any pension above the minimum should be accessed from the pension with the highest taxable percentage.

TAX CHANGES TAKING EFFECT IN 2014/15

A SUMMARY OF RELEVANT tax changes (or proposed changes) scheduled to commence from 1 July 2014.

Note: some changes below are pending the successful passage through parliament of the necessary legislation:

COMPANIES AND BUSINESSES

- Provisions allowing tax losses to be carried back has been retrospectively repealed, with effect from 1 July 2013.
- R&D – reduction in the rates of tax offsets available under the R&D tax incentive by 1.5 percentage points. The higher (refundable) rate of the tax offset will be reduced from 45% to 43.5% and the lower (non-refundable) rates of the tax offset will be reduced from 40% to 38.5% for income years starting on or after 1 July 2014.
- The carbon tax has been abolished with effect from 1 July 2014.
- The minerals resource rent tax has been repealed with effect from 1 July 2014.

RETIREMENT, TERMINATION AND SUPERANNUATION

- The SG charge percentage is 9.5% from 1 July 2014, but is proposed to be frozen at this rate until 30 June 2018.
- The ATO will have wider powers to penalise trustees of SMSFs who contravene superannuation laws.

PERSONAL TAX

- A 2% budget repair levy applies to an individual's taxable income in excess of \$180,000.
- The mature age worker tax offset will be abolished.
- Government co-contributions to the First Home Saver Accounts scheme will be abolished.

FUEL TAX CREDITS – CHANGES FROM 1 JULY 2014

THE CARBON CHARGE HAS now been removed from the fuel tax credit rates for fuel acquired from 1 July 2014. For fuel acquired for your business you can:

- Claim more for many off-road activities.
- No longer claim fuel tax credits for non-transport gaseous fuels used in agriculture, fishing and forestry activities.

You can now also claim more for transport gaseous fuels.

Note: The Australian Government is proposing to index excise duty rates for most fuels every six months. If this change becomes law, fuel tax credit rates will change again.



BUSINESS USE	ELIGIBLE FUEL	RATE FOR FUEL ACQUIRED FROM 1 JULY 2014
In a heavy vehicle for travelling on public roads	Liquid fuels – for example, diesel or petrol	12.003
All other business uses – on private roads, off public roads and non-fuel uses	Liquid fuels – for example, diesel or petrol	38.143
	Duty paid LPG – transport	10
	Duty paid LNG or CNG – transport	20.9 cents/kg
Non-fuel uses, such as lpg used as a propellant in the manufacture of aerosols	Duty paid LPG – transport	10
	Duty paid LNG or CNG – transport	20.9 cents/kg
To power auxiliary equipment of a heavy vehicle travelling on public roads – such as fuel used to power a refrigeration unit or a concrete mixing barrel	Duty paid LPG – transport	10
	Duty paid LNG or CNG – transport	20.9 cents/kg

Table 1: Fuel tax credit rate changes — all rates are cents per litre unless otherwise stated

PRACTICAL IDEAS TO INCREASE THE VALUE OF YOUR BUSINESS

BY TIM LUNN

The value of a business will increase when the culture of the business, from the top down, is to **'Replace Yourself'**.

IF YOU WANT TO receive maximum value on the sale of your business, you have to be able to walk away from your business (with \$ check in hand), with the brand, vision, people, systems and processes, customer relations and intellectual property still contained within the business you have left.

The same concept of replacing yourself is also true for the employees of your business. Their careers cannot advance unless there is someone to take their place. I have seen many businesses where there is a key member of staff, with tremendous skills, hoarding their knowledge. This behaviour leads to a blockage where they can't progress within the business and a certain arm of the business may stagnate. It also creates a hole if the employee suddenly leaves.

Developing managers and leaders in your business is perhaps the most important step in creating a healthy, sustainable business and one that you

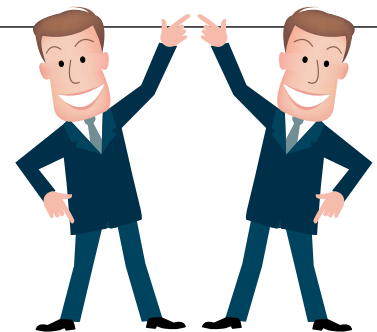
can leave without creating a vacuum. It is what separates the good companies from the great. And in a bad economy, it can mean the difference between perishing and thriving. If you and your management team are not actively trying to replace themselves, your business cannot grow.

AS A BUSINESS OWNER OR LEADER, WHAT CAN YOU DO?

Measure and reward managers on their ability to develop their subordinates and your staff. Put in place a succession planning program to consistently assess and monitor the bench strength of your key executive positions that are vital to the health of the business.

Create ongoing training programs that develop leadership skills across various levels of the organization. This could include a mentoring program, formal education, training courses and coaching.

If your people are not growing, it is usually because of one of two things:



either you are not personally growing yourself, or you are failing to help your people learn the skills necessary for them to move on to the next level.

As you look at your business, ask yourself: Am I learning and growing as a leader myself? Do I have processes in place to develop my leaders of the future? Are there people in my organization who are creating obstacles for others?

To increase the value of your business – Replace Yourself!

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