

CLIENT FOCUS:

Flexipanel – Nothing more Pressing than Backing Innovation



In 2009, the owners of FlexCorp, Syd and Les Scanlon, attended a design show in Cologne, Germany, as well as a machinery show in Hanover. The innovative design ideas at both of the shows were inspirational and upon their return to Australia, Flexipanel by FlexCorp was created.

FOR THE PAST EIGHT YEARS, Flexipanel has become an industry leading manufacturer of innovative and creative melamine solutions. Flexipanel has created a product range which varies from luxe finishes and colours to a base range of melamine, all of which can be used in various applications in the kitchen, bathroom or wardrobe, etc.

Les Scanlon returned from Germany earlier this year after attending two trade shows. Les told us that 'the German design shows provide an insight into the current and new trends which are happening now and are coming on the horizon'.

Les stressed that 'it is vital to stay up to date with the latest designs from Europe'. By investing heavily in research and development and new product design, Flexipanel was at the forefront of melamine production and product solutions.

'We know we have been successful with our product development and brand image when our products are specified by architects and interior designers', Les advised was one measure of Flexipanel's success.

FlexCorp employs a total of 38 staff from office to factory personnel, dispatch and delivery drivers. FlexCorp is always

backing innovation and some six years ago took the initiative to invest in renewable energy with solar panels being fitted to the roofs of both factories.

For the past eight months, FlexCorp has been developing a new Website which enables customers to view their extensive range and purchase the Flexipanel products directly online.

As part of Flexipanel's continuous improvement process, Stanton Mienert was involved in a detailed review of profitability by product line. This activity-based costing exercise yielded a valuable financial insight into Flexipanel's product mix and margins. Financial information and recommendations yielded by the analysis were implemented by Syd and Les in turn resulting in an immediate and significant increase in profitability.

Flexipanel is a tremendous success story demonstrating the importance of ideas, innovation and the willingness to invest in new product development. We look forward to Flexipanel's ongoing success as it presses on into the future.

For more information about Flexipanel and their state of the art manufacturing process, head to flexipanel.com.au.

BUYING A BUSINESS – THE IMPORTANCE OF DUE DILIGENCE!

Over the last financial year, we have been engaged by clients to conduct due diligence on the financials for multiple businesses offered for sale through various business brokers. Due diligence was conducted to assess (a) the value of a business and (b) the risks associated with buying it.

While the size and scale of the due diligence assignments varied, there are common areas that we look at when undertaking the due diligence process. These areas include but are not limited to:-

- Analysis of financial statements for the current trading period and previous 3 years;
- Review of income tax returns for the last 3 years (plus ensuring the returns tie back to the financial statements);
- Analysis of customer mix;
- Review of aged trade creditors and debtors;
- Review of stock sheets and if required verification of stock sheets back to physical inventory;
- Substantiation testing e.g. To support claimed sales we reconcile sales in the accounts back to the physical bank statements;
- Preparation of indicative valuation of the business and how this compares to the brokers asking price.

While it is not compulsory to engage a qualified accountant to review the financials provided by a seller or their agent, it is certainly recommended given some of our recent findings which include:

EXAMPLE 1: Business A was listed for \$350K which appeared to be a bargain given the profit figures. Investigations revealed the reason for the sale was due to the seller entering into an unfavourable long-term lease with the landlord. The motivation for the sale was primarily to reassign a bad lease to an unwitting purchaser.

EXAMPLE 2: Examination of employee entitlements of Business B revealed that there was at least \$100K in unpaid annual leave and long

service leave not correctly disclosed as liabilities in the balance sheet. Despite requests, the seller was unable to provide sufficient payroll records to ascertain the actual amount of employee entitlements owing.

EXAMPLE 3: A simple review of Business C's profitability (adjusted for addbacks) indicated a prospective purchaser would effectively earn \$44 per hour gross based on a 40 hour week however would have the privilege of paying \$530K to acquire the business.

a review of the financials revealed a significant increase in debtors that was not in line with the increase in sales. A review of the aged debtors showed a significant increase in debtors greater than 90 days of which the bulk were deemed to be non-collectible due to inadequate internal credit control procedures. Booking the amounts as bad debts in the period/s when the sales were made reduced the net profit. This in turn enabled the client to acquire the business at a significantly reduced value.



EXAMPLE 4: A profit and loss statement provided by a broker showed a higher profit figure than what was supplied to our office from the seller's independent accountant, the later being the correct profit of the business which in turn significantly reduced the value we placed on the business.

EXAMPLE 5: A detailed review of Business D indicated an annual increase in turnover and hence net profit over the last 3 years. Whilst this appeared to support the brokers assertions of a growing business,

As an aside, in addition to a financial review it is recommended to physically inspect the business. A lot can be picked up by speaking to the owners and particularly employees. As way of an example, a recent client had an onsite inspection performed by an independent party (an expert in this particular industry) on the serviceability and life expectancy of the plant and equipment in a prospective business. Whilst the plant was deemed to be in satisfactory condition, significant WH&S concerns were raised about how the business was conducted which in turn was factored into the offer made to the seller.



SINGLE TOUCH PAYROLL REMINDER

Clients are reminded that legislation has been passed to extend Single Touch Payroll (STP) to all employers from 1 July 2019. For clients not already reporting under the new STP regime, a general summary of the new requirements are summarised below.

MICRO EMPLOYERS

Employers with 1–4 employees

This applies to micro employers that currently do not use payroll software. The ATO has a list of no-cost and low-cost STP software solutions to assist micro employers. This list can be found at <www.ato.gov.au/business/single-touch-payroll/in-detail/low-cost-single-touch-payroll-solutions/>. Micro employers can also have their BAS or registered tax agent report their STP data quarterly rather than each time they run their payroll however this option is not recommended by Stanton Mienert given this option ceases 30 June 2021.

SMALL EMPLOYERS

Employers with 5–19 employees

Small employers may determine when to apply the new reporting requirements under one of the following 3 options:-

- Commence reporting anytime from 1 July 2019 through to 30 September 2019;
- Apply for an extension (we do not recommend an extension unless you have extenuating circumstances);
- Apply for an exemption e.g. If you live in a remote area with no internet connection.

EMPLOYERS WITH CLOSELY HELD PAYEES

Closely held payees include:

- Family members of family-owned businesses;
- Directors or shareholders of a company; or
- Trustees or beneficiaries of a trust.

Employers with 19 or less employees are exempt from the STP reporting requirements for closely held payees until 1 July 2020.

Please note however, that all other employees must be reported through STP from 1 July 2019.

SHOULD YOU HAVE ANY QUERIES OR REQUIRE FURTHER ASSISTANCE IN RELATION TO YOUR SPECIFIC PAYROLL CIRCUMSTANCES PLEASE DON'T HESITATE TO CONTACT OUR OFFICE ON (07) 3341 6966.

CASH-IN-HAND PAYMENTS TO WORKERS NO LONGER TAX DEDUCTIBLE

THE ATO HAS RECENTLY REMINDED EMPLOYERS that 'cash in hand' payments made to workers from 1 July 2019 will not be tax deductible.

'Cash in hand' refers to cash payment to employees that do not comply with PAYG withholding requirements.

Further, payments made to contractors where the contractor does not provide an ABN and the business does not withhold any tax will also be not deductible from 1 July 2019.

In addition to denial of the above deductions, the ATO has stated they will penalise employers who fail to comply with their PAYG withholding requirements.





THE FIVE THINGS

BY TIM LUNN

IT SEEMS THAT EVERY 'MONDAY'S EXPERT', writing an article on the weekends sporting events, gives us *'The Five Things'* that *'we learnt'* from the game. This formula has developed from its simplicity and the ability to focus the readers attention on the important aspects of the game that was played. Five things allows the writer to keep the readers focus on what is really important.

We can take the simplicity and the focus of 'the five things' and bring this concept to the betterment of our business.

If we have had a success in our business, be it a new product development, entering a new market or winning a large customer, could we take 20 minutes of our time to think about our success and write down the five things that contributed to the success? As importantly, where our business has had an unexpected failure, could we take some time to think and document the five things that contributed to the failure?

A good exercise to start, today, is to set aside one hour of thinking time and write down the five things that your business could do in the next three months to improve its performance. Once you have documented the five things, then do!



EMPLOYEE PAYMENT SUMMARIES

AS A REMINDER, EMPLOYEES THAT report through STP are not required to give employees a payment summary. This information is made available to the employees through the ATO myGov online service.

In addition, an employee's registered tax agent can access this information directly from the ATO Tax Agent Portal.

QBCC FINANCIAL REPORTING FOR LICENSEES



CLIENTS WHO HOLD QBCC LICENSES for Category 1-3 (Maximum revenue between \$800,001 — \$30,000,000) are required to submit financial information in the MFR Report (PDF) prior to 31 December 2019.

Clients should note that the MFR report can be no more than 4 months in age, from the end of the financial reporting period being relied upon. Due to this requirement, effective lodgement date with the QBCC is 31 October 2019 if clients wish to use their 30 June 2019 financials as the basis for the MFR.

Using financials prepared as at 30 June 2019 as the basis of the MFR is strongly recommended by our office as this will negate our costs for preparation of additional interim financials.

We strongly urge all clients who hold QBCC licenses to forward their financial information to our office as soon as possible so that we can meet this lodgement date.

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