

Business Plus +



Belmores

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Strategies For Improving Times

There are signs of business improvement occurring in various parts of Australia, primarily led by the resource states of Western Australia and Queensland. This will assist smaller businesses all over Australia improve during 2010, as long as there are no major problems in overseas markets such as China, USA or India.

However, there will be growing pains in the recovery period that will cause severe problems for some businesses. Interest rates are rising, so if you are using borrowed money you would be well advised to factor in interest rates of around 8% by the end of June 2010 (*based on a forecast prime bank rate of around 5%*).



Strategies for improvement - Cashflow management is extremely important. Monitor debtors' payment times and try to get your debtors back to normal trading terms (Dunn & Bradstreet have indicated that in the December quarter the average outstanding payment time was 53.9 days).

Monitor investments - Monitor stock by conducting regular stockturn calculations and comparing actual turns achieved to budgeted position and then take action to ensure the anticipated stockturn is achieved. Also monitor investment in work in progress (if you have any).

Plan for the future - Staff are going to be very important in ensuring that businesses have a sound future in the recovering economic climate. Have you recruited the right mix of staff and are you investing in staff training?

Innovation - All businesses need to be innovating and developing new products and services which can be offered to customers. What research & development projects could be undertaken in your business? Are you aware of the research & development tax incentives that are available within the Taxation Act (*to claim these you need to be incorporated as a limited liability company*) and the Government Grants (*assisting companies undertaking innovation*) that are available?

Review Loans and Interest Rate Risk – The Reserve Bank is closely monitoring economic growth and interest rates in an effort to ensure that inflation is kept under control. When do you last review your borrowings and have you reviewed your exposure to continued interest rate rises?

If you would like our assistance in planning strategies for your business to take advantage of the improving times, including market research and business plans, business reviews etc. please do not hesitate to contact us.

Workers Compensation

Workers compensation costs are often cited by businesses as a dominant operational concern.

The significant driver of premiums is claims costs. Prudently, an ever increasingly number of employers have implemented strategies to minimise the impact on premiums from costs of claims. Most claims management improvements have centred on the claimant's early return to work and the offer of suitable duties to partially incapacitated workers. Further improvements have arisen out of the development of strong relationships with insurers, employees and their treating doctors, and other providers. A reduction in claims costs will generally translate to a reduction in premiums but business should not rely on injury management and claims cost improvements alone to achieve a reduction in claims costs.

In New South Wales it has been demonstrated that the minimisation of workers compensation costs can also be achieved through other means, including improved administration, regular assessment of industry classification and the exploration of alternative workers compensation arrangements. The following examples highlight cases where improved claims administration can lead to an improved worker compensation position.

Example 1

Employers in New South Wales are subject to a claims excess of up to one week's weekly compensation unless the employer notifies the scheme agent within five days of becoming aware of the employee's injury. In conducting a diagnostic review of an employer's workers compensation processes we discovered that although the employer had sound injury management practices, there were some administrative shortcomings which resulted in late notification of an employee's injury to the scheme agent.

In four cases, all relatively minor claims of short periods of absence, the late notification resulted in the employer being charged for the first week of weekly compensation payments made. This represented an additional and unnecessary workers compensation cost of nearly \$4,000 per claim. As these were relatively minor claims, the employer paid not only its premium but also most of the claims. In order to avoid the payment of claims excess, employers should ensure that they promptly notify their scheme agent of employee injuries.

Example 2

In New South Wales claims costs arising from injuries sustained on journeys to or from work and during authorized recesses, such as meal breaks, are to be excluded from the premium calculation. Scheme agents generally rely on information from employers in relation to when the injuries were sustained in order to determine whether the claim costs impact upon the premium. A claims review for a medium size business highlighted the case of an employee who sustained a significant injury in a fall. The employee required surgery and medical treatment and had been absent from work for a significant period. The cost of the claim for premium purposes now approaches \$100,000. A review of the claim revealed that the worker was injured during the luncheon recess but this was not indicated in any way to the scheme agent.

Fortunately, the circumstances of employee injury have now been clarified and the employer has now sought the retrospective premium adjustment to which it is entitled. This case highlights how an employer can avoid unnecessary and large workers compensation claims costs by simply providing the scheme agent with all relevant information.

We would also recommend that employers regularly assess whether their industry classification properly reflects their actual business activity and take steps to ensure the accuracy and appropriateness of wage declarations upon which premiums are calculated.

Debtors' Financing (Factoring)

The latest Dunn and Bradstreet report on debtors' day outstanding has indicated that debts are outstanding for on average 54 days.

To help overcome the severe cashflow problem that this delay in payments by debtors causes, many small/medium enterprises are using debtors' financing (factoring). Debtors' financing (factoring) effectively allows the business to borrow against the "value of their debtors' book". Businesses in sectors with very long payment terms such as manufacturing; clothing; wholesale; mining; professional services and printing are suitable businesses for debtors' financing.

If your business is offering credit to customers and you have amounts owing to you in sundry debtors, subject to your turnover level being in the range required by the debtors' financing companies, debtors' financing may enable you to have access to a significant amount of cash without having to offer security over real estate or other assets. The key is then to effectively use that cash in your business for payments to creditors and to negotiate discount rates with suppliers for earlier payment.

We would be happy to have discussions with you relative to your debtors' management system and the possibility of applying for a debtors' financing facility.

Fringe Benefits Tax Return

The Fringe Benefits Tax year ends on the 31st March 2010 and Fringe Benefits Tax Returns need to be lodged with Australia Taxation Office (if they are being prepared by our firm) by the 28th May 2010.

Items included in the Fringe Benefits Tax Act:

- car fringe benefits;
- loan fringe benefits;
- debt waiver fringe benefits;
- expenses payment fringe benefits;
- housing fringe benefits;
- board fringe benefits;
- airline transport fringe benefits;
- living away from home allowance;
- entertainment benefits;
- car parking; and
- in some cases, property residual fringe benefits.



If a benefit does not fit in any of the 13 categories it will be classified as a residual fringe benefit.

A Fringe Benefits Tax exemption applies for the following work related items:-

- portable electronic device;
- item of computer software;
- item of protective clothing;
- brief case; and
- tools of trade.

Exemption is limited to items primarily for work related use and limited to one item per Fringe Benefits Tax year for items that have a substantially identical function unless the item is a replacement item. Certain minor benefits are not included for GST including newspapers; employee subscription to a trade or professional journal; an employee membership fee for a corporate credit card; an employee membership fee for an airline lounge membership; and taxi travel provided to employees.

If you would like discuss your business' Fringe Benefits Tax position, do not hesitate to contact us.

Business Plans

Distribution

- Have you compared the costs of the various distribution methods?
- Are deliveries being made within a reasonable timeframe?
- Do you receive many complaints re distribution methods used?
- If you are using an external distributor, do you:-
 - hold meetings with the distributor?
 - train distributor's staff in your products?
 - set annual sales targets for distributors?

What's It Mean?

Net Asset Value... describes the market value of a business' total assets less its liabilities. Normally determined by adding the value of all tangible assets in a business eg plant and equipment, motor vehicles, land, buildings, debtors, cash on hand then subtracting liabilities owed by the business including creditors and loans. The resulting figure is termed the Net Asset Value. *Please note the value of Goodwill is not included in Net Asset Value.*

Advertising - Comply With The Law

There are various laws relating to advertising which can be summarised by saying "be honest" and if you are promising to do something, you have to do it. The experts believe you should be putting yourself in the shoes of consumers. **Don't** promise what you can't deliver and ensure your advertisement will be clearly understood by the consumer.

Over-promising or not delivering what you promised can cause you problems under the Trade Practices Legislation which could involve prosecution by the Australian Consumer Competition Commission (ACCC). Some of the common breaches of advertising rules include:-

- **"two-pricing" advertising** - this is where an item was originally claimed to having been listed for sale at the original price (eg \$800) and it has now been reduced to half price (eg \$400). If called upon to do so by the ACCC, you need to be able to prove that not only was the item listed for the original sale price, but that you actually made sales at that original price.
- **"bait" advertising** - this is where an advertisement is placed which lists an item for a very attractive price but when the potential customer goes to purchase the item, he is told "sorry, it is no longer available" and then the sales person tries to sell the potential customer another product. If the potential customer complains to ACCC they will investigate and take action against the business if the ACCC believe there was never any stock available to be sold at that very low price. The ACCC consider that the advertising was only used as a "bait" to get the potential customer into the store.
- **"omission in advertising"** - another problem that can occur in advertising is if important information is deliberately omitted from the advertisement. This can be an offence as it could be alleged that the business has deliberately misled the consumer.

We would be happy to refer you to a competent advertising consultant.

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



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general information only.