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NZ CA
An Association of Independent Chartered Accountants

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It is no use saying, 'We are doing our best'. You have got to succeed in doing what is necessary.

Winston Churchill

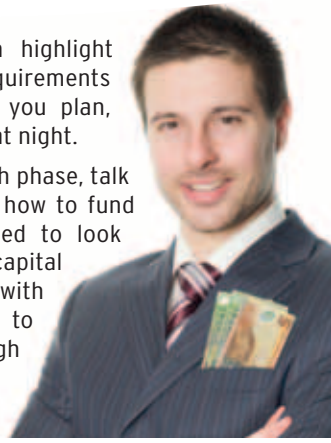
Cash to grow

We are seeing signs of business starting to pick up. We are all ready for it to happen. For many business owners cash reserves have been used up to survive the recent years of trading – money is tight. As business picks up, cash is needed to buy product and employ extra staff to cope with the increased workload. Traditionally some businesses who have survived an economic downturn fail as they enter a growth phase through lack of working capital to run their operations. These times require good planning (both financial and business planning) and excellent communication with your bank and your suppliers as you re-enter the growth phase.

Financial forecasts which highlight the working capital requirements are important to helping you plan, achieve finance and sleep at night.

If you are entering a growth phase, talk to your accountant about how to fund this growth. You may need to look at alternative working capital funding in conjunction with traditional bank finance to ensure you thrive through your next growth phase.

Source : Sudburys



Solvency – what's it all about

One of the key tests of business viability is solvency. There are two arms to the solvency test:

- Can you meet your debts as they fall due?
- Are your assets greater than your liabilities?

If both these tests can be met then your business is said to be solvent. Should you not be able to meet these criteria then as a business owner you should be seeking advice regarding your next steps in relation to your business. Even if you have a limited liability company you may still be risking your personal assets if you continue to trade while your company is insolvent.

There are two key tests which are a good basis for you to monitor the financial viability of your business. They are good indicators that you are trading well or alternately heading for insolvency.

The first test is your working capital ratio. This is the current assets divided by your current liabilities.

Current assets are cash, bank accounts, inventory and money owed to the business by your customers (these assets are either cash or able to be turned into cash relatively quickly).

Current liabilities are your bank overdraft, money owed to your suppliers, money owed to IRD and principal owed to lenders which must be repaid within 12 months (these liabilities need to be paid relatively soon and at the latest within the next 12 months).

The generally accepted working capital ratio is 2. That means current assets are twice current liabilities. If your working capital ratio is 2 or more usually you'll be able to meet your debts as they fall due. If it falls below this level you are likely to experience greater difficulty in meeting your debts as they fall due.

The second test is the equity ratio. Equity is the amount of the assets in your business which are funded by you rather than being funded by your suppliers, IRD and outside lenders such as hire purchase companies and banks.

Let's take the example of a car. The car is your asset, the hire purchase is your liability and the asset (the car) less the liability (the amount owed to the hire purchase company) is your equity.

The equity ratio is calculated as equity divided by total assets. The benchmark for this ratio is 40% for most businesses, however those which have varying workloads and high risk (such as builders and contractors) may need an equity ratio as high as 60% to be able to endure times of lower workloads or poor trading.

The benchmark for both these ratios varies from business to business so talk to your accountant about what your benchmark should be and how you can work to improve these key performance indicators.

Source : Sudburys

60 day limit for tax pooling being extended

Clients who are unable to pay their tax can buy it from a tax pooling company. This opportunity is available for up to 60 days after the due date for payment of the tax. There is a Bill before Parliament. This time limit is to be extended to 75 days. Thus a taxpayer with a 31 March balance date will have until about 21 June to pay the tax due on 7 April and still be able to avoid penalties.

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10 tips to maximise networking success

Most members join the Chamber to network with other business owners – as a way to increase their sales, generate useful contacts, find mentors, and generally get engaged with the business community. It's time to super-charge your sales lifecycle, and get in front of the people that can help your business. The following are 10 tips to help maximise your networking success:

1. Get Busy.

Stop putting off networking opportunities. You know you need to get out and about – if you want to be one of the businesses thriving in the current environment you need to tell your story to as many people as you can. Ask yourself, who have you talked to today that can help your business?

2. Find a wingman.

Getting out with a networking buddy will not only motivate you to attend events, but by swapping notes afterwards you can increase your coverage and chances of finding useful contacts. Think about working the room as a tag-team by introducing your buddy to others to help break the ice.

3. Bring It!

Get your attitude right. No one wants to listen to you whine, complain, or whinge. Be positive, get enthusiastic, and keep your energy levels high. Project a persona that people want to be around.

4. Don't be shy.

Don't be afraid to introduce yourself to people. Find a gap in the conversation and make your approach – remember to be tactful by not rudely interrupting a conversation.

5. Execute a great handshake.

There is nothing worse than a limp handshake – but make sure you don't crush their hand either. Getting the right balance will let people know that you are confident, but also respect them. Make sure your hands are clean – sticky or wet hands send totally the wrong message.

6. Make an impression.

Every great business has a story – this is the opportunity to tell yours. Be memorable, be succinct, be charming. Don't forget to hand over a business card. Don't give them the hard sell. You are not there to make a sale on the night – you are there to find future opportunities.

7. Listen.

It's not all about you, so be prepared to small talk about anything from politics to sporting engagements. Find common interests. Remember to ask questions about their business, and listen to what they say. If necessary make notes on the backs of their business card so you don't forget.

8. Escape.

Don't be afraid to instigate an escape after the conversation has run its course. Just let the person know that you need to keep moving, but it was great to meet them

9. Follow-up.

Networking without follow-up is like doing business without golf. Give them a call. Send them an email. Take them out for a cup of coffee. Ask them if you can add them to your mailing list. Do something with the contacts you get when networking – otherwise you are wasting your time.

10. Ask the question.

Remember that it's not just about who's in the room – it's about who they know. Engaging this broader network is what distinguishes great networkers from mediocre ones. As part of your follow-up ask the question, who do you know that can help my business? And be prepared to answer that question – be generous with your contacts.

Source : Auckland Chamber of Commerce

Limiting trustee liability through the use of a corporate trustee

A common response to the issue of trustee liability is for a person to act as the director of a trustee company, rather than as a trustee in a personal capacity. The trustee company in question will likely have no assets of its own to settle any claim against the trustee.

However, it is important to appreciate that a director, regardless of whether a company is a trustee company, must:

- Act in the best interests of the company;
- Exercise any power for a proper purpose;
- Not act, or agree to the company acting, in contravention of the Companies Act or the constitution;
- Not trade recklessly such that there is substantial risk to the company's creditors;
- Not incur an obligation unless the director believes on reasonable grounds at the time that the company will be able to perform the obligation when required;
- Exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account the nature of the company.

The extent of such duties on a director means that the careless use of a trustee company can leave the director of the trustee company liable to action for failure to act in accordance with the Companies Act.

When a corporate trustee is appointed, while the company acts as a trustee and as such has all the powers and discretions of a natural person trustee, the director of the corporate trustee is responsible to the company, not the trust, when it comes to matters such as reckless trading and failure to act in the company's best interests.

If you have any concerns about acting as a director of a trustee company you should seek legal advice.

Source : Ayres Legal

Business interruption insurance

The Christchurch earthquakes have been a wake-up call to all business owners to ensure they have some form of business interruption insurance. Whilst many of us viewed this as something of a 'grudge purchase', recent events have shown that one can never be too prepared.

Talk to your broker or insurance company to ensure your business is covered in the event of a catastrophe.

Source : NZ Law

"Without prejudice" – what does it mean?

The Court of Appeal has stated that the use of 'without prejudice' in communications is intended to encourage and facilitate negotiation and settlement of disputes. Its use can enable parties to make concessions and/or admissions to try to reach a settlement in the knowledge that, if the dispute cannot be settled, then those concessions/admissions will not be brought up in Court and used against the parties.

But this does not mean that any communication that is said to be 'without prejudice' will be privileged. Statements that have no bearing on settlement negotiations will not be protected. In order to obtain privilege/protection against later disclosure in Court the use of 'without prejudice' in communications must be as part of a genuine attempt to try to settle a dispute.

Source : Arron Heath

Where are your business cards?

Many people leave their business cards in the office drawer. It's the least productive place for them. Have them with you wherever you go. If you wear a jacket, you probably have a small pocket located just over your heart. This pocket was, I assume, created specially for business cards! Make sure it is always well stocked. Oh , and what about the person you meet who doesn't have a card to give you? Keep some blanks in your pocket so you can get them to write down their contact details for you.

Distribute your business cards liberally. Don't overlook the potential to get customers through your suppliers. I have even seen a business card included with a Christmas card. It's debatable whether this is a good idea because it might mix the messages you want people to receive.

Joe Gerard, an American, is reputed to be the best car salesman in the world. When he goes to a football match and gets excited he flings a fistful of his business cards in the air. You can be sure it pays him to do this.

Get your business documentation right from the start

Whether your business is new or existing, every business needs good foundation documents.

Shareholder Agreements

Shareholder agreements are particularly important to record arrangements between shareholders on matters such as :

- Scope of business. It is important that all shareholders have a clear understanding between them of the focus of the business and future plans;
- The level of agreement between shareholders and directors required for decision making. Agreement on the types of resolutions required (e.g. majority or special majority) for the different types of decisions;
- Entry and exit arrangements for shareholders. These are important areas that need to be understood, particularly where it is proposed a new shareholder be introduced or if a shareholder wishes to exit the business. Arrangements need to be discussed concerning issues such as whether there is any obligation to buy an exiting shareholder's interest or whether an exiting shareholder has the right to require others to buy their shareholding;
- The minimum period for which a shareholder must commit to the company;
- The arrangements for the contribution of funds and how are the loans to be repaid;
- A dispute resolution procedure. If the shareholders disagree it is best to have an agreed dispute procedure recorded in the shareholders' agreement.

Shareholder Incapacity or Death

If possible, shareholders should agree on how long the company should continue to fund sick shareholders and the arrangements concerning shareholders who become incapacitated or die. Insurance arrangements will also need to be considered for incapacity and death.

Shareholder Security for Loans to the Business

Where shareholders are providing loans to the company or other financial accommodation in the form of guarantees for bank security or premises, shareholders should take security over the company.

Intellectual Property and Terms of Trade/ Supply

Intellectual property needs to be protected. This may involve a patent application, trade marks and registered designs. These need to be addressed and registered as soon as possible.

Trading Terms

These are crucial for any business, whether they be terms of trade, terms of supply or licence agreements relating to the use or operation by third parties of company intellectual property. Website terms of trade must be up to date.

These are only a brief summary of some key documents every business should consider.

Source : Greg Woodd (Simpson Western)

ACC offers a discount

ACC will be giving small businesses with a blameless track record a 10% discount starting from the year ending 31 March 2012. It says 93% of all small businesses are expected to qualify. Bigger businesses are being offered a 35% discount for good performance. We ask, does this amount to discrimination?

Rebates will be delayed

IRD will not release refunds of childcare, donations etc rebates until they have clients' IR 3 tax returns to check there is sufficient income to cover the rebates. Best thing to do is to file the IR526 and the IR 3 at the same time.

IRD mileage rates

Starting from the 2011 tax year, IRD mileage rates are 74c per km. The rate applies to all petrol and diesel fuelled vehicles regardless of their cc capacity. This does not include motor cycles.

Can you rely on your management reporting

Businesses now commonly use financial software to produce regular reports as the basis for measuring profitability throughout the financial year. No longer is an annual set of financial statements prepared by your accountant sufficient to run your business.

Business administrators spend considerable time entering data into this financial software. However the information being produced is frequently inaccurate due to poor set up of the software and inadequate training. We regularly encounter:

- Administrators process the information but do not provide any reports to the owners.
- Initial set up is inadequate resulting in incorrect GST payments and profit reporting.
- Administrators are not trained to check the information before producing the reports.
- Inadequate liaison with the company's external accountant to ensure that costs such as loan interest and depreciation are accounted for each month.
- Business owners receiving little or no coaching on what the reports are telling them about their business.
- Administrators do not check the invoices processed to the suppliers statement therefore overpaying suppliers and incorrectly reporting the business profit.

Accountants spend up to 7 years training to prepare an accurate set of financial statements. The information you use to monitor your business is vital. Talk to your accountant about what your reports mean, what information you should be looking at and whether the information you are producing can be relied upon.

Source: Sudburys

"Even when opportunity knocks, a man still has to get up off his seat and open the door."

Anonymous

NZ CA

An Association of Independent Chartered Accountants

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Changes in Particulars

Please remember to let us know of any changes in:
* Physical address * E-mail address * Phone and/or fax numbers * Shareholdings * Directorships * Trustees
Or anything else that may be relevant.

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