

# Business Matters

News & Information from Prouse Family Accountants

2nd Quarter 2008



## Stop wasting money

In every business, money has to be spent in order to make money. But, nobody likes to waste money. Most business owners are careful spenders, but from time to time, they squander precious cash resources.

This does not mean money that is spent to create a new product that doesn't sell, or the development of a sales channel that doesn't deliver the desired income level. Growing a business inevitably leads to some dead-ends. But wasting less useful ways is where the real cash drains are.

First, recognise some of the most common ways that small business owners and managers their money:

- 1. Once off advertising.** Over reacting when sales are low or some hot-shot advertisement salesperson calls with an "exclusive" deal that can't be resisted.
- 2. Excessive spending on inventory.** Whilst bulk buying generally leads to lower prices, cash is tied up in products sitting in a warehouse. Products that then cannot be sold and monies collected before the invoice is due, represents a cash outflow. With perishables (such as in a restaurant or florist), excess inventory literally rots away. And with seasonal merchandise, your inventory ages and loses value.
- 3. Finance charges.** Borrowing money can help you grow your business, so some of these fees may be reasonable expenses. However, when

finance charges accrue due to poor cash management, that is just money wasted.

- 4. Habitual buying from non-competitive suppliers.** Business owners are busy people, so often, once a good supplier is found they stick with them – and there is a good reason to do so: it reduces administration and product quality may be more consistent. However, it does not hurt to look around from time to time.
- 5. Inadequate or poor invoicing systems.** Many businesses fail to bill their clients in a timely manner. Worse still, it may be decided it is too late to send an invoice. Poor billing systems can lead to customers developing bad habits when it comes to paying their invoices.
- 6. Poor customer service.** It is far more costly to get a new customer than to keep an existing one. Cutting back on good customer service is a dangerous strategy and false economy.
- 7. Dissatisfied employees.** High employee turnover can be a significant waste of money and often the true cost is difficult to measure. A lot of resources - time, attention, and money go into finding and training new employees. It is a lot more cost effective, in the long run, to pay well, provide competitive benefits, and most importantly, create a positive work environment.

In a small business, every dollar is precious, so spend your funds wisely.

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Rental Property & Property  
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### KEEPING YOU ON THE RIGHT TRACK

We can help your business and your personal finances stay on the right track.  
Call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members

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# 10 Tips for Saving Money

**1. Develop an annual plan.** An annual plan helps to determine how money will be spent. It shows what you want to do and, as importantly, what you do NOT want to do in the coming year.

**2. Set out an annual marketing plan.** Marketing is an essential part of any business strategy, usually an ongoing activity and something to be planned, not just done in emergencies or because you have the chance to. You have to market your business to attract customers. Promotions that makes money must be repeated and planned.

**3. Review invoicing systems.** Send your invoices on time. Do your invoices regularly, every day, week, or month. Do NOT let this slip!

**4. Manage credit cards.** Develop a timetable to ensure they are paid on or before due dates to avoid late payment penalties.

**5. Take advantage of discounts.** Paying suppliers early will often attract early payment discounts. It will also place your business on more favourable terms, which may enable your business to negotiate better pricing.

**6. Keep a clean credit history.** It is essential for future borrowing plans to have a clean credit record. If for some reason bills cannot be paid on time, keep your suppliers informed of your progress. This will minimise the risk of being issued with default notices which can impact a credit rating.

**7. Comparison shop.** Routinely review deals on services and products you already use. It may be the case that your supplier has changed their pricing system and simply not notified you. Get competitive bids even for a supplier that you are satisfied with.

**8. Develop "just in time" inventory management.** Work with suppliers to determine how quickly and regularly they can replenish inventory. This may mean paying a little more per item, but may free up a lot of cash for income-producing activities. Work to make the ordering process as easy and simple for your supplier as possible.

**9. Get advice early.** Many business owners are "penny wise and pound foolish" when it comes to spending money on solicitors, bookkeepers, or accountants. Don't wait until your business is in dire straits financially or legally before getting help.

**10. Treat employees well.** Pay them well, provide competitive benefits and don't forget to say "thank you" from time to time.

## Get ready for super changes

From July employers must use 'ordinary time earnings' to calculate employees' super guarantee contributions.

The new law introduces a standard basis for determining ordinary time earnings for all employees.

### Preparing for the changes

In order to be ready for the changes, employers should:

- review the earnings base for all employees to ensure that super contributions are based on ordinary time earnings
- review the 'checklist for salary or wages and ordinary time earnings' (available from ATO website) to see what items of salary and wages are included and excluded from ordinary time earnings
- update software and payroll systems
- include performance based bonuses, allowances and commissions when calculating the super guarantee
- assess the cost impact on your business if you are required to increase your super contributions
- inform employees of possible changes to their super contributions.

Ordinary time earnings, as defined in the super guarantee law, is generally what an employee earns for ordinary hours of work. It includes over-award payments, shift loading or commissions, but excludes such things as overtime.

Most employees have ordinary time earnings as their earnings base, however, some have a different earnings base that may be determined by an industrial award or an employment agreement

### Why the change?

Some employers currently pay super calculated on a basis that was permitted when the superannuation guarantee legislation was introduced. This means that some employees may be paid lower superannuation contributions (as a proportion of total remuneration) when compared with another employee in similar circumstances.

## Reducing super burden for employers

On 20 March 2008, the government confirmed planned changes to the super guarantee late payment offset to provide fairer treatment for employers who make super contributions after the super guarantee cut-off date.

One of the problems with the current system is some employers incorrectly make late SG payments directly to their employee's super fund instead of the ATO. Under the current situations they are treated as not having paid at all - in

effect, employers are required to pay twice.

The Bill will ensure late contributions still count towards reducing the required superannuation guarantee payments of an employer. These changes mean employers will not have to pay the same amount twice.

Employers need to be aware that the law has not yet changed. The changes will take effect from the date of Royal Assent.

Finally, the proposed changes will only allow employers to offset amounts relating to the super guarantee shortfall amount. They will not be able to offset that part of the super guarantee charge assessment that relates to the administration charge.



# The art of effective negotiation

Daily existence is made up of a continuous series of negotiations. From teenagers who want to borrow the car to the employee who seeks a pay increase, negotiation is a fact of life.

The key to success is remembering that everything is negotiable, and that to get a deal you must ask for one. Many people stop right there because negotiating makes them uncomfortable. They view the process as a contest of wills in which power determines outcome, each party seeks to best the other, and the little guy doesn't stand a chance.

That kind of positional bargaining may produce some short-term results, but it is a distasteful, win-lose process that can leave both sides exhausted, resentful and unhappy with the outcome.

It doesn't have to be that way. Effective, principled negotiation can efficiently produce an agreement that meets the needs of both sides, while improving or at least maintaining personal relationships. In negotiating the key is to focus on four areas:

**People.** Separate the people from the issues to avoid personalising them. Make sure each party understands the other's perception of what is involved. Identify the underlying emotions on both sides and acknowledge them. Listen actively and speak to be understood, not to argue a position.

**Interests.** Focus on interests instead of positions. Behind each position lies compatible interests as well as conflicting ones. To identify the interests, put yourself in the other person's shoes. Why would he take such a position? Does any aspect of your proposal conflict with those interests?

**Options.** Work with the other party to generate a variety of options. Separate the brainstorming from the decision-making process. Look for areas of agreement by identifying shared interests. Look for ways to satisfy differing interests by considering options that are of low cost to you and high benefit to the other party and vice versa.

**Criteria.** Insist upon negotiating within mutually-agreed-upon standards of fairness. These criteria may range from current market value to procedures for resolving conflict. Standards such as these are also crucial to establishing a foundation of trust on which to build a relationship. It also keeps the negotiation objective.

Principled negotiation works well because it is outwardly focused. Standard positional bargaining, on the other hand, focuses entirely on self. Either may result in agreement, but the first builds relationships for the future while the second often leads to resentment and distrust.

**Principled negotiation is especially crucial when an imbalance of power exists between the parties. Here are some useful ideas to help level the playing field:**

- Develop negotiation skills through education and practice.
- Research. Use the Internet and other sources to learn all you can about the issue in question, research your options, and understand marketplace conditions.
- Determine your next best alternative. What will happen if an agreement cannot be reached? Power in a negotiation will increase proportionately to the viability of your alternatives. Well thought out alternatives will provide perspective and help avoid accepting an agreement that should be rejected.
- Establish a team relationship with the other party as rapidly as possible to engender cooperation and set the stage for principled negotiation.
- Ask questions. Statements generate resistance, whereas questions generate answers and develop understanding.
- Get clarification. If something is confusing or unclear ask for an explanation.
- Frame tentative options in terms that address the other party's interests and resolve issues that may present an obstacle to agreement.
- Use silence. Calculated silence can create the impression of a stalemate that the other side may feel impelled to break, usually by offering concessions. It also demonstrates that you are considering or thinking about options.
- Finish on a positive. Thank the other party at the conclusion of a negotiation, even if an agreement isn't reached. Sometimes it's not about the deal you lose, but the next deal down the line.

## Common FBT errors

The ATO have identified a number of common mistakes that businesses are making when recognising, valuing and reporting fringe benefits. .

### Cars

Employers who allow employees to garage cars at their residence are required to treat this use of the car as a fringe benefit. In addition, logbooks containing the appropriate information must be kept when the operating cost method is used.

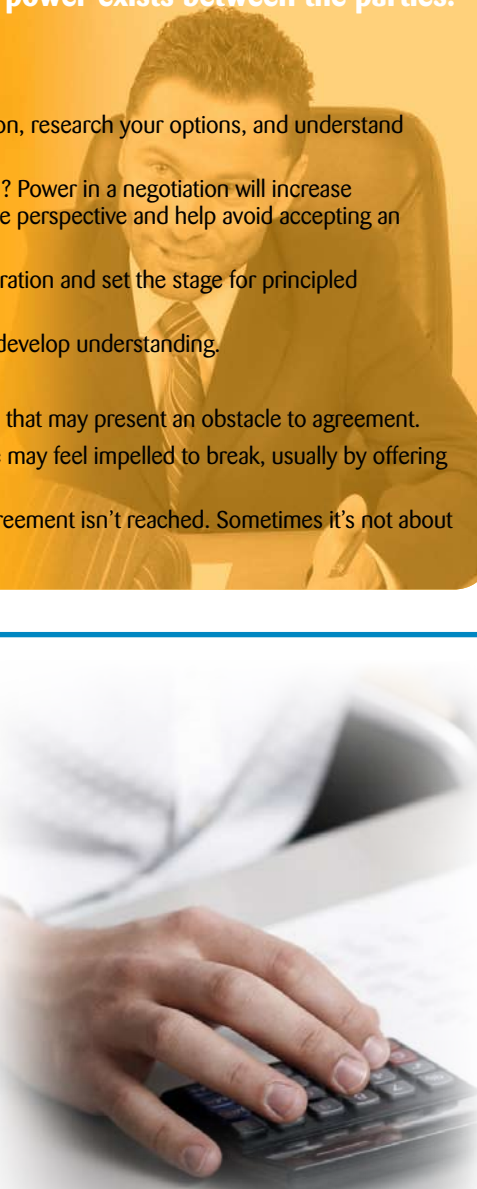
### Directors' benefits

Business owners in many cases have failed to recognise that if they are a director, and run their business through a company, they may be treated as an employee, which means that that fringe benefits provided to themselves will result in the company having FBT obligations.

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### FBT benchmark interest rate

The benchmark interest rate for the FBT year commencing 1 April 2008 has increased from 8.05% to a new rate of 9.00%.



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#### Employee contributions

Employee contributions towards a fringe benefit may reduce FBT liability. However, where employee contributions are used to reduce the taxable value of a fringe benefit to nil, the value of the contribution must be treated as contribution as assessable income for income tax purposes and/or recognise a taxable supply for GST purposes.

In addition, employee contributions must be satisfactorily documented to substantiate employee paid costs for fuel and oil expenses. Where the payment of an employee's contribution is by journal entry, it must be correctly recorded and made on the appropriate date.

#### Reportable fringe benefits

In some cases there have been instances where employers have included reportable fringe benefits on their employees' payment

summaries, however have not lodged FBT returns.

#### Otherwise deductible rule

This rule provides that the taxable value of a benefit may be reduced by the amount of the income tax deduction that would have been allowable to the employee if the employee had met the expense and not been reimbursed.

Employees need to be aware that the otherwise deductible rule can be used only to reduce the taxable value of the benefit to nil when the expenditure would have been 100% deductible to the employee – otherwise the taxable value can be reduced only by the business percentage. An employee declaration is also required to support the business use claim.

If you are uncertain about your obligations to pay FBT or the method of calculation please contact our office.

## A Great Read

**Super Service:** Seven Keys to Delivering Great Customer Service

**Author: Val and Geoff Gee**

Published by: McGraw-Hill



Val and Jeff Gee bring their extensive experience in employee training to a simple, yet effective book version of the training sessions they designed for top corporations. They offer

seven critical ideas - keys - to providing outstanding customer service. Each one builds upon the premise and actions of the previous one, making these lessons sensible, precise, and natural to put into practice.

The book illustrates each key with anecdotes, case histories, boxed lists, cartoons, and exercises. This creates an interactive learning experience. Nicely written in an upbeat, conversational style, it does not talk down to the reader or take the tone of a cold, authoritarian "employee manual." Neither is it condescending by being overly simplified in thought or tone.

Unlike other customer service books, Jeff and Valerie Gee's concise book is not just written for executives and managers, but also for the front-line workers who serve customers directly. The authors share their straightforward, proven techniques and guidelines for coping with angry customers, reducing stress, and making customer service providers feel great about doing their jobs.

In the best-selling tradition of Delivering Knock Your Socks Off Service, the authors' "pep talk" includes concrete tips on how to: empathise with the customer; take a call, transfer a caller, or end a call smoothly; defuse angry customers; maintain a positive frame of mind... and more!

This book to anyone whose position involves serving customers, or supervising those who do.

Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

## WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

#### The Brooks Group [www.brooksgroup.com/](http://www.brooksgroup.com/)

The Brooks Group is a sales training firm that has conducted sales and sales management training for more than 2,000 clients in 500 industries. Their website contains a range of sales improvement resources that will be of benefit to any business wanting to improve the performance of their sales strategy.

#### Business Finance <http://businessfinancemag.com/>

Business Finance magazine is a great source of the new ideas for business owners and managers looking to improve the finance and cost management function of their business.

## REMINDERS FOR YOUR DIARY

### APRIL

- 21 Activity statements - March 2008 monthly activity statements: final date for lodgment and payment.
- 21 Activity statements - Quarter 3 (January-March 2008) activity statements containing a monthly GST obligation: final date for lodgment and payment
- 28 Activity statements - Quarter 3 (January - March 2008) activity statements: final date for lodgement and payment.
- 28 PAYG instalments - Quarter 3 (January-March 2008) instalment notices - forms R and T. Final date for payment and, if varying instalment amount, lodgment (two-instalment payers are required to pay 75% of instalment liability by this date.
- 28 Superannuation - superannuation guarantee contributions for Quarter 3 2007-8 (1 January -31 March) contributions to be made to the fund by this date.

### MAY

- 12 Activity statements - Quarter 3 (January - March 2008) activity statements: final date for electronic lodgment and payment.
- 21 FBT Return - Due date for lodgment of 2008 Fringe Benefits Tax (FBT) return and payment if required.
- 21 Activity statements - April 2008 monthly activity statements: final date for lodgment and payment.
- 28 Superannuation -Superannuation guarantee charge statement - *quarterly* (if required contributions were not made by the due date) for quarter 3 2007-08 (1 Jan - 31 Mar). The superannuation guarantee charge is not tax deductible.

### JUNE

- 21 Activity statements - May 2008 monthly activity statements: final date for lodgment and payments.
- 30 End of financial year.