McIntyre Flannery Tait
Chartered Accountants & Business Coaches

Hugh's Views

Here we are again, mid November and Christmas just around the corner. Already the entries are going into the calendar for the Xmas functions and coordinating holidays for those fortunate enough to be able to take them at the traditional time. Although where else do you really want to be at that time of the year?

This year has not been an easy one for most of us. We would like to think we are dragging ourselves out of the downturn which has been keeping a lid on things for the past 18 – 24 months. It is good to see that activity in the construction industry seems to be gaining some momentum. There is certainly some activity in the real estate markets and while prices have come back in the rural sector for our prime produce, it would seem that they will remain at a level that is a distinct improvement on 5-6 years ago.

In our world we have been kept busy doing the basics of compliance work. We have not seen a lot of activity in new business's starting up. There has been a significant amount of refinancing and a number of business owners have been looking hard at the way they run their business and making some adjustments. This should place them in a strong position as the economy strengthens and business activity increases.

One of the big "noises" in our industry recently is the term cloud technology. We have heard a lot about it in the last 12 months but in fact it has been around much longer than that. We have been using the technology for over 4 years through an accounting package called Xero. We have some 50+ clients also using it. Those of you who are Banklink clients and are very happy with that process can also utilise "Cloud Software" due to the arrangement that MYOB now has with Banklink, utilising MYOB Live Accounts.

Many of you will have received an invitation to attend a seminar we are running on Tuesday the 20th of November. While Cloud Software is not for everyone it will have benefits for a significant number of our clients. We have a small article in this newsletter which explains the basic principles, but I suggest that you register for our seminar and come and find out for yourself if there are sufficient benefits for you to consider a change in the way you provide us with your information and also provide yourself with the opportunity to maintain a better idea of how your business is performing.

Hope everyone has a great Christmas and is looking forward to a much improved 2013.

Spring Newsletter

In this issue

XMAS HOURS

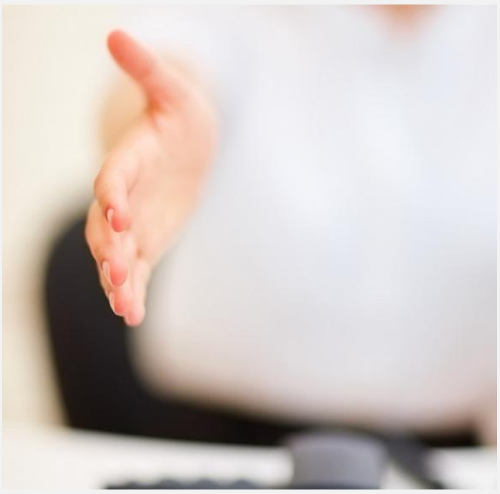
Our office will close for the Christmas break on Friday 21st December and will re-open on Monday 14th January 2013. George and Christine will return to the office on the 7th of January. Mark Tait will be on-call for emergencies during this period.

Standard mileage rate increases

The IRD standard mileage rate for motor vehicles is now 77 cents per km. This rate applies to the 2012 income year.

The standard mileage rate may not be acceptable where an employee's business travel exceeds 5,000km.   The reimbursement should be based on actual expenditure or a reasonable estimate of the expenditure likely to be incurred by the employee.

Employment agreements are a must



A recent ERA ruling further proves how vital employment agreements are. An employee was awarded $3,000 after the ERA ruled that she had been unjustifiably disadvantaged through lack of an employment agreement.

Order of events: In 2008, the employee accepted an advertised role offering 25 hours per week with flexibility and potential for 40 hours during peak times. A year later, the employee requested more hours and the role expanded. After 6 months, the extra work was reduced along with the employee's hours.

The employee claimed that she then verbally applied for, and accepted, a vacant full-time position at the company. One of the employer's three directors later stated there was no offer of a full-time role, no documentation confirming the alleged appointment and no staff announcement. In addition, he said that he lacked the authority to make such an appointment and was only able to adjust hours.

Down the track the amount of work declined and the employer reduced the employee's hours. She resigned and raised a personal grievance.

The verdict: It was decided that the employer acted without good faith by not providing an employment agreement. Had it done so, confusion surrounding the employee's hours could have been avoided. This in turn might have prevented a further finding to the employer's disadvantage relating to reduction in the employee's working hours (for which compensation of another $7,000 was awarded).

Where an employee is not covered by a collective agreement, the law requires an individual employment agreement to be in writing. This promotes greater certainty and trust - which can only be a good thing.

Mark-up vs. Margin – What's the difference

Do you know the difference between mark up and margin?

We are confident that there are plenty of people in business who do not understand the difference and are therefore not as profitable as they think. Two terms are used when discussing prices – mark-up and margin. They are different ways of calculating profit and the difference is not often understood.

Many trades people use mark-up which is not the same as margin.

Margin
The percentage margin is the percentage of the final selling price that is profit.

Mark-up
Mark-up – the percentage of the cost price you add on to get the selling price.

Example
An example is if a job costs $100 and is priced at $150.

Mark-up = to get a 50% mark up is 100+(50%*100) = $150. But this is where it can be confusing – a 50% mark up is not a 50% margin. Margin is what shows your profitability.

Margin = (price-cost)/price so in this example (150-100)/150 = 33.33% To price on margin, take cost and divide by (1 – % margin you are after.) So to get a margin of 50%, you would need to sell your service for $100/(1-.5) = $100/.5 = $200 not the $150 originally thought.

A really great example illustrating the calculations above can be found on the following YouTube clip http://www.youtube.com/watch?v=BCo5i1mMO3E

For a quick reference guide:
A 15% Mark-up = 13% Gross Profit Margin
A 30% Mark-up = 23% Gross Profit Margin
A 50% Mark-up = 33.3% Gross Profit Margin
A 100% Mark-up = 50% Gross Profit Margin

Still confused? Get Expert Help

ACC

Once again ACC has been tinkering with its rules. One of the good things to come out of the exercise this time is that some rates have been reduced, and sometimes significantly. We are looking closely at invoices for our clients who are involved in our ACC Annual Review package to see if there are any new options that may be beneficial to our clients.

Paul Checketts has taken over the responsibility for this service and with the assistance of Sue Murdoch they are committed to making savings in your ACC bill where possible. So if you aren't already enrolled in the ACC Review service contact Paul. 4488060 or paul@mftca.co.nz

PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

Your Succession Plan

Have you thought about it yet

Succession will affect every business at some point. It is completely inevitable, and yet so many businesses don't have adequate plans in place. As our baby boomers reach retirement age and the mass exodus of skilled young workers continues, succession will remain an important issue.

Whether you're planning an exit or not, succession planning gives you the best chance of being financially independent at your desired retirement age, to carefully pass your clients on to a successor, to prepare for catastrophes and to realise maximum value in all scenarios. If managed properly this is your opportunity to create wealth in your business.

The benefits of succession planning:

- Choose when you wish to retire
- Minimise disruption for your clients
- Maintain continuity of employment for staff
- Maintain suppliers' credit terms
- Retain the confidence of banks and financiers
- Manage lease and loan liabilities properly
- Reduce the pain of a forced retirement
- Avoid conflict with your partners
- Maximise the value of your business
- Ensure adequate funds for yourself and your family
- Increase the number and quality of potential successors

A succession plan generally consists of two important parts:
legal agreements and a business continuity plan.

The business continuity plan should tackle management and ownership plans to ensure your business remains a success and continues to service your clients' needs. **Legal agreements** such as a shareholder agreement and buy and sell agreements manage the business dealings and transition of business interests come succession time.

Insurance can be an important factor. In the event of sudden death or disablement the remaining owners may buy the estate out. Insurance can help fund the purchase upon a forced exit, avoiding the need for the remaining partners to use their own capital.

You need to consider the type of insurance and level of cover you require, also who holds the responsibility for paying the premiums, how to deal with shortfalls and surpluses, policy ownership issues and how you'll treat the termination of the policy.

Managing succession: Succession is a management issue that should be addressed 5 - 10 years in advance of implementation. Plan for a number of possible scenarios, to enable the departure of an owner or partner, whether through forced and unexpected events or by retirement. Succession planning is important at the beginning of a business as life is unpredictable!

Often the emotional aspects form the initial barriers to a succession plan, including personal relationships, family concerns, issues of relinquishing control, and beliefs that the owner will keep working beyond retirement. Succession planning can be seen as a threat to security and status.

It can be difficult for partners to suggest to a colleague that it's time to start thinking about retiring, but transparent and open discussions always result in fairer solutions. If a plan is established well in advance then emotional issues can be reduced.

Key employees need to understand their position throughout the process, so they're less likely to exit when most needed.

Succession planning: factors to consider

- What, when and how is the plan going to be implemented?
- What is the selection process for finding a successor?
- What development training does the successor require?
- Who will mentor and coach the successor going forward?

The process for succession planning needs to manage both the emotional issues and technical issues to ensure the happiness of all involved and the enduring success of the business.

Succession in family businesses: Did you know that only 30% of family businesses survive the transition to the second generation? And only 12% survive transition to the third?

It seems failure to recruit and develop the right successors is a big challenge. Other contentious issues and common mistakes are: technical mistakes, planning in a vacuum, leaving the business to the surviving spouse and the challenge of treating children equally.

Business owners need to be critical but constructive: would the chosen successor be a contender if they weren't a family member?

Whether you're running a family business or not, now is the time to act. Be proactive, not reactive. Succession planning is a management necessity and vital to minimise risk management issues. It's something that everyone should plan for and that every team member should be aware of. We're happy to discuss your succession plan with you, and if necessary we can point you in the direction of a succession specialist.

Send paperwork into the clouds

When launching into a new business life should be more about lattes than ledgers but for most small to medium-sized enterprises – chilling with an espresso can seem like mission impossible. Some days tradesmen feel more like they are working for the tax man rather than building houses or installing electrics and plumbing, which is their expertise and income earner.

When the inevitable GST return is due or the end of the financial year looms, it's likely to be head down and cheeks up looking for long lost receipts buried amongst tools and tea mugs somewhere in the "ute".

Not wanting to perpetuate stereotypes but when a plumber is battling backed-up drains, invariably his better half is battling backed-up bills and bookkeeping, just when one of the kids breaks out with chickenpox.

How can small business owners transform their dreams into a reality that fulfils their lifestyle and financial goals as well as legal obligations? Time and money are always in high demand and good systems with expert support will make a difference for any business.

With bookkeeping, small businesses often double-up on data entry – entering transactions into a spreadsheet or handwritten ledger and then handing over the books to an accountant who repeats the process. There's nothing wrong with doing this as long as small-business people don't mind paying a rocket scientist to build them a firecracker.

Back to reality.

Entering data into a single ledger once, which doesn't need to be re-entered by an accountant, is cost-effective, saves time and frees up resources for more comprehensive financial analysis. Employing a book keeper can provide a bridging role between small businesses and your accountant. Using the latest technology is all about making bookkeeping easier and making sure every dollar spent with an accountant produces a return. Rather than an accountant spending hours sorting through shoeboxes of scraggly invoices – they can identify opportunities to improve profit margins and growth strategies.

Clients often ask "what's the difference between a bookkeeper and an accountant?"Quite simply – bookkeepers are like nurses, with great bedside manner and taking caring of daily tasks whereas accountants are like doctors, with the skill to diagnose and recommend treatment. When the doctor and nurse have a strong relationship the patient receives top-notch care.

So, will an online, single-ledger system make life easier for small businesses or will the better half still be filling out GST returns on Christmas Eve to avoid returning from summer holidays to a nasty fine? It comes down to discipline and getting correct data into the system but when everything can be done from the convenience of a laptop or iPad from pretty much anywhere – maybe you can have your latte and drink it too.

What's been happening around here

Our team in the Chamber of Commerce Golf Tournament never threatened the leaders but had a good day out.

The office has been really hit by the 100 day cough virus. Three in the office have had long periods off work with the virus as well as other nasties that have been getting around the township.

We sponsored the Alexandra Musical Societies production of Rush. We were pleased to be associated with this very polished show.

Despite all the interruptions we are managing to keep in touch with the IRD's filing requirements. While not being stupid about it we do like to keep on the right side to ensure we maintain a reasonable relationship with them.

Kathryn Cook has now completed all the requirements to become a qualified Accounting Technician. Congratulations are in order for her efforts in achieving this milestone as as well as dealing with the addition of baby Jayden to her family on the way through.

Chris Oliver has completed the requirement to be a Certified Xero Advisor and joins Mark and Kathryn with this status.

Sarah Anderson and her partner Andrew had a baby boy, Finley, on 16th July and are all doing well.

Mark Tait was unplaced in the Central Otago Golf Classic!!

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