



SADLER OAKLY NEWMAN
CHARTERED ACCOUNTANTS

Calculating Thoughts



(the newsletter service of Sadler Oakly Newman, Chartered Accountants, Masterton) **December 2011**

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Be sure to read each article with the mindset "How this could apply to our business".

Thinking of it that way will guarantee that you get the best value. Share the newsletter with staff and colleagues.

To really make sure something positive happens talk to us for that special piece of advice that will manage and grow your business ideas.

Networking saves the business

A JOINER told us about how he rebuilt his business by toughing it out and making the most of his networking skills.

"I employ five people. My factory had run out of work and I owed nearly \$1 million. I was at my overdraft limit. I was on stop credit with all my suppliers. I went to Work and Income and I asked if I could get the dole. I was turned down.

"An order came in and I took a deposit. I used this to restore my credit rating with one of my suppliers so I could get materials. I had a \$7500 limit on my credit card so borrowed \$2000 and continued in business."

Meantime, he put a lot of effort into making contact with his already extensive network. From that point his business picked up. At the time of writing he is optimistic. He has orders to last several months.

What went wrong?

- An employee stole stock from him.
- He was not monitoring his business closely enough.

What does he do right?

- He aims for excellence in every job.
- He is a great networker and has a lot of contacts. As a consequence, he gets a good supply of referrals.

Conclusion

- We believe his marketing saved his business, particularly his networking.

Don't wait until you have run out of work to go looking for the next job.

- Make marketing, particularly networking, your top priority.
- People you know and who like you send you business.

Where to network

- Join organisations such as the Chamber of Commerce and get yourself a high profile. Offer your services. Don't wait to be asked.
- Join (or create) networking groups which promote referrals among their members.
- Keep in touch with your former customers, even though the jobs might be one-off. Cards and newsletters are useful for this. If you have made a good impression, you could get more referrals; if you lose touch you might not get them because you might have been forgotten.
- Join a club or organisation you are interested in and get known.

Allan, Leanne, Rebecca and their Teams

wish you all a very Merry Christmas and best wishes for the New Year.



Please note that our offices will close
at 3pm on Thursday 22nd December 2011
and re-open
at 8am on Monday 9th January 2012

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CHARTERED
ACCOUNTANTS

Discounts come out of your pocket!



DON'T give discounts just to get business. It is one of the worst ways to promote new business as it comes straight out of your profit.

If you can reduce your price once, your customer will expect you to do it again. Further, if you can always afford to reduce your price, you are telling everyone you are overcharging.

By all means give a discount for a second or subsequent purchase immediately following an initial buy. You are catching the customer while in a buying mood. Discounting the second sale is good business as it is better to get some extra profit than none at all.

A joiner (see article "Networking saves the business" on the front page) gives new customers referred to him a 5% discount as a thank you to the referrer. We think people refer their friends primarily because they think you do a good job. We doubt the promise of a discount for someone else would encourage many people to recommend your business.

Many joinery businesses make quite small profits after taking out wages for the owners. Ten percent of sales is often good going. A 5% discount off sales represents a 50% cut in profit for a firm making 10% profit.

Is it time you used an Advisory Board?

Picking up on an article many of you may have seen in a recent Baker and Associates newsletter.

- As your business grows it becomes more and more difficult to keep up with the ever changing demands it puts on you as a business owner.
- You find yourself still working in your business when you know that you should be working on it.
- You find yourself doing an average job of a lot of things instead of a great job on a few....
- You think you may need more staff but are struggling to manage the ones you have
- You want to take advantage of certain opportunities but you don't know where to start.

If this sounds like you it may well be that it's time to lean a bit more on a team of professionals to help you grow your Small or Medium business into a larger one.



An Advisory Board can be formed sometimes with limited cost. It is often made up of other Business owners, Bankers, Accountants, Lawyers, other Trusted professionals such as your Farm Advisor and is a practice we support.

The purpose of the Board is to create some discipline around governance, lend support, and give guidance in areas that you/or your Current Board of Directors may be lacking. Let's face it most of us get into business for the job not because we want the hassle of dealing with Employees and Administration! Often an Advisory group is setup to help manage major projects or complex transactions but can also be used to mentor business people in times of difficulty or growth.

The Board would meet on a regular basis and have a set agenda to follow. Goals/Targets would be set you help you focus and give you direction in your day to day operations.

If this is something that you think might benefit you talk to us.

Selling your Business?

SELLING a business is similar to selling a house. Here are some pointers:

- Make your business look good. Spruce it up as you would your house.
- Your systems should be well documented and easy for a new owner to follow.
- Plan ahead. It is easier for a buyer to find a small amount of money than a large one. Therefore, if you are overstocked, do something about it.
- Check the tax situation with us.
- You are going to be asked to provide financial statements. Why not put together a booklet with pictures of your business and information about it. Bring out the benefits to the new owner but be sure all of them are true. Include the financial statements at the back.
- Draw up a plan of how you are going to market the business just as you would prepare a marketing plan for the business. Who is your target market? Where do you find them? If you employ an agent, work with that firm to market your business in the best way possible. Don't leave everything to the agent.



ACC Changes

Separate Classifications under one Entity:

Under Cover Plus Extra different shareholder employees can now have different classifications more appropriate to their line of work. For example let's take a typical husband/wife building company. In the past both shareholders would have to be covered under the more expensive Building Classification Unit despite the fact that Mrs Builder doesn't go anywhere near the Building sites and is employed by the company to complete the Administrative roles only.

This is no longer the case. Mr Builder would cover himself as a Builder, and Mrs Builder would use a more appropriate administration type classification unit. This could mean huge savings for some of you.

If you think this change applies to you give us a call to discuss your options.

Change to Cover Plus Extra:

You can now apply for Cover Plus Extra at a level that makes sense to your needs. Historically you could apply for somewhere between 40% and 120% of your actual earnings over a 3 year average.

Particularly in the case of farmers this may have meant the last couple of years you have covered yourself for the minimum but in fact if you were to have an accident and needed someone to step in and do work on your behalf it may cost you more along the lines of \$50,000 p.a.

You can now ask ACC to consider covering you at the \$50,000 you really require. Please note you can apply but it is not always guaranteed to be accepted.

Income Protection Insurance:

Don't forget ACC only covers accident and not sickness. We recommend you work with your insurance specialist to ensure you have the right mix of cover for you at the minimum cost.

The ACC invoicing timeline is as follows:-

- Payment is due 30 days from date of invoice.
- Reminder letter sent 23 days after invoice issued.
- Once the invoice is 10 days overdue client should get a call from ACC but this doesn't always happen.
- After 30 days the invoice moves into debt management system.
- At day 45 a letter will be issued with the threat of sending to debt collectors.
- At day 66 ACC may send to debt collectors.
- Day 90 the invoice moves to aged debts.
- Then day 150+ invoice goes to the legal team.
- Penalties are charged from day 62 at 1% on balances over \$1,000.

KiwiSaver and Kiwi Kids

- Have you enrolled your children or grandchildren into a KiwiSaver scheme?
- Are they being taxed at the correct rate?

Recently we accidentally came across a KiwiSaver report for a two-year-old. He has an income of \$56 a year! He was being taxed at 17.5 cents in the dollar on his KiwiSaver income. The correct rate for anyone with an income of less than \$14,000 is 10.5% unless they have quite substantial PIE income as well.

This certainly did not apply to our two-year-old.

Check to see the children are not being over-taxed. If you don't, the Government is going to benefit by quite a significant sum overall, assuming the over-taxation goes on for some years.

Tax Talk

Tax avoidance is legal, but a no—no

You might have read about the recent tax case called Penny and Hooper.

It was about two surgeons. They did not break any tax laws. All they did was pay themselves low salaries from their companies to reduce the amount of tax they might otherwise have had to pay. There is nothing in the law to say they should not pay themselves a low salary as they explained in court.

Their problem was the amount of the salary was artificial. They would never have worked for such a low wage. If it had been realistic they would have been unlikely to have attracted the IRD's attention.

If you contrive a way to reduce your tax, you could be accused of tax avoidance. The IRD might reset the figures as they think suitable and charge you interest and probably penalties.

If you contemplate paying yourself an artificially low or high salary to save tax, don't be greedy. If the amount of tax is small, IRD is less likely to take any notice. A low salary can often be justified for good commercial reasons. Be ready to justify high salaries of those who are not full-time employees on the basis of hours worked, pay rates etc. Consult us if in doubt.

Ransom Note

A new way to get what you want for Christmas



It was coming up to Christmas and John asked his mum if he could have a new bike. So, she told him that the best idea would be to write to Santa Claus.

But John, having just played a vital role in the school nativity play, said he would prefer to write to the baby Jesus. John went to his room and wrote :-

'Dear Jesus, I have been a very good boy and would like to have a bike for Christmas.' But he wasn't very happy when he read it over. So he decided to try again and this time he wrote 'Dear Jesus, I'm a good boy most of the time and would like a bike for Christmas.' He read it back and wasn't happy with that one either. He tried a third version. 'Dear Jesus, I could be a good boy if I tried hard and especially if I had a new bike.' He read that one too, but he still wasn't satisfied.



So, he decided to go out for a walk while he thought about a better approach. After a short time he passed a house with a small statue of the Virgin Mary in the front garden. He crept in, stuffed the statue under his coat, hurried home and hid it under the bed. Then he wrote this letter:-



'Dear Jesus, If you want to see your mother again, you'd better send me a new bike.'

STOP PRESS:-

• Practice Review

We recently had a visit from the New Zealand Institute of Chartered Accountants Practice Review team. This is standard practice and a requirement of our membership. The Review team review a selection of our files as well as looking at our practice procedures as a whole to assure themselves that we are completing our work to the highest possible standard. As a result of this review we were pleased to receive positive feedback with some minor amendments to our processes having been suggested.

• Reporting Changes Coming

We anticipate that some significant changes to Financial Reporting Standards will be rolled out over the next couple of years. As a result of these changes it is probable that we will need to re-issue all of our Terms of Engagement Letters to meet the new standards in 2012. Most of the changes relate to "simplification" so will be of benefit to all of us moving forward.



TAX CALENDAR

15 January 2012

2nd instalment of 2012 Provisional Tax
(March Balance date)
except for those who pay provisional tax twice a year)
Pay GST for period ended 30 November 2011

7 April 2012

Terminal Tax for 2011
(March April, May and June Balance dates)

The Tip for the Month

Reminder:-

If you move house don't forget to change your address with ACC. Often this is overlooked when clients move and as a consequence they don't receive their invoices

OFFICE NEWS

There must be something in the Water



Becks and Troy would like to announce that they too are excited to be expecting a baby due on 3rd March 2012. Becks intends to work right up until the baby's arrival health permitting, but will certainly keep her clients informed of her movements.

Congratulations to...



Nicole and Dan who have had a son—Oliver Abel Donaldson. Oliver arrived on the 10th November weighing in at 9lb 7oz Everyone doing well.

Southey and Sayer Team

Welcome to Joanna Gundersen who has joined the firm and will be working for Leanne and her team on Monday and Tuesdays and the rest of the week for Becks and her team.

Casual Days

This year the monthly Casual Friday's raised money for the following charities:- Plunket, The SPCA and the Christchurch Earthquake appeal.

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 general information only.