



SADLER OAKLY NEWMAN
CHARTERED ACCOUNTANTS

Calculating Thoughts



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

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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.

The 2010 Budget – the key taxation points (in brief):-

(a budget for the future of New Zealand to change the emphasis to growth rather than consumption spending)

Personal Tax Rate Changes from 1st October (the cuts)

The top tax rate on income above \$70,000 will fall from 38 cents to 33 cents.

The middle rates –

the 33 cent tax rate on income between \$48,000 and \$70,000 will fall to 30 cents

the 21 cent tax rate on income between \$14,000 and \$48,000 will fall to 17.5 cents

The bottom rate on earnings from \$0 to \$14,000 will be cut from 12.5 cents to 10.5 cents.

GST

GST will go up to 15 per cent on 1st October. (See our website for comment on the "business aspects" of this change).

No depreciation on buildings

From 1 April 2011 property investors will no longer be able to claim depreciation on their buildings (although for special cases owners may apply). The commercial building fit-out policy is to be reviewed / clarified from 1 April 2011.

Trusts and Income Support

From 1 April 2011 the value of assets held in trusts will be counted as part of a household's income when calculating Working for Families as will investment losses and possibly PIE income. A detailed issues paper was released with the budget.

Company Tax Rate

Will fall next year to 28%. This will also be the top rate for PIE's, unit trusts, superannuation funds and life insurance policies. There will be no change to the trust tax rate.

The **new asset depreciation loading** (20%) is to be removed from 1 April 2011.

Loss Attributing Qualifying Companies (LAQC's)

These are to be treated as limited partnerships from 1 April 2011 meaning any income will go into the shareholders tax returns and the loss limitation rule (income support) will apply to LAQC losses. A detailed issues paper was released with the budget.

There are a number of key issues affecting client structures within this budget. We will shortly begin assessing each individual client position and contact you directly about changes that may be relevant.

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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 Fair Trading Legislation which could involve prosecution by the Commerce Commission in New Zealand. 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 (e.g. \$800) and it has now been reduced to half price (e.g. \$400). If called upon to do so by the commission, 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 the commission they will investigate and take action against the business if the commission believes there was never any stock available to be sold at that very low price. The commission considers 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.

Questions Across Our Desks

The following "news" clips are taken from questions or issues we see from clients, newspaper articles and other resources which we think will interest you.

Are you using 2011 tax tables for PAYE?

A Reminder: The rates for PAYE tax deductions changed as at 1 April 2010. You can get the rates from the IRD website www.ird.govt.nz or you can obtain a hard copy set of the new tables by ringing the IRD and asking them to send them to you. Remember also that the IRD website has a PAYE calculator – the best way to check your wage calculations.

"I have just employed someone – can you register me as a new employer?"

If only employing someone was just as simple as registering with Inland Revenue. IR registration is about step 5 in a process. Clearly number one is your objective in employment. Then it's about the formal aspects, interview, reference checks, and formal offer of employment, an employment agreement and then maybe IRD. Follow this up with administration issues – wage books, FBT issues, employee records, annual / sick and special leave records etc.

That's good that you have employed someone but now the real work begins – best place to start is with us or try the Department of Labour website www.dol.govt.nz

For your information:-

Leasing Premises - part two

If you were following this topic from our last newsletter please see our website for the second and final instalment in the series.

Where can I find solutions quickly?

Easy – set up our website as your home page. We have built this with good easy to use and practical business information links (plus the usual sports and news). www.son.co.nz

From a Sadler Oakly Newman Employee

The Tip for the Month

something to help you with your accounting or the delivering of papers to us.

Nicole Donaldson writes –

making an appointment to deliver your annual accounting information makes the processing work so much easier because you know what the year has brought to your business. Added to that face to face meeting there is advantage in sending us a backup of your electronic data a few days before the meeting. We will look at this, identify the key issues and prepare questions for you – a working smarter not harder idea to help us help you.

What's It Mean?

(a new series of articles that explains accounting and business terms – watch this space)

Gross Profit means...

The difference between sales and cost of goods sold. Ideally your gross profit should cover the overhead expenses of the business, and achieve the targeted profit for the business.

Sales	\$150,000
<u>Less</u> Cost of Goods Sold	<u>\$100,000</u>
<u>Equals</u> Gross Profit	<u>\$ 50,000</u>

If markup of 50% -	
Purchase cost	\$100,000
Markup	<u>\$ 50,000</u>
Sales Value	<u>\$150,000</u>

The key is a 50% markup gives a 33% gross profit.

Gross Profit Percentage means...

You work out your gross profit percentage from sales and gross profit.

Gross Profit	<u>\$ 50,000</u> X <u>100</u>
<u>Divided</u> by Sales	<u>\$150,000</u> 1
<u>Multiplied</u> by 100/1	
<u>Equals</u> Gross Profit ratio	= 33%

The sales required to achieve gross profit depend on the gross profit percentage being earned by the business. You'll be aware of the gross profit percentage you expect to achieve from your business. You might also need to be aware of the individual gross profit percentages of various products.

Markup...

Is the difference between the cost of a good or service and its selling price. A markup is added on to the total cost incurred to produce / purchase good or service for sale in order to create a profit. The total cost reflects the total amount of both fixed and variable expenses to produce and distribute / sell a product. Markup can be expressed as a fixed amount or as a percentage of the total cost or selling price (see example). Ask us for guidance when reviewing your 2010 annual report.

Surviving Recovery

In a bumpy recovery period, you might need to think about steps for surviving recovery, as well as the steps you took to survive the original crisis.

For instance, people's spending habits change, adapting to their circumstances. The Main Report for Business points out that in a recovery economy, credit is not so easy to obtain as it was during the boom times. Households will tend to prefer to pay for purchases with money they have rather than money they borrow. They also may be carrying a higher debt acquired as they tried to weather the crisis. Both spending and borrowing habits tend to be conservative. This trend can continue for some time.

If your business is in sales, this has an obvious impact. It may, for instance, change the way you market your products and services.

OFFICE NEWS

25 Years Young

Sadler Oakly Newman celebrated 25 years of service to clients and the business community on 31 March 2010. The office opened in Church Street on 31 March 1985 with Alan Sadler, Rod Oakly, Bruce Smith and Allan Newman as partners and Frank Cody and Gordon Caldwell as consultants.



Our history obviously goes back much more than 25 years. Thanks to some recent sterling research by Frank Cody we can identify with the first director of one of our foundation firms being established in business in Masterton in 1892 – 118 years ago.

Our history tracks the introduction of GST, the birth of Google, the infamous concerns of Y2K and the merger that formed Fonterra. We started the same year as the NZ dollar was floated at the initial rate of US\$0.4444.

There has been laughter and sadness in the firm and highs and lows in business and farming confidences that we have all seen and endured. We are however only what our clients make us. You are indeed a diverse range of business people. You have all created challenges and reaped the rewards of business and life. We have been proud to serve you and help you achieve those goals and objectives along the way. Your support and at times your patience, your willingness to share experiences and above all your friendship makes us fresh and enthusiastic in our working relationship with you.

Sally Newcombe

Sally who works for the Newman Team has completed her entry requirements for membership of the New Zealand Institute of Chartered Accountants and has been awarded her Chartered Accountant membership. Sally will receive her membership certificate at a ceremony later in the year. Her confirmation came while she was holidaying in Australia (if you can call working as a volunteer mustering cattle on an Australian outback station a holiday)! Congratulations to Sally on her success.

Corporate Governance Applies To All Directors

If you are a company director, you have the same corporate governance responsibilities as a director of a major public company, even though you are running a lot smaller business.

Directors are responsible for the appointment of the Chief Executive or General Manager and then monitoring the overall performance of the company. This means that directors' meetings should be held regularly.

Directors should receive written reports on all matters to be discussed at the meeting at least 48 hours prior to the meeting so that they can read the material prior to the meeting. Directors should be conscious of declaring any interest that they have in matters being discussed at the board of directors meeting.



There are many items to be considered under corporate governance, and directors' responsibilities, some of which are:

- n Ensuring that assets are purchased in the company's name
- n Ensuring that any borrowings that the company does are on the best possible terms
- n Ensuring that a system of internal control has been implemented throughout the company
- n Reviewing budgets and cashflow forecasts
- n Reviewing periodic monthly financial reports and key performance indicators, comparing these to the budgets and enquiring into the reasons for any variance
- n Ensuring that staff are employed under appropriate agreements and that staff evaluations are conducted on at least an annual basis
- n Seeking assurance from company accounting personnel that all debts are being paid in the normal course of business
- n Ensuring that management is reviewing any environmental issues that may affect the business.
- n Encouraging management to implement appropriate risk management strategies for events that may affect the company e.g., weather, cyclones, tsunamis, burglary, armed robberies, death or inability of key personnel to perform their duties.

Strategies for Improving Times

There are signs of business improvement. This will assist smaller businesses all over New Zealand, as long as there are no major problems in overseas markets.



However, growing pains during the recovery period may cause severe problems for some businesses. For instance, if you are using borrowed money, it might be wise to factor in the impact of rising interest rates on your business.

Cashflow and Debtor Management -

Cashflow management is extremely important. Monitor debtors' payment times and try to get your debtors back to normal trading terms. Are your systems for debtor management as good as they could be? Or have you just been following the same systems you had in place during the boom years?

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 and development projects could be undertaken in your business?

Export Opportunities -

Have you considered exporting your products and services or licensing your technology or business know-how for overseas markets?

It might be a good idea to visit the New Zealand Trade and Enterprise website at www.nzte.govt.nz to familiarise yourself with strategies to implement to commence export of products or services successfully.

"Sustainable recovery, with rebalancing in demand and the economy's productive base, is mostly a micro-economic matter. This means households, firms, banks and investors making the right decisions about where to allocate land, labour, capital and funding."
Dr Alan Bollard, Reserve Bank of New Zealand
From an address to the Hawkes Bay Chamber of Commerce.

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.