



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.

Confirmation of Engagement

We are in the process of reconfirming all our client engagements. It is a requirement of the New Zealand Institute of Chartered Accountants that we hold a valid confirmation of our terms of engagement. We are required to regularly review these to changing standards (reporting and ethical).

Our existing engagement letters were issued from 2007 onwards. In our 2011 practice review some minor matters were raised for us to address in respect of financial reporting standards. With these set to change in 2013 we have taken the opportunity to refresh our engagement arrangements future proofing them past the 2013 financial reporting changes wherever possible.

Our new confirmation of engagement letters have been developed around supporting appendices including a master terms of business outlining the general terms of engagement.

Please complete the paperwork promptly. We apologise for having to release new sets of confirmation of engagement letters but they are 5 years old.



If you have any questions when you receive your set (to be released progressively over August and September) please speak to one of the Directors.

ACC Levy Reductions

At a time of government 'fat trimming' it's nice to hear the word surplus. ACC has made a miraculous turnaround from several years ago, as a result of reduced management costs and drastic improvements in rehabilitation rates thus also resulting in 20% less people on long-term compensation.

Last year a \$3.5 billion dollar surplus was announced and now reductions in ACC levies have been signed into law, saving households \$340m a year and businesses \$247m a year. As of 1 April workers' pockets have been happier and businesses should be experiencing improved cash flow.

The levy on wage and salary earners has reduced by 17% - or \$170 a year (if you're an average wage earner). The levy on employers and the self-employed has reduced by 22%, a saving of \$1,120 a year for the average small business with seven employees.

The Earners' Account Levy (paid by wage and salary earners) has decreased from \$2.04 to \$1.70 (incl. GST) and the average Work Account Levy (paid by employers and the self employed) decreased from \$1.47 to \$1.15 (excl. GST) per \$100 of liable earnings. Work levies for individual companies depend on their industry classification and experience rating.

SADLER OAKLY NEWMAN LIMITED

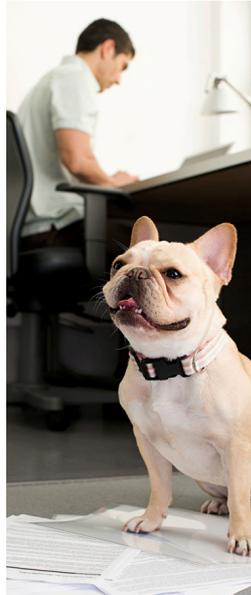
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The Benefits and Pitfalls of Trial Periods



The trial period regime was labelled a success for its apparent increase in employment and was designed to make our job market more flexible. But you need a robust process. A number of cases have shown where poor process can come back to bite the employer.

Case study:

Mr Blackmore emailed acceptance in response to a letter offering him employment with Honick Properties Ltd (HPL). The offer referred to a Federated Farmers employment contract but this was not enclosed with the offer and Mr Blackmore did not know that these contracts contained trial period provisions. Mr Blackmore resigned from his previous role, worked out his notice period and started work with HPL.

Within hours of beginning his first day he was presented with an employment agreement to sign on the spot, which he did. This agreement included provision of a 90 day trial period. This was the first he'd heard of it.

Mr Blackmore was later dismissed within that 90 day trial period. He was now jobless, unhappy and shocked at the turn of events.

Mr Blackmore disputed his dismissal, taking his case to the Employment Relations Authority which referred it to the Employment Court. The court ruled Mr Blackmore was entitled to challenge the justification for his dismissal stat-

ing that he was an existing employee when he signed the employment agreement. His employment was considered to have commenced at the earliest when he accepted the offer and at the latest when he started work - and thus a 90 day trial period could not apply to him. Also, the court deemed the 90 day trial period defective due to unfair bargaining. HPL had expected Mr Blackmore to sign the agreement before he could consider it, seek guidance or negotiate prior to commencing work.

Best practice:-

1. Show good intention!
2. Discuss the inclusion of the trial period before the offer is made, and include a copy of the intended agreement when negotiating and offering the role.
3. Give the prospective employee time to consider the employment agreement and seek independent guidance or clarification.
4. Give him or her an opportunity to negotiate the agreement with you after the opportunity to seek advice has been given.
5. Ensure the trial period clause states you can dismiss the employee during the period and he or she can't then bring a personal grievance.
6. Ensure the employment agreement is signed before work starts.
7. When the agreement is signed, implement an effective induction process to ensure the quality of an employee's work.
8. Address performance issues during the trial period as you would with any other employee.

Employers shouldn't be complacent in their understanding of the 90 day trial. Recruitment and induction take time and cost money... and that's without factoring in the disruption and cost of a dismissal dispute.

Tax Talk

● Kiwisaver turns five

On 1 July 2007 KiwiSaver was born and since then nearly two million New Zealanders have enrolled (or almost half the eligible population). On 1 July 2012 KiwiSaver turned five and with that anniversary comes the ability for some savers to access their funds should they wish to. From 1 July 2012 employers are no longer liable/required to pay compulsory employer contributions for those employees who are eligible to withdraw their savings. Employers can continue to pay employer contributions on a voluntary basis if they wish, or as a requirement under an employment agreement.

● Student loans

The voluntary repayment bonus will be removed from 1 April 2013. Any excess repayments made in relation to student loan obligations for the 2012-13 and earlier tax years may qualify for the bonus. It is a good opportunity to think about early repayment if you have the funds.

● IRD have gone mobile

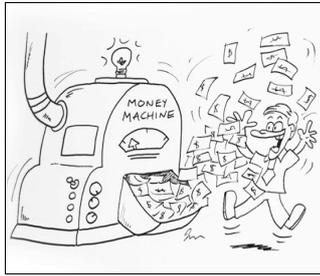
Customers can now use their smartphone or tablet to access their Inland Revenue information, anytime or anywhere with their new mobile web application. The mobile web app is a scaled down version of IRD's online services and is designed for individual customers. The main benefit will be access to tax and social policy entitlement balances without having to call an Inland Revenue 0800 number. Using the web app is a simple way to check and update your personal details, look up balances or check payment dates.

Several Factors Determine the Worth of a Business

HOW MUCH is your business worth?
The short answer is what someone will pay for it.

There are several things to consider when buying or selling a business.

The first step when valuing a business is to find other sales within the same industry. The price others have paid is a good guide. Often, however, there is very limited opportunity to do this. The more unique a business is, the more unrealistic it is to compare it with others.



Several factors affect the price of a business. Here are a few:-

- A business anyone could operate will attract more buyers than one requiring specialist knowledge. The price is therefore higher because demand for the business is greater.
- More people can find \$100,000 than \$1 million. The smaller business would therefore be proportionately more expensive than the bigger one.
- Economic conditions can have a big impact. People with redundancy money eager to buy a job in the form of a small business are more abundant when there is a recession.
- A business with growth potential is worth more than one nearing the end of its life cycle. Who'd want to buy NZ Post in its current form these days?
- Someone buying a business which has unhappy staff might be buying problems.
- Dependence on a few customers or suppliers could be disastrous.
- Some businesses, such as supermarkets and pharmacies, have an industry rule of thumb for calculating a price, which can be a good guide.

Adjusting the profit

One way to view a business is to see it as a machine which makes money. Start with the profit plus wages paid to the owners. How much is this?

- Deduct the wages you would have to pay someone else to do the job done by the owners. This might be more than the owners are paying themselves.
- Adjust for any expenses you see as artificial. A charge for the use of your home might be one of these. This is a cost the owner would incur even if they had no business.
- Adjust for abnormal expenses or income, such as a major one-off advertising campaign.
- Adjust for income which would not go to the new owner, such as interest on investments.
- Adjust the profit for any extra interest you would incur if you borrowed to buy the business.

When you have arrived at your adjusted profit, it's time to get advice.

Our ideas above will get you started, but don't rely on them completely, as they are not comprehensive or determinative. There is much more to valuing a business. For example, the figures supplied to a buyer might be suspect. Instead, use this article only as a first step for thinking about what a business might be worth.

Companies Office Fees Are Changing

On 1 August 2012, the Companies Office made a series of changes to the fees it charges for services, and will also begin to collect levies to fund the Financial Markets Authority (FMA) and the External Reporting Board (XRB).

The new Companies Office fee structure addresses a funding deficit and better reflects the true cost of delivering services to the users of the Companies Office registers. FMA and XRB levies will now be included within most registration fees, annual return fees and with the filing of a prospectus.

Registration Changes

Registration fees for NZ and overseas Companies virtually remain the same, with a slight reduction to \$150, once the two new levies are included.

Friendly Societies, Credit Unions and Limited Partnership registration fees will also be reduced, while a fee for registration of a Building Society will be introduced.

Annual Returns

The company annual return fee was re-introduced as the Companies Office can no longer continue to provide this service for free.

The new annual return fee is \$45, this includes a \$25 registration fee, a \$10 FMA levy and a \$10 XRB levy.

A new annual return fee has been introduced for building societies, while annual return fees for Credit Unions and Friendly Societies reduced.

FMA and XRB levies will be collected for all of these entities, as well as for NZ and overseas Limited Partnerships (LP's).

It's Business Time - Cracking Down on Cash

It's no secret that the IRD are cracking down on the hidden cash economy. Cash trade jobs, under-the-table wages and online trading cost the Government an estimated \$7 billion a year in lost tax and last year the government set aside \$120 million in government funds to help the IRD combat tax avoidance.

IRD has now rolled out industry benchmarks to spotlight suspicious players - focusing on industries more likely to deal with lots of cash and therefore with scope to understate their income.

Statistics NZ have calculated these standard performance ranges using the financial statements and tax returns of all businesses (in each industry) with turnover below \$10m. Another 34 industry benchmarks are due for release this year and IRD intend to update benchmarks annually.

The 16 released benchmarks are financial ratios expected from a typical business in higher risk industries, including those relating to cafe, bar and restaurant owners, painters, electricians and car rental firms. The data is carved up into small, medium and large business brackets according to annual turnover. This is a great opportunity for you to analyse how your business is performing in a number of areas. If for some reason your business falls outside the norm profit range, you can establish weaknesses to make positive changes and boost your profits.

Some legitimate reasons for falling below a benchmark are:

- Insufficient product mark-up.
- Difficult trading circumstances.
- High wastage.
- You may be starting up or preparing to close down.
- You may be running in a niche area of your industry.
- Your competitors may be sourcing product at lower cost.

Does your business measure up compared with others in the industry? Are you doing enough to remain competitive? Visit: www.ird.govt.nz/industry-benchmarks/ to see if benchmarks are available for your industry. The IRD website explains how to benchmark yourself providing a clear example, and offers helpful tips to boost your profits.

If you'd like to discuss this further please contact us.



Treat your shop window as marketing

A shop window for retailers is one of their best marketing tools. We know of a shop with a huge frontage and a big shop window. However, posters were taped to some of it and the display never changed.

Think of your shop window as prime selling space. Use it wisely. It's there to entice customers in. Change your displays regularly so passers-by will stop to see what's new. Put your best selling items on display. Don't be tempted to cram the window full of products. That will just confuse people.

There's a skill in presenting a shop window. If it's not your area of expertise, consider getting specialist help.

OFFICE NEWS

Newman Team

Renee Cummings left the team late in June. We recently employed Sue Carlisle to fill the gap vacated by our Gold Coast sun loving Renee. Sue has started work and will quietly be introduced to clients of the Newman Team. Sue comes to us with experience in a chartered accounting office. We look forward to her becoming more and more involved in client work.

MYOB Conference

Becks Sayer, David Castles and Fiona Cameron have recently attended an MYOB Business Partners Conference in Auckland. This conference has focused on MYOB's initiatives to deliver a new level of business product software with internet capabilities.

We will keep you informed of any exciting and new developments which we are anticipating for release in the next few months.

Software

MYOB

xero

BRIDGE PARTNER

BankLink
Streamlined Accounting

CASH
RURAL
Financial software that helps farmers plan

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.