Account(able) Insight

Your future is our future

MAY 2016

FREE SEMINAR

INVESTING IN AN UNCERTAIN SHARE MARKET

KEY TOPICS:

· Discussing the impact of global events on the Australian Market.
· Five key themes that we think act as a roadmap for structural change in the Australian Economy
· Recent Australian results season

Asset allocation is the key to building and protecting your wealth. Whether you are looking for one investment product, or a basket, Morgan Stanley offers you a broad range of products to better manage your wealth, to grow in all kinds of market conditions and to protect it from erosion.

MORGAN STANLEY WEALTH MANAGEMENT:

Account(able) has had a long association with Morgan Stanley spanning 20 years. Morgan Stanley was founded in 1935 and began operations in Australia more than 50 years ago. Today, it is one of the world's largest private wealth organisations and one of the largest global wealth managers in Australia

Morgan Stanley was recently awarded:

- Best Global Investment Bank for 2015 – Euromoney.
- Best Investment Bank in Asia for 2015 – Euromoney.
- Ranked number 1 in the 2015 Institutional Investor All-Asia Research Team survey.

LIVE PRESENTATION BY: NATHAN LIM

Nathan Lim has over 20 years of investment experience that has taken him across Asia, North America, Europe, the Middle East and Australia which has enhanced his perspective on both local and global issues.

Nathan is a frequent speaker and writer on the intersection between finance and the environment stemming from his previous role as the Portfolio Manager for the award winning Australian Ethical International Shares Fund. Nathan has a Bachelor of Commerce from the University of British Columbia and is a Chartered Financial Analyst.

SEMINAR DATE
Tuesday 17th May

SEMINAR TIMES
2pm & 6.30pm

Phone for Bookings:
5366 1000

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FINANCIAL FREEDOM STARTS WITH WHERE YOUR WAGE IS PAID INTO.

I have been asked recently about what would be the first steps somebody young could do, to help them towards their financial freedom. One of the first steps I think for this to happen is to have their wage going directly into separate accounts from your work pay office (if it all goes to his personal account, and then you have to do transfers yourself, it doesn't usually happen all the time).

The accounts should be:

1. Fixed expenses that must incur (car rego, insurance and maintenance; rent or home repayments; bills – gas, electricity, phone, insurance, rates, water; car repayments; medical; education; etc)
2. Savings account (put funds away for house deposit, or investment fund, holiday, etc)
3. Discretionary expenses (this is your everyday expenses account to pay for necessary things like fuel, groceries, etc but also for luxury items like entertainment, clothes, toys, etc). This account should be the only bank card in their wallet.

Preferably, the bank you use for the 3rd account (everyday), should be different to the first 2 accounts, as with internet banking, you may too easily just transfer funds from one account to another to spend on something unnecessary. If you need to transfer funds, you have to then log-in to the other account to do a transfer, so it requires more effort.

Ideally, it would be good to have a 4th bank account that part of your wages to go towards an emergency savings account.

How much to put in each account? You need to work out the yearly costs for the first two accounts, so you then you can find out how much you have left over for the discretionary account. If this seems surplus to your needs, you could consider setting up an emergency account, or put more towards the savings account. Then apportion these yearly costs down into your wage payment cycle (ie fortnightly?), and ask your pay officer to set up their system for the payments to go directly to these accounts.

The great feature of setting up the accounts above, is that if you can organise your work to split your wage automatically into each account when you get paid, you will learn to start spending what you only have available, and when a bill comes in, you know you have funds in another account to pay these so it's not stressful anymore.

Credit card? Preferably, not have one at all, or if need to have one, only use if completely necessary. So maybe keep it in a frozen water cup in your freezer, so if you need it, you have to do some work to unfreeze it and use it. You may say you need a credit card number to pay for items, which is why most savings accounts now have debit cards with them, so you can only use what you have in your bank account.

Pay rise? If you fortunate to get a pay rise, have the extra funds go towards your savings account, as you have already adjusted your lifestyle to live within your means, so the extra funds will help go towards your savings for your future

Written by Pat Hoey

FOUR OF THE MOST COMMON FINANCIAL MISTAKES SMALL BUSINESSES MAKE (AND HOW TO AVOID THEM)

Many small business owners are entrepreneurs who went into business seeking freedom, a better lifestyle, more money or simply because they wanted to run their own show. Financial acumen is rarely high amongst the skills possessed by such people. As such, it is only to be expected that business owners make financial mistakes which can jeopardize their dreams. Here are four of the most common mistakes and how business owners can avoid them.

1. Failing to plan

Few small businesses have a working budget and cash flow forecast which is rolled over on (at least) a quarterly basis. As a result, they make decisions based on guesswork and have no idea whether their business's actual performance is better or worse than what they expected. A solid budget requires the following information, ideally seasonalised and presented on a month by month basis:

Sales – not just a lump sum figure, but broken down by product or service line and calculated as number of sales multiplied by average sale value

Variable costs – these are costs that vary with sales and as such, should be driven by your sales forecast

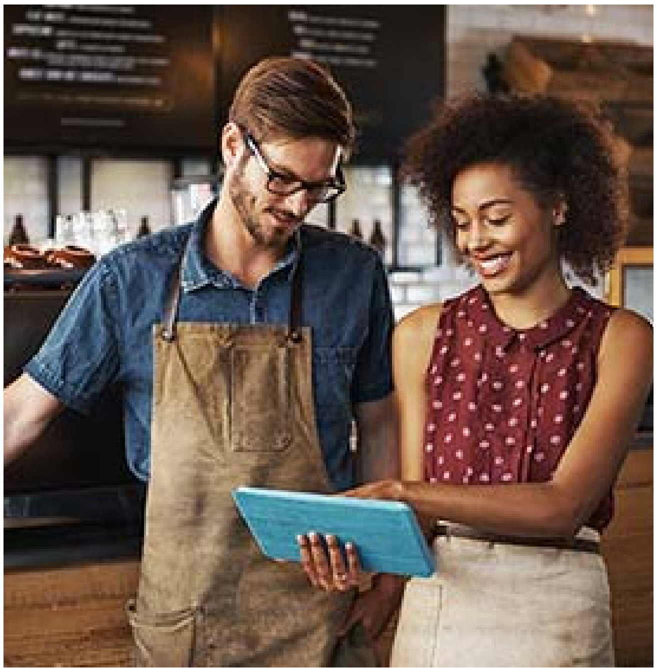
Fixed costs – unless there are any significant changes, these can be taken from your most recent financial statements and adjusted for any known or expected increases

Once you have developed a budgeted profit and loss account, you should then create a cash flow forecast. This differs from the profit and loss budget because it is looking at the cash inflows and outflows. As such, it needs to take account of how long your customers take to pay you, how quickly you turn over inventory, how quickly you pay your suppliers, any loan repayments due and any forecasted capital expenditure that will not appear in the budget profit and loss account.

For a thorough budget that could be presented to a bank for the purpose of raising finance, you should also complete a budgeted balance sheet.

2. Financing capital expenditure out of cash flow

As a general rule, and to the extent that it is possible, it is good practice to cash flow the lifetime of a purchase. By that we mean this: if you are buying stock to sell in the short term, then finance it out of your day to day working capital. But if you are buying a large piece of machinery with a ten year life, then you should look to finance it over ten years. Similarly, don't fall into the trap of many small business owners where you have a good quarter and go out and buy yourself a flash new car – out of cash flow. Unless you are confident (and have evidence to back it up) that your strong sales will continue, you could find yourself in a cash flow bind if you empty the bank account to buy new assets every time you find you have a bit of surplus cash.



Form a strong relationship with a bank manager and keep them up to date with your plans. Often, the banks will be happy to lend when times are good for your business and you should take advantage of that to properly finance any capital expenditure required to expand your business. Similarly, the best time to secure an overdraft is when you don't need it. The banks will be more willing and able to help you out and then if you hit a rough patch, you have a safety net.

3. Cutting costs rather than driving revenue

When considering how to improve profitability, many business owners resort to hacking at costs. That's all very well, but there is a finite limit to which expenses can be cut – zero. And then you have no business. On the other hand, the opportunities to grow revenue, assuming you manage your growth within the constraints of your cash flow, are limitless. It comes down to understanding the drivers of revenue, which in most businesses are:

- Number of customers
- Number of times those customers buy from you
- The average sale you make each time a customer buys

Once you understand the drivers, you can put in place strategies to increase each of those critical measures.

Another thing to be aware of when reviewing costs, which, of course, is still a valid strategy, is knowing where to cut. For example, too often businesses cut back on marketing which can often be the last place you should be making cuts. Similarly, a knee jerk reaction to cut back on travel expenses could see an adverse reaction (a recent study conducted by Oxford Economics and commissioned by the US Travel Association found that 57% of businesses surveyed felt that cutting their travel costs during the recession in the US hurt their business.)

4. Running your business from a spreadsheet

Quite possibly the most important to avoid of all of the mistakes listed. In this era of Cloud accounting solutions accurate management information integrated with daily bank feeds is readily available. Not to take advantage of such information is to run the business by the seat of your pants. Yet many small businesses persist in keeping their records on a spreadsheet or worse, in a shoe box!

Talk to Account(able) today if you feel that your accounting records are inaccurate, unhelpful or obsolete. In fact we can help you avoid all four of the key financial outlined in this article, helping to set you up for more profitable days ahead.

2016 FEDERAL BUDGET SNAPSHOT

SMALL BUSINESS

- From 1 July 2016, company tax rate will be 27.5% if less than $10M turnover
- Company tax rate to reduce to 25% over the next 10 years (ie 1 July 2026).
- Small business turnover to increase to $10M from 1 July 2016 up to $1B in 2022/23.
- Businesses with turnover of <$10M having the ability to claim the $20,000 immediate deduction for assets purchased up to 30 June 2017

INDIVIDUALS

- From 1 July 2016, the 32.5% personal income tax threshold will increase from $80,000 to $87,000.
- From 2015/16 Medicare levy thresholds will be as follows:
    - **Individuals -** $21,335 (previously $20,896)
    - **Families -** $36,801 (previously $35,261)