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Business Failure Is

It's very easy to point the finger at the economy when trying to explain why so many businesses fail in Australia, however, the external administrator reports supplied to the Australian Securities and Investments Commission (ASIC) suggest much of the failure is self-inflicted.



Given the global financial crisis it's surprising to find that 'poor economic conditions' were not at the top of the thirteen possible causes of business failure across the five industries that ASIC reported on including construction, accommodation and food, services, retail and manufacturing. Poor financial control including a lack of records and 'poor strategic management of business' were deemed much more likely to be the cause of business failure. While the data relates to the 2009/10 financial year when economic conditions (especially in retail) were slightly better, an examination of annual ASIC data for the financial years 2005 to 2010 highlight some disturbing trends regarding the causes of business failure in this country.

Firstly, poor financial control has risen from being a factor in about 30 per cent of all external administrator reports to 33 per cent in 2010. Poor strategic management is easily the highest cause of business failure, featuring in about 43 per cent of all external administrator reports and this figure has remained fairly constant over the past few years. Inadequate cash flow or high cash use also ranks high while poor economic conditions is clearly a factor rising from a cause in 11 per cent of cases in 2004 to 26 per cent in 2010. Issues like fraud, natural disasters, industry restructuring and disputes among directors were relatively low factors while poor management of accounts receivable (debtors) also ranked much lower than expected. The under capitalisation of businesses remains a significant cause of business failure and is on the rise.

The message from this analysis is clear. If you want to avoid business failure you need to focus on strategy first and make sure you implement strong financial controls including maintaining accurate and up to date records. Cash flow obviously needs to be carefully monitored and while this advice is not rocket science, we know that far too many small business owners don't have a detailed business plan. They also keep poor accounting records, in some cases use the wrong accounting software and generally have inadequate cash flow controls.

As the Australian economy slows and the US and European economies stall, it's worth remembering that bad economic conditions are not the biggest business killer. This might change if the global economy deteriorates but we can't help but think that too many of the failures are self-inflicted. These trends also serve as a timely reminder for anyone contemplating starting a business. You need the basics including strategic management, the right accounting software and good record keeping to survive and prosper. Starting a business is a bit like a game of chess and to succeed you need to make the right opening moves and that entails having a business plan that incorporates a marketing plan together with cashflow forecasts that include your best and worst case scenarios.

As accountants our role includes mentoring you through the various stages of your business life cycle, from start up to sale. We'll advise you on the most appropriate tax structure for your business taking into account income tax considerations, asset protection and future discount capital gains tax concessions. Next, we will help you select the most appropriate software for your business and factor in your business needs and level of accounting skill. It all starts with the right advice and please don't hesitate to call us today to discuss your business and financial needs.

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

ATO Crackdown On Unpaid Superannuation

The Australian Taxation Office has revealed it receives around 18,000 complaints a year about employers failing to pay staff superannuation. Approximately 70% of the complaints relate to 'micro' businesses that turn over less than \$2 million a year.

Last year the ATO pursued 10,000 cases involving micro employers failing to pay superannuation, reclaiming \$152 million as a result. This year, they expect to handle 12,500 complaints and despite the difficult economic conditions (particularly in the retail and manufacturing sectors) employers are urged not to fall behind on employee superannuation payments due to the heavy penalties and proposed new laws.



Businesses that fail to pay employees superannuation guarantee contributions within 28 days of the end of a quarter will incur interest penalties on the missed payments as well as an administration fee. Failure to meet your employer super obligations also means you have to lodge a Superannuation Guarantee Statement each quarter and remit the payments directly to the ATO. The amount due will include the super guarantee shortfall amounts plus interest at 10% per annum and an administration fee of \$20 per employee per quarter. Your business also forfeits the tax deduction it would normally get because late super contributions and the super guarantee charge are not tax deductible.

The price of non-compliance could soon be even greater, with the Government intending to push ahead with proposed laws that make Directors personally liable for a Company's unpaid superannuation. The legislation is aimed at tackling phoenix companies – failed businesses with debts to creditors and employees that are resurrected by the same operators under a slightly different guise. However, when the proposed laws were unveiled late last year concerns were raised that they might unfairly penalise Directors who had inadvertently missed a payment. According to Assistant Treasurer Mark Arbib, the Government is refining the legislation and there will be further public consultation before the legislation is reintroduced into Parliament.

Of course this information was issued at a time when the Australian dollar is above parity and consumer confidence is low. In fact, 2589 companies entered administration in the December 2011 quarter, an increase of 8% on the previous year. Superannuation guarantee defaults are a symptom of a bigger problem and we urge you to contact us if you are struggling to meet your superannuation obligations.

Time for A Digital Makeover?

A recent survey conducted by Optus (How Digitally Ready is Your Business) polled 850 people from small businesses with 50 or less employees. The survey examined the level of technology adopted by Australian small businesses and how well prepared they are to operate in a digital economy.



Incredibly, it revealed 48 per cent of the businesses did not have a website and more than 26 per cent saw no value in an online presence! This reluctance to embrace technology is a major issue given consumers are rapidly switching to the internet for their research and purchasing needs. Websites are the 21st century business card and without a web presence, your business is potentially cutting off a vital sales channel. The survey also revealed only 21 per cent use social media to interact with customers

Despite the infiltration of cloud computing into mainstream business, the survey also found more than 59 per cent of small businesses are still unaware or unsure about the cloud and the benefits. In the mobile space, approximately half of the small businesses have been quick to embrace mobility options with the majority providing mobile phones to staff for added productivity.

While the survey found that the understanding of computer security was high, 21 per cent do not regularly back up their data and of those that do, 53 per cent back up on-site and only 8 per cent do it off-site. These are alarming statistics given the numerous free off-site backup options and the fact that small business owners place their business at risk by not backing up their sensitive data. The floods last year in Brisbane and other recent natural disasters serve as a timely reminder about the need for off-site data back ups.

IMPORTANT DISCLAIMER: This newsletter is issued as a guide to clients and for their private information. This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas.