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Please remember we are approaching the end of the financial year and it is time to start assembling all the relevant information we require to complete your financial statements and tax returns.

Copies of our 2010 Questionnaires will be available online mid February [www.caca.co.nz/resources/questionnaires](http://www.caca.co.nz/resources/questionnaires)

## What's it Mean?

Accounts Payable (aka Sundry Creditors) are short-term or current financial obligations that are created through the purchase of merchandise, obtaining of services, etc. At the end of each month it is normal to prepare a list of the money that is owing as accounts payable or sundry creditors.

Many businesses prepare an Aged Analysis of Accounts Payable (Sundry Creditors) which details the relative time period of the outstanding tax invoice e.g. 30 days, 60 days, 90 days, 120 days and over. Businesses should keep a close eye on the level of debt owing for accounts payable and ensure that the business is paying its bills in accordance with the terms of trade of the supplier.

Accounts Receivable (aka Sundry Debtors) is the amount owed to the firm by customers in the form of regular accounts for sale of goods or services rendered. It is normal to prepare a list of accounts receivable or sundry debtors at the end of each reporting period, e.g. weekly or monthly. Some businesses also prepare an Aged Analysis that shows the time period that the debt has been outstanding to your business, normally shown as 30 days, 60 days, 90 days, 120 days and over. Monitoring of Accounts Receivable (Sundry Debtors) is an activity that should take place at least weekly and should be reviewed by senior management.

Inventory (aka Stock on Hand) is the value of goods that have been purchased or manufactured that the business expects to sell to customers during the next accounting period or year. Business should closely monitor their investment in inventory (stock on hand). Inventory can tie up a lot of money and can expose the business to financial difficulties if too much money is invested in inventory.



## Director's Checklist

The Corporations Law and the general principles of corporate governance require a Director to diligently perform his/her duties.

Many Directors have found the use of a checklist assists them in ensuring that they and their fellow directors are receiving adequate information to enable them to perform their duties diligently.

Some of the items that the directors should be asking for include:

- § Monthly report prepared by the Chief Executive Officer
- § Monthly financial report prepared by the Accountant or Chief Financial Officer containing:
  - ú Detailed Trading and Profit & Loss Account, preferably on a departmentalised basis
  - ú Balance Sheet
  - ú Report showing actual performance vs. budget
  - ú Report on Sundry Debtors (including Debtors' Aged Analysis)
  - ú Report on Sundry Creditors
  - ú Bank Position
  - ú Cost of Stock & Work in Progress
- § Details of any creditor or other liability that has not been paid in accordance with the supplier's terms of trade and in particular details of any amounts that are outstanding to the IRD, Income Tax, PAYE etc.
- § Details should also be submitted of any superannuation payments that are outstanding
- § Details of any litigation started by the company or against the company
- § Details of any harassment allegations made by any employee or other person against anyone associated with the company
- § Confirmation that all government statutory documents required to be lodged during the previous month were lodged on time. This would include lodgement of:
  - ú Annual Returns to Companies Office
  - ú Income Tax Returns
  - ú Fringe Benefit Tax Return
  - ú Grant Applications
- § Details of any correspondence from the company's insurer relating to increased premiums or rejection of a claim
- § Management Meeting Minutes
- § Updated Budget & Cashflow Forecasts
- § Periodically during the year, Directors should be receiving reports on:
  - ú Staff Turnover
  - ú Staff Evaluations
  - ú Staff Salaries
  - ú Customer Survey Results
  - ú Business Plan Implementation
  - ú Internal Control Review
  - ú Reports from the Audit Committee (if the company has one)
  - ú Summary of exit interviews conducted by the company



For more information on tax updates, PAYE, GST, FBT and other tax issues please check out our news section on your secure area. Business Tax newsletters are updated monthly and are released direct from the Inland Revenue Department.

## Understanding Financial Statements

Understanding financial statements is a task that many business owners often put aside to concentrate on something more interesting. This results in many business owners not really knowing what is going on with their business, especially the cash flow control within the business.

Cash is the lifeblood of any business and it is the fuel that keeps the engine running. It is vital that business owners understand all there is to know about the flow of cash into their business and the flow of cash out of their business. The movement of cash is recorded within the financial statements, which are very useful as a tool to help in the management of the business.

Financial statements are required by business owners to understand how their business is performing. In addition to this, there is normally a requirement to produce them for banks and investors.

Financial statements concentrate on measuring profit or loss. They may then facilitate the preparation of cashflow reporting and key performance indicators that enable meaningful management information for your business. The key components of financial statements are:

- § Departmentalised Trading Profit and Loss accounts with gross profit percentage calculations for each department
- § Balance Sheet
- § Supporting verification work papers
- § Source and Application of Funds statement
- § Debtors' Aged Analysis
- § Stock on Hand Analysis
- § Work in Progress Analysis
- § Creditors' Aged Analysis
- § Capital Expenditure Summary
- § Bank Account Analysis



Preparation of financial statements on a regular periodic basis can contribute greatly to the management of a business. Some businesses find it very useful to produce a weekly performance report and detailed monthly financial accounts.

If you have any queries on any aspect of the interpretation of your financial statements, please do not hesitate to contact us.

## Team Meetings Will Help Keep Your Staff Interested

One of the biggest problems that businesses have at present is retaining team members. Obviously, it costs a lot of money to advertise, interview, recruit and train a new team member. If staff turnover can be reduced this will contribute to lower costs for a business and a happier workforce.



One way to contribute to staff morale is by holding regular team meetings. The purpose of a team meeting is to inform the team on what is happening in the business, both the good news and the bad news and to seek input from team members on their thoughts on various aspects of the business operations. You should encourage your team members to contribute their ideas. You won't get this contribution unless management has shown the team members that they are interested in them and are keeping them informed on progress within the business.

Many businesses conduct weekly team planning meetings and conduct a monthly team meeting, where the CEO gives a 'state of the union' overview of where the business is, the direction that management is planning for the business and seeks comment and feedback from team members.

## You Need to Plan to Start a Business

You wouldn't go on a cross-country holiday without looking at a road map to work out where you are planning to stop and what sightseeing activities there are on the way. Planning the start of a business is no different. You need a plan that you have sat down and thought about and then preferably committed to writing. The business plan should consider how the business is going to operate, what the market is for the business' products or services and consider strategies for how sales are going to be made to the potential customers.

If you are planning to commence a business, we can assist you in the preparation of a specifically tailored business plan to suit your business objectives.



## Business Plans - Some Questions to Consider

### Business Review:

- § Why are you in business?
- § What business are you in?
- § Who is your market?
- § Who are your customers?
- § What differentiates your business?
- § Do you have to improve cost control?
- § What share of the market do you have?
- § What is the current size of your business?
- § What are your aspirations for the business?
- § What is your annual growth rate?
- § Are there any improvements required to customer service?
- § Do there need to be productivity improvements?
- § Are you happy with employees' performance and development?
- § Are you happy with your own personal development and performance?
- § Are quality control procedures introduced and working?

### Financial Analysis:

- § Analysis of the trading profit and loss performance of each business grouping within your business including:
  - your gross profit percentage
  - number of sales per staff person
  - average sale
  - key expenses including advertising, marketing, salaries/wages and rent
  - percentage of key expenses to turnover
  - percentage of total expenses to turnover; and
  - how does this financial performance compare with competitors?

There are over 50 questionnaires relating to the preparation of a Business Plan. This issue has considered 2 of them. We will continue to comment on Business Planning Questionnaires in future issues of Business Forward

### 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.