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| **Issue 250** |

# **Predictive Accounting Reports – The “Financial Interpretation of the Business Plan!**

In the February edition of Business Plus we discussed the preparation of a [Business Plan](https://www.essbiztools.com.au/uploads/BusinessPlus%2BNewsIssue249-February2025.docx). When the Business Plan is completed the next stage is the preparation of the “**Predictive Accounting Reports**” which are the **“Financial Interpretation of the Business Plan ”**commonly known as **“3 Way Forecasts”** comprising:

* **Budgets For Each Business Operation**

It is important that a Budget is prepared for each individual business operation rather than preparing one overall Budget on a consolidated basis. The reason for this is that the benefit from the preparation of the individual Budgets is that each activity that you are operating within your business has its own Budget which enables comparisons to be prepared with the actual performance as revealed in the Profit and Loss Account for the individual business operation. This process enables a critical review to be undertaken to determine what the variances were between the Budget and the actual performance therefore enabling remedial action to be taken if problems have emerged in such components as:

* Gross Profit Percentage
* Average Sale
* Labour to Turnover Percentage
* Overhead Expenses to Turnover Percentage
* Net Profit Percentage of Turnover
* **Key Drivers**

These are vital sub-accounts of operations relating to inventory, production targets, debtors, creditors, research and development projects. A review of **“key drivers”** was included in the February edition of [Business Plus](https://www.essbiztools.com.au/uploads/BusinessPlus%2BNewsIssue249-February2025.docx).

* **Cash Flow Forecast**

All financial transactions both payments and receipts relating to the individual Budgets, Key Drivers sub-accounts, some Balance Sheet transactions including loan repayments, payment of dividends will be reflected in the Cash Flow Forecast.

The Cash Flow Forecast should be analysed to determine any projected funding requirements beyond the amount currently negotiated with the business’ lenders. If arrangements are not able to be made with lenders consideration could be given to raising capital direct from the public by the utilisation of the capital raising ability for SME companies:

* **Section 708 of the *Corporations Act*** – a company can raise up to $2 million in a twelve month period from a maximum of twenty investors.
* **Early Stage Innovation Company** – a **“young company”** that has developed innovative processes can raise capital, with the investors who invest at the status eligibility time for the Early Stage Innovation Company Status being eligible for significant taxation offsets offered by the Australian Government as an incentive to investors to invest in these types of companies.
* **Crowd Sourced Funding Equity Raising Company** – an unlisted public company or a private company with an international turnover of less than AU$25 million and gross value of international assets of less than $25 million, not listed on a stock exchange anywhere in the world that satisfies the requirements to be deemed to be a Crowd Sourced Funding Equity Raising Company. The company can raise up to $5 million share capital from the public by utilising the Crowd Sourced Funding Equity Raising Process with approval of a **Crowd Sourced Funding Intermediary** appointed by the Australian Securities & Investments Commission.
* **Projected Balance Sheets**

Identify what the company’s financial position picture will look like at a future date in one, two or three years’ time. The leadership team will have the opportunity to analyse the projected financial position to decide whether you would be happy with that type of picture being available for your business at a selected future date.

Every step of the process in the development of the Predictive Accounting Reports is interlinked meaning that views can be made of all components to determine what effect changes would have on the overall summaries of:

* Profitability
* Cash Flow Forecast
* Projected Balance Sheet

If you would like to discuss with us the preparation of a Business Plan together with the corresponding Predictive Accounting Reports, please do not hesitate to contact the accountant in our organisation whom you normally deal with.



# **Rhythm of Meetings**

Consistent meetings with specific Agendas are the secret to great businesses. This requires the establishment of meeting cycles and Agendas for those meetings and the determination of who will attend the various meetings which could be held on a daily, weekly or monthly basis.

It is important that there are Agendas for each meeting and Minutes are prepared (AI can help with this) as they are not meant to be a social event but a serious attempt to ensure that business issues are discussed and that **“specific outcomes**” are agreed to.

The **daily meeting** is normally very short five – ten minutes to ascertain whether there were any serious problems from the previous day and if so, to make sure that those problems were going to be attended to, and to discuss the key activities for this day.

The **weekly meetings** could be planning for the forthcoming week’s activities.

A second weekly meeting held two - three days after the start of the week tasked with reviewing the **“weekly profitability and Key Performance Indicators”** for each individual business activity. These meetings are important because if there has been deviations from the expected performance during the previous week this is when the results need to be closely examined to determine the reason for the deviation and to fix any problem which might occur so as to prevent it re-occurring throughout the coming months.

The **monthly meeting** is the leadership teams’ opportunity to review the Financial Performance Reports for each business operation conducted by the business. At this meeting the Profit and Loss Accounts for each business activity together with the accompanying Key Performance Indicator Report should be reviewed and the comparison of the actual performance against the Budgets for the individual operations should be reviewed and if remedial action is required to be taken can then be authorised to be commenced.

The **monthly meeting** would also consider the Balance Sheet and the all important Key Business Metrics relating to the Balance Sheet including:

* Debtors’ Days Outstanding
* Creditors’ Days Outstanding.
* Stock Turns
* Capital Expenditure – Investment
* Work In Progress – Not Yet Invoiced
* Research and Development Expenditure – calculation of potential taxation rebate amount
* Bank account balance analysis in conjunction with the cash flow analysis to determine whether additional funding is required

If you would like to discuss the implementation of a **Rhythm of Meetings** for your business, please contact the accountant in our organisation you normally deal with.

# **Is Your Debtors’ System Functioning Properly?**

An effective Debtors’ Management System commences well before a credit sale is made. Incidentally, a business is not under any obligation to offer credit facilities to any person who requests those facilities. This is a decision that the business owner or management team should decide on.

Every business will benefit from having a Debtors’ System that has been modified to suit the internal processes of the business.

The Debtors’ System could incorporate forms and procedures which details every aspect of the credit sales process including:

* Credit Application Form – to be completed prior to inviting a new customer to trade on a credit basis.
* Internal processes for the Office Manager to check the application to ensure that all questions have been answered.
* The Office Manager should ensure that the trade references offered by the prospective customer are contacted and that details of their comments are recorded on the application to open the account.
* The Office Manager should review the amount of credit applied for and reach a decision as to whether to recommend credit be granted.
* A decision can then be made by the General Manager as to whether a credit facility will be offered to a new customer.
* The trading terms that are being offered to the new customer should be determined.
* The letter offering the credit facilities to the customer should then be prepared specifying:
* Terms of Trade (including payment deadlines) Agreement
* Retention of Title Agreement
* Credit limit
* Personal Guarantees required, normally if the account is in the name of a company. The letter of offer could be signed by the General Manager and forwarded to the customer for review and for submission of the information specified in the Offer of Credit Facilities Letter so that the credit account can be opened.

Some of the documentation that you could require your new customer to supply could include:

* Directors’ Guarantee Form – to be completed by the Directors of a company applying for credit facilities
* Signed Terms of Trade Agreement
* Signed Retention of Title Agreement

If you would like to have a discussion about the development of a modified Debtors’ Systems Manual for your firm which would assist the team members responsible for the management of debtors to perform their duties, please do not hesitate to contact the accountant in our organisation that you deal with.

# **Research and Development Introduction**

The Australian Government’s Research and Development Concessions within the *Income Tax Act* are a significant contribution towards the development of new knowledge and the possibility of the creation of an **“innovation journey”** which could be very rewarding for the business operator and offer a range of **“interesting and challenging work for your team members”**.

A summary of the basic requirements relating to claiming the research and development benefits include:

* The entity undertaking the research and development activities must be a limited liability company.
* The company must spend more than $20,000 per financial year on legitimate research and development activities (could be any number of projects).
* There is a set process that has to be applied relating to the work processes.
* There are obligations for the company to maintain records which substantiate the work that has been undertaken and the costs that have been incurred.

The determination of **“New Knowledge”** requires:

* An **“idea”** that would be discussed by the company’s leadership and team members.
* If it is thought to be a promising idea it could be deemed to be a research and development project.
* A small team may be appointed to undertake specific research – it is important that proper records are kept of who was involved – what preliminary research was undertake?
* A check should be made as to the company’s eligibility to claim the Research and Development Tax Offset.
* At this stage a project coordinator could be appointed.
* This is the start of the **“Systematic Progression of Work”** which is what the research and development process is described as.
* It is necessary to check whether there is any prior art/literature that might mean that someone else has already registered this process somewhere in the world. If this has occurred your company will not be able to claim research and development expenditure as a special taxation benefit.
* There is a need to list the core activities proposed to be undertaken in the project – there must be at least one core research and development activity in each project.
* The team needs to identify the **“new knowledge intended to be produced by the core activities”**.
* It should be noted that the outcome cannot be known or determined in advance on the basis of current knowledge, information or experience but can only be determined by applying a **“systematic progression of work”**.
* The next stage is the hypothesis determination which is a **“positive statement”** of the belief that experimentation sets out to prove or disprove (the hypothesis should adequately describe technical or scientific ideas that can be tested through a systematic progression of work.
* If your company’s team members have had discussions with universities, professionals or other advisors relative to this project it is a good idea to record their names and a summary of the advice that you received from them so that you have that information if you are required to apply details of the input that you received from professionals and other experts.
* It is a good idea to prepare a Research and Development Plan (although this is not required by the legislation for a small company) because this will summarise what is proposed to be undertaken – the time estimates and the cost estimates.
* The Research and Development Budget could then be prepared which outlines:
* internal labour to be involved in this project – hours and cost
* labour on costs
* external contractors to be engaged project
* experts to be engaged with this project
* other costs
* materials to be utilised on the research and development project
* decline in value of assets utilised on the research and development project
* any overseas expenditure envisage but be warned it is very difficult to obtain approval for overseas expenditure on a research and development project
* total cost estimate
* The Research and Development Report and Budget should then be submitted to the Board of Directors for approval to proceed with this project.

This is a summary of the beginning of a **Research and Development Project**. Thousands of SMEs around Australia participate in the **Research and Development Program** each year. If you would like to obtain more information or to have a discussion with our expert on research and development, could you please contact the accountant you normally deal with in the first instance.

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| **ATTENTION ACCOUNTANTS, BOOKKEEPERS, BUSINESS ADVISORS\***Additional information on the articles contained within this issue of **Business Plus+** are available. These papers are highlighted to our subscribers as a “reference library” resource for them.[Paper 005-035 – Budget ad Cash Flow Forecast](https://www.essbiztools.com.au/joomlatools-files/docman-files/005%20-%20Accounting%20Reports%20%26%20Terminologies/Paper%20005-035%20-%20Budgets%20And%20Cashflow%20Forecasts.doc) [Paper 003-045 – Early Stage Innovation Company](https://www.essbiztools.com.au/joomlatools-files/docman-files/003%20-%20Business%20Entities/Paper%20003-045%20-%20Early%20Stage%20Innovation%20Companies.doc)[Paper 003-056 – Crowd Sourced funding Equity Raising Company](https://www.essbiztools.com.au/joomlatools-files/docman-files/003%20-%20Business%20Entities/Paper%20003-056%20-%20Crowd%20Sourced%20Funding%20-%20Post%20Captial%20Raising.doc) [Paper 052-005 – Research and Development Eligibility](http://www.essbiztools.com.au/joomlatools-files/docman-files/052%20-%20Research%20and%20Development/Paper%20052-005%20-%20Research%20%26%20Development%20Eligibility.doc)[Paper 570-034 – Debtors’ Management](https://www.essbiztools.com.au/joomlatools-files/docman-files/570%20-%20Business%20Advisory%20Services/Paper%20570-034%20-%20Debtors%20Management.doc) |
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