



**Enjoy the most
fruit possible from
your labour**

DAIRY TAS – MANAGING FINANCIAL HEALTH

Certified Practising Accountants



Introduction

- Certified Practising Accountants
- David Elphinstone (Director and part owner)
- We specialise in providing proactive solutions for small to medium sized businesses across all industries in North West and West Coast of Tasmania.

“It’s time for you to taste success...”



Disclaimer

The information provided in the presentation and work booklet does not constitute specific financial advice. The information is general in nature and does not take into account your individual objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice. We recommend that you obtain your own independent professional advice before making any decision in relation to your particular requirements or circumstances.

What We Will Cover

- Traditional Information Received from Accountant
 - Profit & Loss Statement
 - Balance Sheet or Statement of Assets and Liabilities
 - Other Concepts to Understand



Profit & Loss

- Report detailing revenue and expenses for a period that results in an overall profit or loss.
- Good indicator of business performance but must remember how and why it is determined.
- Special purpose financial report – loosely based on accounting standards, but primarily prepared for tax purposes.



Profit & Loss

- Use of electronic record keeping programs such as Cashflow Manager, MYOB, QuickBooks and Phoenix will assist in managing your business.
- Allocations are important to enable accurate a profit & loss statement to be prepared by your accountant.
- Difference between revenue (profit & loss) and capital (balance sheet).
- Taxation accounts can be adjusted to form management accounts.

Cash Holdings

Profit and Loss Statement

	2009	2008
	\$	\$
Income		
Milk sales	474,580	586,211
Profit on Livestock trading	27,535	5,677
Capital profit on sale of Irrigation	13,185	0
Fuel rebate	2,491	2,873
Insurance recovery	1,413	803
Dividends	0	255
Interest recieved	0	563
Rent	0	0
Capital gains	0	0
	<u>519,204</u>	<u>596,382</u>

Expenditure

Accountancy	2,240	2,000
Agistment	33,600	33,600
Bank charges	465	56
Cartage	9,233	8,561
Depreciation - Low Cost Assets	2,700	0
Depreciation - General Pool	40,500	51,428
Depreciation - Long Life Pool	1,000	1,108
Donations	0	50
Fodder/Twine	124,000	100,000
Fuel and oil	22,400	23,280
Insurance, Registrations and licences	11,742	11,563
Interest - Term Loans	142,500	150,000
Interest - Asset Purchase Loans	5,000	5,000
Interest - Other	2,500	3,000
Levies	5,295	3,658
Light and power	9,520	9,467
Postage, stationary and advertising	898	723
Rates	6,230	5,986
Repairs to machinery	24,507	19,862
Repairs to structures	5,055	3,568
Repairs to Laneways	4,500	2,689
Salaries and Wages	135,000	133,256
Sacks, fertiliser and seeds	75,000	63,250
Selling costs	11,784	0
Shelter trees	169	0
Sprays	3,647	3,250
Subscriptions	532	468
Superannuation	12,150	10,235
Telephone	2,315	2,085
Vehicle running	870	863
Veterinary	9,555	5,235
Water conservation	15,000	0
	<u>719,907</u>	<u>654,241</u>
Profit before tax	<u>-200,703</u>	<u>-57,859</u>

Balance Sheet

- Is a list of all the assets, liabilities and owners equity of an organisation at a particular point in time, i.e. 30th June.
- Must balance!
 - $\text{Assets} - \text{Liabilities} = \text{Owners Equity}$
- Assets and Liabilities split between Current and Non-Current
- Current means the assets or liabilities that relate to just one income year.

Balance Sheet

- Current Assets include:
 - Cash
 - Accounts Receivable (Debtors)
 - Stock on Hand
- Non-Current assets include:
 - Property
 - Plant & Equipment
 - Other investments



Balance Sheet

- Current Liabilities
 - Bank overdraft
 - Accounts payable (creditors)
 - Short term loans
- Non-Current Liabilities
 - Long term loans
- Primary function of balance sheet is to calculate the rate of return on the capital employed.
- Problem! Values for land and livestock are often shown at original cost not market value.



Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current assets		
Cash at bank	0	198,876
Trade debtors	45,000	60,000
Deposits (Roberts)	0	0
Stock on hand - cattle	30,000	28,899
	75,000	287,775
 Non-current assets		
Freehold land (150 ha Dryland)	360,000	360,000
Freehold land (50 ha Irrigated)	520,000	520,000
New Lanes	15,000	15,000
	895,000	895,000
Dams and bores at cost (250 ML)	45,000	0
Accumulated Write off	-15,000	0
Plant & equipment - General Pool	95,000	120,000
Plant & equipment - Long Life Pool	20,000	21,053
	145,000	141,053
 Investments		
Telstra 2	0	3,000
AMP shares	0	5,000
Maquarie	0	8,000
Shares in limited companies	0	100
	0	16,100
 TOTAL ASSETS	 1,115,000	 1,339,928

Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current liabilities		
Bank Overdraft	30,000	0
Trade creditors	12,723	9,806
BAS Clearing Account	4,500	5,890
Mr Cash	10,000	10,000
Mrs Cash	20,000	30,000
Loan - Machinery	50,000	60,000
Less: Unexpired Interest	-10,000	-15,000
	<u>117,223</u>	<u>100,696</u>
 Non-Current liabilities		
Loans Cashbank	500,000	520,000
Loans Creditbank	500,000	520,000
	<u>1,000,000</u>	<u>1,040,000</u>
 TOTAL LIABILITIES	<u>1,117,223</u>	<u>1,140,696</u>
 NET ASSETS	<u>-2,223</u>	<u>199,232</u>

Cash Holdings

Assets and Liabilities Statement

	2009 \$	Market Value \$
Current assets		
Cash at bank	0	0
Trade debtors	45,000	45,000
Deposits (Roberts)	0	0
Stock on hand - cattle	30,000	431,000
	75,000	476,000
Non-current assets		
Freehold land (150 ha Dryland)	360,000	1,870,000
Freehold land (50 ha Irrigated)	520,000	1,470,000
New Lanes	15,000	0
	895,000	3,340,000
Dams and bores at cost (250 ML)	45,000	60,000
Accumulated Write off	-15,000	0
Plant & equipment - General Pool	95,000	265,000
Plant & equipment - Long Life Pool	20,000	30,000
	145,000	355,000
Investments		
Telstra 2	0	0
AMP shares	0	0
Maquarie	0	0
Shares in limited companies	0	0
	0	0
TOTAL ASSETS	1,115,000	4,171,000

Cash Holdings

Assets and Liabilities Statement

	2009	Market Value
	\$	\$
Current liabilities		
Bank Overdraft	30,000	30,000
Trade creditors	12,723	12,723
BAS Clearing Account	4,500	4,500
Mr Cash	10,000	10,000
Mrs Cash	20,000	20,000
Loan - Machinery	50,000	50,000
Less: Unexpired Interest	-10,000	-10,000
	117,223	117,223
 Non-current liabilities		
Loans Cashbank	500,000	500,000
Loans Creditbank	500,000	500,000
	1,000,000	1,000,000
 TOTAL LIABILITIES	 1,117,223	 1,117,223
 NET ASSETS	 -2,223	 3,053,777

Cashflow Statement

- Shows the cash inflows of a business entity during a period, and the cash outflows from the business during that period.
- The main purpose is to highlight the material, operating, financing and investing activities of the entity during a period.



Cash Holdings Pty Ltd		
Statement of Cashflow		
Cashflow from Operating Activities		
<i>Inflows</i>		
	Receipts from customers for sales	501,300
	Other Revenue	3,904
		505,204
<i>Outflows</i>		
	Payments to Suppliers	681,080
	Payments to employees	135,000
	Interest Payments	145,000
	Payments for other Operating Expenses	-
		961,080
	Net Cashflow form Operating Activities	-\$ 455,876
Cashflow from Investing Activities		
<i>Inflows</i>		
	proceeds from sale of non current assets	37,000
		37,000
<i>Outflows</i>		
	Payments for non current assets	30,000
		30,000
	Net Cashflow form Investing Activities	\$ 7,000
Cashflow from Financing Activities		
<i>Inflows</i>		
	Proceeds from Owners	-
	Proceeds from Borrowings	300,000
<i>Outflows</i>		
	Repayments of borrowings	-
	Owners drawings	80,000
		80,000
	Net Cashflow form Financing Activities	\$ 220,000
	Net increase/(decrease) in cash held	-\$ 228,876
	Cash at Beginning of reporting period	\$ 198,876
	Cash at end of reporting period	-\$ 30,000

Concepts

Accrual (non Cash) v Cash

- Accrual – Income and expenses are accounted for in the period in which they relate or are invoiced.
- Cash – Income and expenses are included in the month or year in which they are received or paid.
- Some businesses may be taxed on a cash basis depending on when and if you have elected to use the small business tax concessions.

Cash Holdings Assets and Liabilities Statement

	2009 \$	2008 \$
Current assets		
Cash at bank	0	198,876
Trade debtors	45,000	60,000
Deposits (Roberts)	0	0
Stock on hand - cattle	30,000	28,899
	75,000	287,775
 Non-current assets		
Freehold land (150 ha Dryland)	360,000	360,000
Freehold land (50 ha Irrigated)	520,000	520,000
New Lanes	15,000	15,000
	895,000	895,000
Dams and bores at cost (250 ML)	45,000	0
Accumulated Write off	-15,000	0
Plant & equipment - General Pool	95,000	120,000
Plant & equipment - Long Life Pool	20,000	21,053
	145,000	141,053
 Investments		
Telstra 2	0	3,000
AMP shares	0	5,000
Maquarie	0	8,000
Shares in limited companies	0	100
	0	16,100
 TOTAL ASSETS	 1,115,000	 1,339,928

Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current liabilities		
Bank Overdraft	30,000	0
Trade creditors	12,723	9,806
BAS Clearing Account	4,500	5,890
Mr Cash	10,000	10,000
Mrs Cash	20,000	30,000
Loan - Machinery	50,000	60,000
Less: Unexpired Interest	-10,000	-15,000
	<u>117,223</u>	<u>100,696</u>
 Non-Current liabilities		
Loans Cashbank	500,000	520,000
Loans Creditbank	500,000	520,000
	<u>1,000,000</u>	<u>1,040,000</u>
 TOTAL LIABILITIES	<u>1,117,223</u>	<u>1,140,696</u>
 NET ASSETS	<u>-2,223</u>	<u>199,232</u>

Concepts

Depreciation

- Plant & Equipment are not expensed in the year of purchase, but depreciated over their effective life.
- Turnover < \$2 million, choice with depreciation.
- Pooling
 - Assets > \$1,000 with effective life of less than 25 years written off at 30%.
 - In the year of purchase assets are depreciated at 15%.
 - Any disposal reduces overall pool balance.
 - Plant < \$1,000 is immediately written off.
 - Assets with an effective life of more than 25 years are depreciated at 2.5% in the first year, then 5% every year after.
- Effective life rates
 - Rates set by ATO or in some cases can be self assessed.
 - Diminishing Value or Prime Cost Method

Cash Holdings Depreciation Report

Low Cost Assets

Assets <\$1000 purchased during year	\$	2,647
--------------------------------------	----	-------

General Pool

Opening Pool, Balance		120,000
Additions		30,000
Deprec on Opening @ 30%	-	36,000
Deprec on New Items @ 15%	-	4,500
Disposed Items	-	14,500
Closing Balance		95,000

Total General Pool Deprec	\$	40,500
---------------------------	----	--------

Long Life Pool

Opening Pool, Balance		21,053
Additions		
Deprec on Opening @ 5%	-	1,053
Deprec on New Items @ 2.5%		-
Disposed Items		
Closing Balance		20,000

Total Long Life Pool Deprec	\$	1,053
-----------------------------	----	-------

Expenditure

Accountancy	2,240	2,000
Agistment	33,600	33,600
Bank charges	465	56
Cartage	9,233	8,561
Depreciation - Low Cost Assets	2,647	0
Depreciation - General Pool	40,500	51,428
Depreciation - Long Life Pool	1,053	1,108
Donations	0	50
Fodder/Twine	124,000	100,000
Fuel and oil	22,400	23,280
Insurance, Registrations and licences	11,742	11,563
Interest - Term Loans	142,500	150,000
Interest - Asset Purchase Loans	5,000	5,000
Interest - Other	2,500	3,000
Levies	5,295	3,658
Light and power	9,520	9,467
Postage, stationary and advertising	898	723
Rates	6,230	5,986
Repairs to machinery	24,507	19,862
Repairs to structures	5,055	3,568
Repairs to Laneways	4,500	2,689
Salaries and Wages	135,000	133,256
Sacks, fertiliser and seeds	75,000	63,250
Selling costs	11,784	0
Shelter trees	169	0
Sprays	3,647	3,250
Subscriptions	532	468
Superannuation	12,150	10,235
Telephone	2,315	2,085
Vehicle running	870	863
Veterinary	9,555	5,235
Water conservation	15,000	0
	<u>719,907</u>	<u>654,241</u>

Profit before tax

-200,703

-57,859

Concepts

Water Conservation

- Deduction available for expenses incurred for the construction, manufacture, acquisition or installation of “plant” or a structural improvement for the purpose of conserving or conveying water for use in carrying on a primary production business.
- Water facilities include:
 - Dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels, pipes, pumps, water towers and windmills.
- Deduction only applies to NEW items purchased during the year.
- No deduction available for second hand equipment
- Qualifying expenditure is written off over 3 years, 1/3 in each year.

Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current assets		
Cash at bank	0	198,876
Trade debtors	45,000	60,000
Deposits (Roberts)	0	0
Stock on hand - cattle	30,000	28,899
	75,000	287,775
 Non-current assets		
Freehold land (150 ha Dryland)	360,000	360,000
Freehold land (50 ha Irrigated)	520,000	520,000
New Lanes	15,000	15,000
	895,000	895,000
Dams and bores at cost (250 ML)	45,000	0
Accumulated Write off	-15,000	0
Plant & equipment - General Pool	95,000	120,000
Plant & equipment - Long Life Pool	20,000	21,053
	145,000	141,053
 Investments		
Telstra 2	0	3,000
AMP shares	0	5,000
Maquarie	0	8,000
Shares in limited companies	0	100
	0	16,100
 TOTAL ASSETS	 1,115,000	 1,339,928

Concepts

Interest on Asset Purchase Loans

- Plant and Equipment can be financed in a number of ways.

Asset Purchase Loans

- Interest is fixed at the time the loan is taken with a set number of payments over a set period.
- Rule of 78 is applied.
- E.g. for a loan over 12 months
 - Add the numbers of 1 to 12 – $1+2+3+\dots+11+12 = 78$
 - Then claim 12/78ths in the first month
 - 11/78ths in the second month and so on
 - If taken for 2 years add the numbers 1 to 24, three years add the numbers 1 to 36 etc.
- Therefore, more interest claimed in early years rather than later.

Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current liabilities		
Bank Overdraft	30,000	0
Trade creditors	12,723	9,806
BAS Clearing Account	4,500	5,890
Mr Cash	10,000	10,000
Mrs Cash	20,000	30,000
Loan - Machinery	50,000	60,000
Less: Unexpired Interest	-10,000	-15,000
	<u>117,223</u>	<u>100,696</u>
 Non-Current liabilities		
Loans Cashbank	500,000	520,000
Loans Creditbank	500,000	520,000
	<u>1,000,000</u>	<u>1,040,000</u>
 TOTAL LIABILITIES	<u>1,117,223</u>	<u>1,140,696</u>
 NET ASSETS	<u>-2,223</u>	<u>199,232</u>

Concepts

Repairs v Improvements

Repairs

- Specific rules set out by the ATO for repairs.
- A repair involves a restoration of a thing to a condition it formerly had without changing its character.
- Not reconstruction of the whole thing.
- Repairs shown as expenses in profit and loss.

Improvement

- Improvement may be treated as a depreciable asset or simply shown as an improvement on the balance sheet.
- E.g. New fence is treated as plant and would be depreciated. Repairs to fences are expenses and claimed as outright tax deduction.

Cash Holdings

Assets and Liabilities Statement

	2009	2008
	\$	\$
Current assets		
Cash at bank	0	198,876
Trade debtors	45,000	60,000
Deposits (Roberts)	0	0
Stock on hand - cattle	30,000	28,899
	<u>75,000</u>	<u>287,775</u>
 Non-current assets		
Freehold land (150 ha Dryland)	360,000	360,000
Freehold land (50 ha Irrigated)	520,000	520,000
New Lanes	15,000	15,000
	<u>895,000</u>	<u>895,000</u>
 Dams and bores at cost (250 ML)	 45,000	 0
Accumulated Write off	-15,000	0
Plant & equipment - General Pool	95,000	120,000
Plant & equipment - Long Life Pool	20,000	21,053
	<u>145,000</u>	<u>141,053</u>
 Investments		
Telstra 2	0	3,000
AMP shares	0	5,000
Maquarie	0	8,000
Shares in limited companies	0	100
	<u>0</u>	<u>16,100</u>
 TOTAL ASSETS	 <u>1,115,000</u>	 <u>1,339,928</u>

Expenditure

Accountancy	2,240	2,000
Agistment	33,600	33,600
Bank charges	465	56
Cartage	9,233	8,561
Depreciation - Low Cost Assets	2,700	0
Depreciation - General Pool	40,500	51,428
Depreciation - Long Life Pool	1,000	1,108
Donations	0	50
Fodder/Twine	124,000	100,000
Fuel and oil	22,400	23,280
Insurance, Registrations and licences	11,742	11,563
Interest - Term Loans	142,500	150,000
Interest - Asset Purchase Loans	5,000	5,000
Interest - Other	2,500	3,000
Levies	5,295	3,658
Light and power	9,520	9,467
Postage, stationary and advertising	898	723
Rates	6,230	5,986
Repairs to machinery	24,507	19,862
Repairs to structures	5,055	3,568
Repairs to Laneways	4,500	2,689
Salaries and Wages	135,000	133,256
Sacks, fertiliser and seeds	75,000	63,250
Selling costs	11,784	0
Shelter trees	169	0
Sprays	3,647	3,250
Subscriptions	532	468
Superannuation	12,150	10,235
Telephone	2,315	2,085
Vehicle running	870	863
Veterinary	9,555	5,235
Water conservation	15,000	0
	<u>719,907</u>	<u>654,241</u>

Profit before tax

-200,703

-57,859

Concepts

Livestock Values

- Treated as trading stock by ATO.
- Purchase of stock is not claimed as a tax deduction until it is sold.
- Closing stock is account for at market value or cost value (average cost).
- Showing stock at cost can undervalue livestock in the accounts.
- Under ATO rules, natural increase valued at \$20.



Cash Holdings Livestock Trading Account

	2009		2008	
Sales	85	30,967	20	5,027
Rations	2	482	0	0
Closing Stock	555	30,000	550	28,899
Deaths	25	-	3	0
	667	61,449	573	33,926
Less:				
Opening Stock	550	28,899	480	16,500
Purchases	10	5,015	12	11,749
Natural Increase	107	-	81	0
	667	33,914	573	28,249
Average Cost		54		53
Net Profit		27,535		5,677

Closing stock 30/6/09 =

$$\begin{aligned}
 & ((107 \times 20) + 33,914) / 667 \times 555 \\
 & (2,140 + 33,914) / 667 \times 555 \\
 & 36,054 / 667 \times 555 \\
 & 30,000
 \end{aligned}$$

Concepts

GST (Goods & Services Tax)

- GST is not an expense to your business!
- GST is collected on our business income which you must remit to the ATO.
- 1/11th of your banking money is remitted each month or quarter, unless sales are GST Free.
- GST Free sale for primary producers include:
 - Potatoes
 - Peas
 - Onions
- Any GST paid is offset against the GST collected.
- If GST collected exceeds GST paid, you remit the difference to the ATO.
- If GST paid exceeds GST collected, you receive a refund from the ATO.



Concepts

- **Employees Wages Tax** (Also known as PAYG Withholding).
- Gross wages are shown in your accounts, i.e. before tax is deducted.
- The withholding tax is paid to the ATO on a monthly or quarterly basis.



(The Age, 2010)

Superannuation

As an employer you have an obligation to pay super contributions on behalf of all your eligible employees. These contributions are in addition to your employees' salaries and wages.

This compulsory contribution is called the superannuation guarantee and it requires you to:

- pay super for your eligible employees
- contribute to the correct super funds, and
- pay contributions by the cut off date each quarter.

The minimum super amount you have to pay is 9% of each eligible employee's earning's base (ordinary time earnings).

Generally, you have to pay super for your employees if they:

- are aged between 18 and 70
- are paid \$450 (before tax) or more in a calendar month, and
- work full-time, part-time or on a casual basis.

Workers Compensation

- Compulsory where you have employees
- Rate will depend on your circumstances – check with your insurance broker
- Minimum premium for any wages
- Rate likely to be in the vicinity of 5%
- Means total employment costs are 114% (assuming 5% w/comp) of gross wages

Drawings

Drawings are where the owner takes out business assets for their personal use.

Examples include:

- Cash for private expenses
- Rations
- Personal loan payments; i.e. House loan
- Children's school expenses
- Private portions of telephone, power, rates etc
- Prior year and current year tax instalments

Drawings are **NOT** a business expense!

Common Problems

BAS

Simply not lodging BAS' due to inability to pay debt.

Superannuation

Employer's not paying superannuation for employees at 9% of ordinary time earnings by the due date. May lead to SGC audit and large debts.

Communication

Your accountant is not an extension of the ATO. They work for you! If you cannot talk to your accountant, maybe you need to look at changing!

Contact Us

Burnie Office

1st Floor, 75 Mount Street

PO Box 362

BURNIE TAS 7320

(p) 03 64 31 3933

(f) 03 64 31 8668

(e) mail@elst.com.au

Open 8:30am – 5pm weekdays. Out of hours appointments available.

Smithton Office

Room 51/131-134 Nelson Street

SMITHTON TAS 7330

(behind the Library)

Open 9am – 5pm Thursdays. Out of hours appointments available.

Questions





Enjoy the most
fruit possible from
your labour

www.elst.com.au

Certified Practising Accountants

