

FICA WEBINAR SERIES

BUSINESS FINANCIALS 101

A WEBINAR FOR FOREST INDUSTRY CONTRACTORS ASSOCIATION

PRESENTED BY SONYA ELMIGER

BLACKBURNE GROUP CHARTERED ACCOUNTANTS

TAUPO

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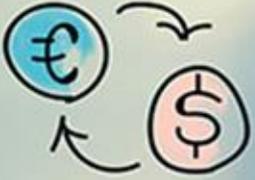
SEPTEMBER 2022

TODAY'S TOPICS

- Cashflow Management
- Financing
- Asset Protection
- Reporting & KPI's
- Non Taxable Allowances
- 'Cashing Up' Holidays
- Succession Planning



CASH FLOW



CASH FLOW MANAGEMENT

What is cash flow management?

- Monitoring
- Projecting
- Planning



CASH FLOW MANAGEMENT

- Monitoring:
 - up to date ('real time') information
 - accuracy
 - reporting
 - alerts
 - KPI's



CASH FLOW MANAGEMENT

- Projecting

- prepare projections/cashflow forecasts
- short term vs long term
- sensitivity analysis
- report against projections (actual vs budget)

- Planning

- evaluate periods of potential cash shortfalls and plan for these (i.e. line of credit before you need it)
- minimise costs/drawings when cashflow is tight
- structure loans accordingly
- tax planning

HOW-TO-LOG LIMITED
CASHFLOW FOR THE YEAR ENDED 31 MARCH 2020
GST EXCLUSIVE

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	TOTAL
INCOME													
Contract Receipts	214,639	194,198	235,081	153,314	183,977	183,977	214,639	224,860	214,639	153,314	183,977	194,198	2,350,812
	214,639	194,198	235,081	153,314	183,977	183,977	214,639	224,860	214,639	153,314	183,977	194,198	2,350,812
EXPENSES													
Wages/ACC/Salary	60,526	73,268	47,784	57,341	57,341	66,897	70,083	66,897	47,784	57,341	60,526	66,897	732,685
Hauler	-	-	7,460	4,866	5,839	5,839	6,812	7,136	6,812	17,840	5,839	6,163	74,604
Processor	-	-	6,500	4,239	-	5,087	5,935	2,978	5,935	29,239	5,087	-	65,000
Loader	2,043	3,304	-	6,609	8,130	-	5,000	-	-	12,609	-	2,304	40,000
Guyline	1,004	909	1,100	717	861	861	1,004	1,052	1,004	717	861	909	11,000
Tailhold	913	826	1,000	652	783	783	913	957	913	652	783	826	10,000
Rigging & Ropes	5,040	4,560	5,520	3,600	4,320	4,320	5,040	5,280	5,040	3,600	4,320	4,560	55,200
Fuel & Oil	33,913	30,683	37,143	24,224	29,068	29,068	33,913	35,528	33,913	24,224	29,068	30,683	371,428
Vehicle Expenses	4,200	3,800	4,600	3,000	3,600	3,600	4,200	4,400	4,200	3,000	3,600	3,800	46,000
Insurance	8,000	8,000	8,000	8,000	8,000	8,000	-	-	-	-	-	-	48,000
General Operating Expenses	4,725	4,275	5,175	3,375	4,050	4,050	4,725	4,950	4,725	3,375	4,050	4,275	51,750
Administration Expenses	3,150	2,850	3,450	2,250	2,700	2,700	3,150	3,300	3,150	2,250	2,700	2,850	34,500
	123,515	132,476	127,732	118,872	124,691	131,205	140,775	132,478	113,476	154,846	116,833	123,268	1,540,167
FINANCE & O/H EXPENSES													
Bank Charges & Interest	100	100	100	100	100	499	468	544	100	100	743	865	3,819
Finance Interest	18,720	18,457	18,193	17,927	17,659	17,390	17,119	16,846	16,571	16,294	16,016	15,736	206,928
	18,820	18,557	18,293	18,027	17,759	17,889	17,587	17,389	16,671	16,394	16,758	16,601	210,747
Net Profit Pre Deprn	72,305	43,164	89,056	16,415	41,526	34,883	56,278	74,992	84,493	(17,926)	50,385	54,329	599,899
Principal Repayments	40,399	40,662	40,926	41,192	41,460	41,729	42,000	42,273	42,548	42,825	43,103	43,383	502,500
Drawings	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
Taxation	-	18,000	-	-	18,900	-	-	-	-	18,900	-	-	55,800
	48,399	66,662	48,926	49,192	68,360	49,729	50,000	50,273	50,548	69,725	51,103	51,383	654,300
Net Surplus (Deficit)	23,906	(23,497)	40,130	(32,777)	(26,834)	(14,846)	6,277	24,719	33,945	(87,651)	(718)	2,946	(54,401)
Adjust for GST Impact													
GST on Income	32,196	29,130	35,262	22,997	27,596	27,596	32,196	33,729	32,196	22,997	27,596	29,130	352,622
GST on Expenses	(9,448)	(8,881)	(11,992)	(9,230)	(10,103)	(9,646)	(10,604)	(9,837)	(9,854)	(14,626)	(8,446)	(8,456)	(121,122)
GST (Payment)/Refund	(38,335)		(42,996)		(37,037)		(35,444)		(45,484)		(30,713)		(230,010)
Opening Balance	-	8,318	5,070	25,473	6,464	(39,914)	(36,809)	(44,384)	4,227	15,030	(64,250)	(76,531)	-
Closing Balance (End of Month)	8,318	5,070	25,473	6,464	(39,914)	(36,809)	(44,384)	4,227	15,030	(64,250)	(76,531)	(52,912)	(52,912)

Debt Servicing Ratio	
EBITDA	806,826
EBITDA Ratio	1.14

HOW-TO-LOG LIMITED
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EXPENSES													
Wages/ACC/Salary	60,526	73,268	47,784	57,341	57,341	66,897	70,083	66,897	47,784	57,341	60,526	66,897	732,685
Hauler	-	6,163	7,460	4,866	5,839	5,839	6,812	7,136	6,812	11,677	5,839	6,163	74,604
Processor	-	5,370	6,500	4,239	5,087	5,087	5,935	6,217	5,935	15,543	5,087	-	65,000
Loader	2,043	3,304	4,000	2,609	-	3,130	3,652	3,826	3,652	11,479	-	2,304	40,000
Guyline	1,004	909	1,100	717	861	861	1,004	1,052	1,004	717	861	909	11,000
Tailhold	913	826	1,000	652	783	783	913	957	913	652	783	826	10,000
Rigging & Ropes	5,040	4,560	5,520	3,600	4,320	4,320	5,040	5,280	5,040	3,600	4,320	4,560	55,200
Fuel & Oil	33,913	30,683	37,143	24,224	29,068	29,068	33,913	35,528	33,913	24,224	29,068	30,683	371,428
Vehicle Expenses	4,200	3,800	4,600	3,000	3,600	3,600	4,200	4,400	4,200	3,000	3,600	3,800	46,000
Insurance	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	-	-	4,800	48,000
General Operating Expenses	4,725	4,275	5,175	3,375	4,050	4,050	4,725	4,950	4,725	3,375	4,050	4,275	51,750
Administration Expenses	3,150	2,850	3,450	2,250	2,700	2,700	3,150	3,300	3,150	2,250	2,700	2,850	34,500
	120,315	140,808	128,532	111,672	118,448	131,135	144,227	144,343	121,928	133,857	116,833	128,068	1,540,167
FINANCE & O/H EXPENSES													
Bank Charges & Interest	100	100	100	100	100	109	100	102	100	100	100	134	1,246
Finance Interest	18,720	18,484	18,247	18,008	17,768	17,526	17,283	17,038	16,791	16,543	16,293	16,042	208,745
	18,820	18,584	18,347	18,108	17,868	17,636	17,383	17,140	16,891	16,643	16,393	16,176	209,991
Net Profit Pre Deprn	75,505	34,805	88,202	23,533	47,661	35,206	53,029	63,377	75,820	2,814	50,750	49,954	600,654
Principal Repayments	36,253	36,489	36,726	36,965	37,205	37,447	37,690	37,935	38,182	38,430	38,680	38,931	450,933
Drawings	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000
Taxation	-	18,000	-	-	10,832	-	-	-	-	10,832	-	-	39,665
	43,753	61,989	44,226	44,465	55,537	44,947	45,190	45,435	45,682	56,762	46,180	46,431	580,597
Net Surplus (Deficit)	31,751	(27,184)	43,976	(20,931)	(7,877)	(9,741)	7,839	17,942	30,138	(53,949)	4,570	3,523	20,057
Adjust for GST Impact													
GST on Income	32,196	29,130	35,262	22,997	27,596	27,596	32,196	33,729	32,196	22,997	27,596	29,130	352,622
GST on Expenses	(8,968)	(10,131)	(12,112)	(8,150)	(9,166)	(9,636)	(11,122)	(11,617)	(11,122)	(11,477)	(8,446)	(9,176)	(121,122)
GST (Payment)/Refund	(39,104)		(42,226)		(37,997)		(36,391)		(43,186)		(32,594)		(231,500)
Opening Balance	-	15,875	7,689	32,589	26,505	(939)	7,281	(197)	39,857	47,883	5,454	(3,419)	-
Closing Balance (End of Month)	15,875	7,689	32,589	26,505	(939)	7,281	(197)	39,857	47,883	5,454	(3,419)	20,057	20,057

Debt Servicing Ratio	
EBITDA	809,400
EBITDA Ratio	1.23

interest rate
loan
borrow
bank
qualify
options
down
payment
equity
collateral
mortgage



FINANCING

- Sources of FINANCIAL ADVICE:

- Family
- Peers
- Bank
- Finance Company/Broker
- Lawyer
- Accountant

- Sources of FUNDS:

- Self
- Family
- Your Business
- Bank
- Finance Companies
- Creditors
- IRD!

FINANCING

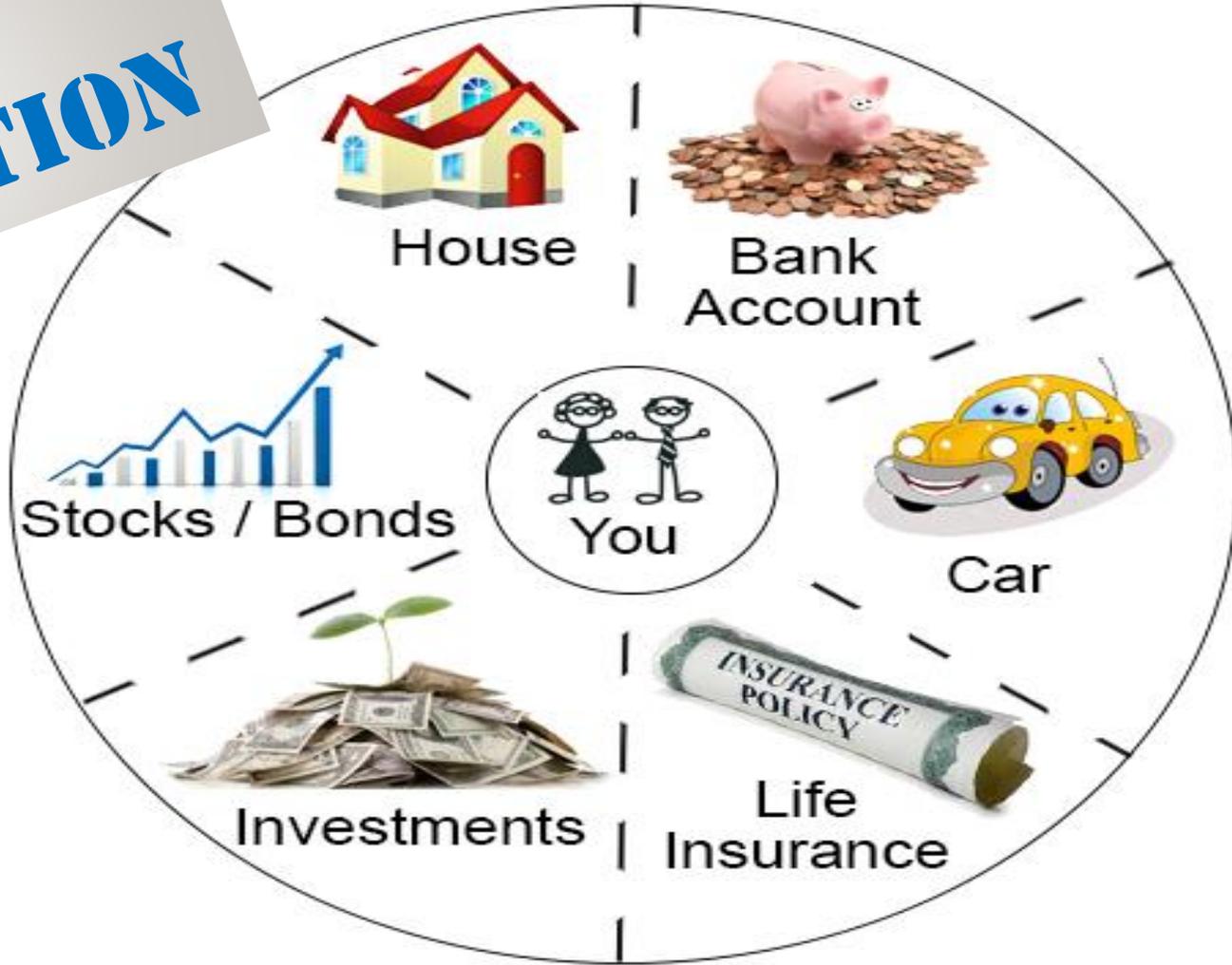
- Simple TIPS when applying for finance:
 - Make it easy to say “Yes”
 - Supporting financial and background information
 - 3 critical factors:
 - i. Equity
 - ii. Cashflow (EBITDA ratio)
 - iii. Person/Business History



FINANCING

- It's not ALL about the Rate:
 - Financier reputation and background
 - Flexibility (e.g. interest-only terms)
 - Avoid timing mismatches - match “like with like”
 - Guarantees/Security
 - Reporting Covenants
 - TOTAL Costs of finance – may be greater than you think

ASSET PROTECTION



ASSET PROTECTION

- WHAT?

- Strategies to guard your assets/wealth and insulate them from loss and the risk of creditor claims.



ASSET PROTECTION

- **WHY?**

- P**lan for the future

- R**etain what you've worked hard to obtain

- O**perational continuity and sustainability

- T**heft

- E**mployer obligations (under HSWA 2015)

- C**ontrol/countermeasure to reduce risk

- T**he Family

ASSET PROTECTION

- HOW?
 - Insurance
 - Trusts (i.e. separate business structure/s for asset ownership)
 - Relationship Property Agreements
 - Wills/Memorandum of Wishes
 - Enduring Powers of Attorney

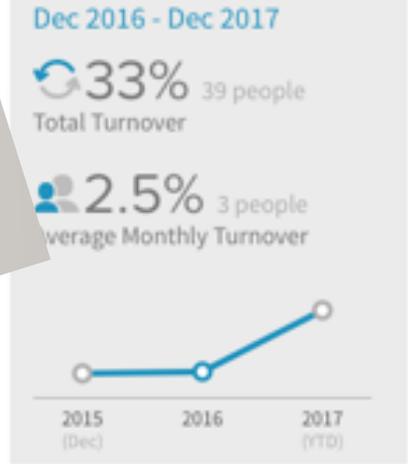
Employee Turnover

Dec 2016 - Dec 2017 All Employees Apply

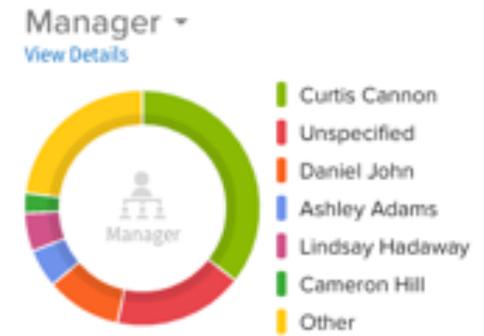
How's this calculated? More

Showing All

2016 2017

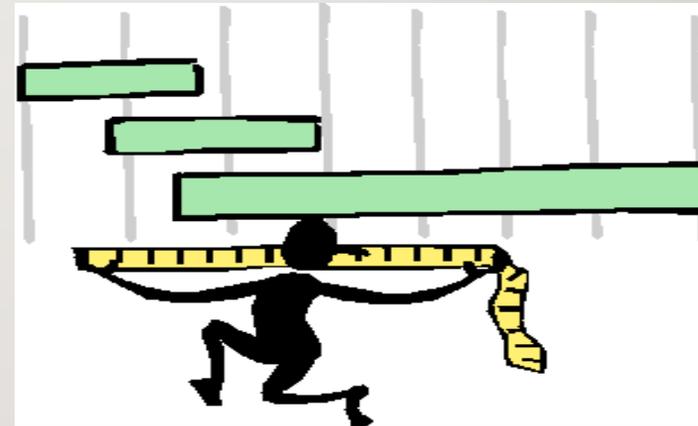


REPORTING & KPI'S



PRACTICAL REPORTING & KPI'S

- Practical Reporting
 - Relevant
 - Timely
 - Accurate
 - Cost Effective

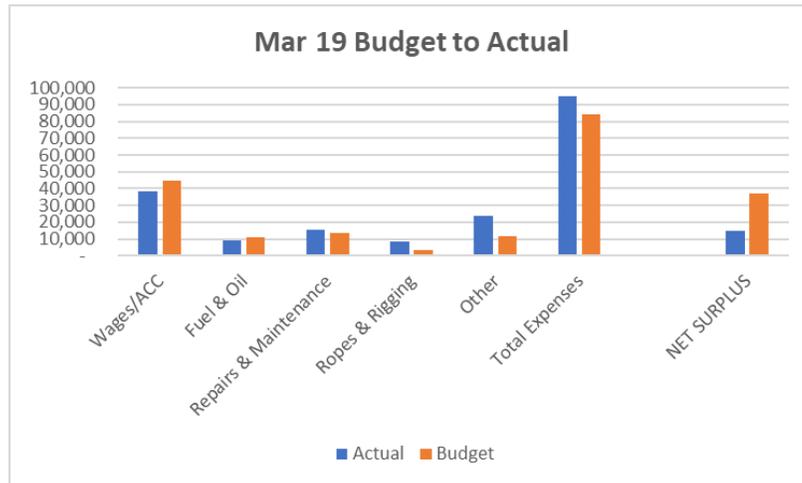
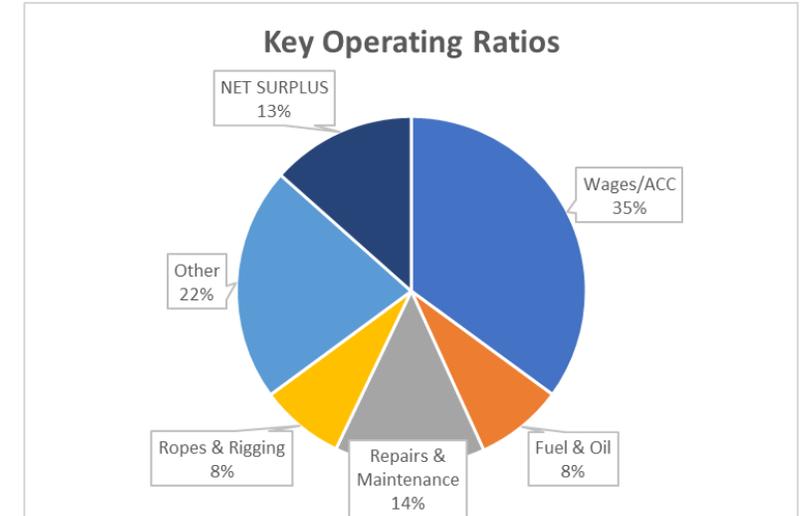


What you
Can measure
You can
Manage!

HOW-TO-LOG LIMITED

For the Month of March 2019

	ACTUAL		BUDGET		Increase/(Decrease)	
	\$	%	\$	%	\$	%
Income						
Contract Receipts	109,834	100%	120,764	100%	(10,930)	-9%
Total Income	109,834	100%	120,764	100%	(10,930)	-9%
Expenses						
Wages/ACC	38,517	35%	44,782	37%	(6,265)	-14%
Fuel & Oil	8,938	8%	10,686	9%	(1,748)	-16%
R&M	15,240	14%	13,632	11%	1,608	12%
Ropes & Rigging	8,578	8%	3,352	3%	5,226	156%
Other	23,823	22%	11,466	9%	12,357	108%
Total Expenses	95,096	87%	83,918	69%	11,178	245%
NET SURPLUS	14,738	13%	36,846	31%	(22,108)	-60%



PRACTICAL REPORTING & KPI'S

- Financial Reporting Systems
 - Suite of accounting software options available
 - Xero, MYOB, Reckon, Wave, ...etc
 - Choose a system that best suits your business
 - Consider all costs
 - Set-up is key
 - Talk with your accountant

PRACTICAL REPORTING & KPI'S

Key Performance Indicators

- Must be:
 - Relevant
 - Meaningful
 - Measurable
 - Realistic
 - Monitored



PRACTICAL REPORTING & KPI'S

Key Performance Indicators

- What are your KPI's?
- How do they compare to industry benchmarks?
- Benchmarking:
 - Industry specific
 - Regional
 - Operational

HARVESTING

Fuel & Oil	10% - 25%
Wages & ACC	25% - 40%
R&M	8% - 15%
Interest	6% - 10%
Debt Servicing	15% - 30%
Operating Profit	should be >30%

(Based on average norms)

N on

T axable

A llowances

NON TAXABLE ALLOWANCES

- What is a non taxable allowance?
 - › a reimbursement to an employee of an amount that an employer would otherwise have paid for work related expenses.
 - › employer can claim the NTA as an expense, while the amount is non-taxable to the employee.
- How much can be paid?
 - › there are no minimum or maximum limits (although not open slather).
 - › as much as an employer feels they can reasonably justify (i.e. arguably reasonable).

NON TAXABLE ALLOWANCES

- Why so topical?
 - Review by IRD in 2014
 - Review was the result of IRD concerns following several audits
 - Mark Blackburne extensively involved (at the time) in providing IRD expert advice
 - NTA's continue to be an area of focus for the IRD.
 - Increased IRD enforcement, action, and penalties.

NON TAXABLE ALLOWANCES

- Impact on the industry
 - › Historic pressures to minimise man day rates in costings.
 - › NTA's increased.
 - › Contractors exposed to potential IRD liability
 - › Subsequent reviews of NTA's resulted in increases to gross taxable wages
 - › Increases in gross pay magnified in man day rate due to multiplying effects of PAYE, holiday pay, Kiwisaver and sick pay.

NON TAXABLE ALLOWANCES

- Options for contractors
 - 1) Do nothing – highly exposed in new enforcement environment. IRD unsympathetic to those who have ignored warnings.
 - 2) Convert existing NTA to gross taxable income – consequent reduction in take-home pay.
 - 3) Reduce NTA & increase gross taxable wage to maintain take-home pay – direct additional cost to contractor.

NON TAXABLE ALLOWANCES

- Where to from here:
 - Review current NTA's being paid
 - Is the same level of NTA being paid to ALL employees?
 - Do you need to be paying less NTA and more taxable?
 - Does your costed day rate need review?
 - Contact us for assistance in your review of NTA's and to find out more about our wage calculator model.



‘CASHING UP’ HOLIDAYS

- When can an employee ‘cash up’ their holidays?
 - › by **employee written** request
 - › a **maximum of one week’s** annual leave **entitlement.**
 - › as an **employer** - consider the request within a reasonable timeframe and advise of your decision.
 - › **employer** does not have to agree to the request or give a reason as to decision.

‘CASHING UP’ HOLIDAYS

- How much can be ‘cashed up’?
 - › Section 28a of the Holidays Act 2003 allows for an employee to ‘cash up’ a portion of their annual leave **entitlement, of up to one week**.
 - › Total of requests can be for no more than **one week** over the entire year.
 - › Holidays can only be ‘cashed up’ from an employee’s annual leave **entitlement** and **not** annual leave **accrued**



SUCCESSION PLANNING

When do you 'get out' (and how)?

- Key questions to consider:
 - **When** do you want to exit your business?
 - **Who** will take the business over?
 - **What** will the exit value be?
 - **How** will the exit occur?
 - **Where** do you picture yourself at age 70?
- Succession planning is a long-term process so its important to plan ahead.

*You've worked hard.
Don't just give that away.
Get planning now and get
ready to 'get out'.*

Talk to us – we're keen to help.
Blackburne Group (0508) 376 0092

THANK YOU

THANK YOU for your attendance today

If we can assist you in any of the matters discussed, please give us a call:



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Mobile: 0273 730 910

Email: sonya@blackburnegroup.co.nz