

The Bulletin

December 2011



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The Overdrawn Current Account

A common and clever cash saving trick employed by many directors when they are facing cash issues is to stop taking a salary and record the money they take from the company as drawings. This idea is sometimes not the director's but rather that of their external accountant.

If the company is making a loss, taking drawings instead of a salary is a good idea as it reduces the amount of PAYE that the company has to pay to the IRD. If the company was making a profit this would have minimal cash effect because the company could expense the director's salary and reduce the corporate tax, whereas drawings are considered a loan to the company director and therefore not an expense.

Alas, not all companies experiencing cash pressure come out the other side unscathed. Some end in the hands of a liquidator and one of the first things liquidators do is look at the director's current account. If you thought that was the end of the story you would be mistaken. Does a company director who takes drawings and incurs a liability to the company, have to repay it if the company demands it?

When confronted, delinquent company directors have rushed to Court claiming the following defence. The director concedes that they took drawings and not a salary, but they claim they did work for the company so therefore were entitled to a salary and the company cannot have the money back. This defence has been upheld by the Courts and the leading case on this issue is *Shadbolt v Creative Concrete and Landscaping Limited*.

However, directors who run this defence need to be wary. Income is income. A tetchy liquidator who has been stymied in this way may elect to inform the Inland Revenue of the matter, and would be correct in doing so. A current account that has gone unpaid can be viewed by the Inland Revenue as income and tax should be paid on it.

Source : *Waterstone— Insolvency*

NLA Christmas Closure Dates

The office will be closed for the Christmas break from 1pm on Friday the 23rd of December and will reopen at 8.30am on Monday the 9th of January 2012.

The team at Naylor Lawrence & Associates would like to take this opportunity to wish you a very Merry Christmas and a Happy New Year.



Changes in your GST Period

If you are GST registered or have a GST registered company or trust currently on 6 monthly GST periods and change to 1 or 2 monthly GST or vice versa, it will affect the dates your provisional tax payments are due. As provisional tax dates are tied in with GST filing frequency you need to advise us immediately to make sure your provisional tax dates are updated in our system.

A six monthly GST filer is required to pay provisional tax in two instalments whereas a 1 or 2 monthly GST filer is required to pay 3 instalments. Penalties may be incurred if provisional tax is not paid by the due date.

Can you Rely on your Management Reporting?

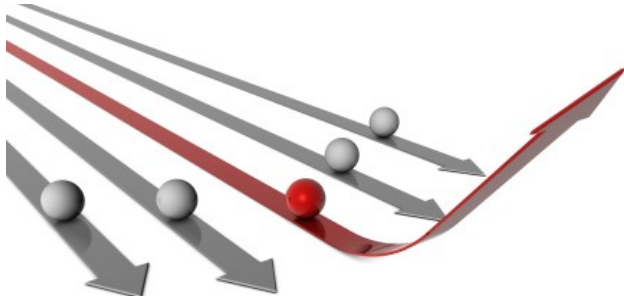
Businesses now commonly use financial software to produce regular reports as the basis for measuring profitability throughout the financial year. No longer is an annual set of financial statements prepared by your accountant sufficient to run your business.

Business administrators spend considerable time entering data into this financial software. However the information being produced is frequently inaccurate due to poor set up of the software and inadequate training. We regularly encounter:

- Administrators process the information but do not provide any reports to the owners.
- Initial set up is inadequate resulting in incorrect GST payments and profit reporting.
- Administrators are not trained to check the information before producing the reports.
- Inadequate liaison with the company's external accountant to ensure that costs such as loan interest and depreciation are accounted for each month.
- Business owners receiving little or no coaching on what the reports are telling them about their business.
- Administrators do not check the invoices processed to the suppliers statement therefore overpaying suppliers and incorrectly reporting the business profit.

Accountants spend up to 7 years training to prepare an accurate set of financial statements. The information you use to monitor your business is vital. Talk to your accountant about what your reports mean, what information you should be looking at and whether the information you are producing can be relied upon.

Source: Sudburys



KPI's

Key Performance Indicators are pieces of measurable data that breakdown aspects of the operational side of your business and are put in place in order to measure your performance.

These may include:

- Data surrounding how many staff you have and how 'productive' they are in terms of selling goods or services.
- How many clients or customers you have and how much each of these spends with you.
- Data surrounding cashflow and the collection of bad debts or even debts you may have to 'write off'.



Benchmarking

Benchmarking is vital when determining the performance of your business. Benchmarking compares your important KPI's to those of businesses with similar operations. You can then ask yourself:

- Are your operating costs as low as similar businesses?
- Is your debtor management plan working as effectively as those of your competitors?
- Is your staff productivity comparable?

IRD Mileage Rates

From the start of the 2011 tax year, the IRD mileage rate changed to 74c per km. The rate applies to all petrol and diesel fuelled vehicles regardless of their cc capacity. This does not include motor cycles.

Dannevirke Office

For training purposes, the Dannevirke office is closed on the 3rd Thursday of every month. We apologise for any inconvenience this may cause.