ACADEMIQUE

Student Study Support Materials

GLOSSARY OF FINANCIAL TERMS

Alienation of personal services income
This tax law affects the personal services income of some contractors and consultants. Income is personal services income if it is mainly a reward for an individual's personal efforts or skills. This applies regardless of whether the income is received directly by the individual or is received by a company, trust or partnership (personal services entity).

If the personal services income laws apply to you, your personal services income will be treated as your income and you must include it in your individual tax return.
For more information about this type of taxation, download the document 'Alienation of personal services income'.

Australian Business Numbers (ABNs)
You will need to obtain an Australian Business Number (ABN) for your business if you need to register it for any of the following.

- Tax File Number (TFN).
- Goods and Services Tax (GST).
- Pay As You Go (PAYG) Withholding.
- Fringe Benefits Tax (FBT).
- Wine Equalisation Tax (WET).
- Diesel Grants.
- Importations.

The Australian Business Number application form (New Tax System Application) can be obtained from the Australian Tax Office or your local newsagent. Your accountant should have access to paper and/or electronic applications. Alternatively, you can register for an ABN and any of the above through the Business Entry Point's public site or via the Australian Business Register's website.
Download the document 'Australian Business Numbers (ABNs)' for more information.

Balance day adjustments
When preparing the financial accounts at the end of the financial year the accountant will carry out adjustments to the accounts, which will ensure a closer matching of revenue and expenses for the period. It is very important that only revenue and expenses relevant to this period are included. These adjustments will differ depending on whether a cash basis or 'accruals', or earned basis is adopted by the business.
The following is a list of balance day adjustments which may be necessary.

- Inclusion of revenue earned but not yet received or recorded.
- Elimination of revenue received but which will not be earned until some future period.
- Inclusion of expenses incurred but not yet paid or recorded.
- Elimination of expenses already paid but which relate to a future period.
- Adjustment of cost of goods sold for the closing stock on hand.
- Depreciation of fixed assets.

Balance sheets
The financial statements prepared for most small businesses are the **balance sheet** and the **profit and loss statement**.

The balance sheet is also called a statement of financial position. A balance sheet is a financial 'snapshot' of your business at a given point in time. The balance sheet is presented as at 30 June 20XX, i.e. as at the end of the business financial period.
The balance sheet lists your assets and your liabilities. The difference between the two equals your owner's equity. By examining these three elements you are able to see where your business obtained its finance from and what that finance was used for. It also shows you how much of the profits have been retained in the business and how much your business is worth at any point in time.

Business expenses
Under tax law, a person carrying on a business can claim deductions for outgoings that are necessarily incurred in operating on their business to produce assessable income, provided these expenses are not of a private, domestic or capital nature, i.e. expenses of establishing, replacing, enlarging or improving the business structure. Capital expenses are not tax deductible, although some can be depreciated.

Business or hobby?
If your business is a new business you need to firstly determine whether the activity you are undertaking on amounts to a business or a hobby.
If you are running a business then, under income tax law, you can claim deductions for expenses that are necessary for the operation of your business. These expenses must not be of a private, domestic or capital nature. It also means that any income you receive from the activity is assessable income and any losses you make can be offset against other income you earn in that year or in future years.

Please note the new provisions of 'non-commercial losses' as they may affect whether you can offset business losses against other income in the current year. You may need to defer these losses to future years. It is recommended that you confirm with your accountant whether you may have 'non-commercial losses'.
If you are not running a business and your activity is a hobby then any money you earn from this activity is generally not assessable. It also means that you are not entitled to any allowable deductions for the expenses incurred in undertaking this hobby. If your activity results in a loss you are not allowed to offset this loss against any other income or carry the loss forward.

Business structures
When deciding to start a business you need to clarify many aspects of your business in your business plan.
You will also need to decide which type of legal structure is suitable for your business. This decision should be made with your accountant and/or solicitor.

The structure you choose will depend on your business needs and your budget. The final choice may have great consequences on the flexibility of your business operations, the tax requirements and tax liability of the business and the level of exposure to risk.
The most common business structures used by small businesses in Australia are:

- sole trader
- partnership
- trust
- company

Calculating working capital (Example 1)
Calculating available funds is done through collating the information about how much stock is purchased, when it is paid for by the business and when it will be sold and paid for by the customer. An example is as follows.

- A business purchases $5,000 worth of stock each month.
- On average the stock sits on the shelf for two months before it is sold.
- Stock is sold on 30 day credit terms.

Calculating working capital (Example 2)
If the business in Example 1 had the option of purchasing the stock on credit, say on 30 day terms, the operating cycle would be reduced to two months.

- A business purchases $5,000 worth of stock each month on credit **(terms 30 days)**.
- On average the stock sits on the shelf for two months before it is sold.
- Stock is sold on 30 day credit terms.

Calculating working capital (Example 3)
Let's look at a slightly different situation for the business in the previous examples. Let's extend the time the stock sits on the shelf to three months instead of two. Assume no supplier credit is available, and debtors take an extra month to pay.

- A business purchases $5,000 worth of stock each month.
- On average the stock sits on the shelf for **three months** before it is sold.
- Stock is sold on **60 day** credit terms.

Capital Gains Tax (CGT)

Capital Gains Tax (CGT) is a liability that arises most commonly from the disposal of a capital asset such as land and buildings, shares in a company or units in a unit trust, contractual rights, options, and so on. Generally there is no CGT on assets acquired before 20 September 1985.
Basically, a capital gain or capital loss is the difference between the sale proceeds you receive for an asset and its purchase price (adjusted for any capital improvement costs and incidental costs of buying and selling the asset).

Capital
There are two sources of funds (capital) available to the owners at the commencement of business. When the owners invest their own money in the business, it is called **equity capital**. If the owners borrow money from third parties, it is called **debt capital**.
Equity and debt capital are used to purchase assets for the business. Once the business is up and running there is a third source of capital - **retained profits.**

Cash
In the context of the cash flow cycle 'cash' includes cash on hand, e.g. notes, coins and bank deposits, cash equivalents such as bank and non-bank bills, short-term money market deposits and bank overdrafts.

Cashflow budget
The cash flow of a business is often said to be the lifeblood of the business. It is very important to know at any point in time the business cash position. An effective system of forward planning would ensure that the cash balance is enough to meet current and future financial requirements. If this is not the case the business might be forced to close, even if it is an otherwise profitable business.
The purpose of cash flow budgets is to help you and other interested parties (e.g. banks, creditors and investors) to assess the following.

- Your business ability to generate positive cash flows in the future. There is often a long time delay between the sale of an item and receipt of payment for the sale. A profitable company does not always mean a cash positive company.
- Your business' ability to meet its financial commitments as they fall due, including the servicing of debt and the payment of dividends. The goodwill and reputation of your business depends greatly on its ability to meet its financial commitments as they become due.
- Your business' ability to obtain external finance when necessary.
- Your business' ability to meet the interest expense and capital repayments of any external debt. It is desirable to plan so that the interest expense is minimised as much as possible.
- Your business' ability to fund changes in the scope and/or nature of its activities.

Cash flow budgets are also a guide for the owner of the business and for business managers. They help minimise waste and unnecessary expenditure and maximise the efficiency of the business.

What the cash flow budget shows:

Cash flow budgets help you to identify the times when the business will have cash surplus. You can then plan to use the cash more efficiently and avoid it lying idle in the bank.
If your business is seasonal in nature, cash flow budgeting will allow you to plan the even spread of cash flow throughout the year. You can save cash from those months in surplus, positive cash flow, to use when little trading is done and money is limited.

How often should you prepare a cash flow budget?
A cash flow budget is usually prepared on a month by month basis and should cover more than a period of three to six months in advance. A period longer than this will be difficult to estimate accurately.

Consequences of insufficient available funds
Insufficient available funds or under-capitalisation can mean the following.

- A possible need to get rid of stock at a lower price to obtain more cash.
- Missed opportunities to purchase stock offered at a discounted price.
- Not being able to afford the necessary materials or stock due to lack of cash.
- Not being able to replace plant and equipment when needed.
- Not being able to concentrate on the business direction and growth due to distractions caused by money problems.

Diesel grants

The On-road Scheme is a grant that is generally available to businesses for on-road use of diesel and certain alternative fuels, in vehicles with gross vehicle mass of 4.5 tonnes or more that are registered for use on public roads.
To register for the On-road Scheme you must:

- have an Australian Business Number (ABN)
- operate a vehicle of 4.5 tonnes or more that is registered for use on public roads
- use or propose to use diesel or alternative fuel (compressed natural gas, liquefied petroleum gas and ethanol) in the vehicle for the purpose of carrying on an
- .

To register for the scheme call the Diesel Fuel section of the Australian Tax Office's Diesel Fuel information line.

Employees and Tax File Numbers (TFNs)
If the business structure you have chosen is a trust, partnership or company you will need to obtain a separate TFN for the business. The TFN can be requested by completing the TFN section in the New Tax System registration form.
If your business structure is a sole trader, you do not need to request a separate Tax File Number for the business. Your can use your personal TFN for any dealing with the tax office or other government agencies.

An entity's TFN must be quoted on tax returns and all correspondence with the Tax Office.
All employees must quote their TFNs to employers on a TFN declaration form within 28 days of commencement of employment, otherwise tax will be deducted from salary and wages at the highest marginal rate of 48.5 percent (including Medicare Levy).

If your business is operating as a company and you are an employee of the company, you will also need to complete a Tax File Number Declaration form and remit it to the tax office. Completed Tax File Number Declarations must be sent to the Tax Office within 14 days of the declaration being made.
Your employees will need to complete a Withholding Declaration if they want you to account for their entitlements to Family Tax Benefits, zone, dependent spouse and special tax offsets by reducing the amounts withheld from their pay. The Withholding Declaration also includes information on:

- claims for general exemption
- residency status
- Higher Education Contribution Scheme (HECS).

Withholding Declarations are not sent to the Tax Office, but they need to be kept as part of the records of your employees.

If you are an employer, you need to be aware of the strict privacy rules associated with TFNs. It is important to keep these numbers in a secure place. There are very high penalties and the possibility of imprisonment for the unauthorised collecting, recording, use and disclosure of TFN information.
Environmental issues

The states' Environment Protection Authorities (EPA) has been working with businesses to encourage them to use cleaner production methods to minimise negative impacts on the environment. The benefits to these businesses include:

- reduced environmental impact
- improved efficiency
- financial savings

As an employer your business may operate in ways that require licences or permits to operate. The Business Licence Information Service provides easy access to information on the many licences, permits, approvals and registrations required by governments that your business may need to comply with.
The environment protection laws place certain industrial or commercial activities in one or more of the following categories.

Estimating cash inflows
The first step is to calculate the timing of cash receipts from credit sales. Based on the business' past experience, the following sums up the collection pattern of accounts receivables.

Collected in month following sale	60%
Collected in second month following sale	30%
Collected in third month following sale	10%

Estimating cash outflows
You need to estimate your cash outflows for the projected period. This will include operating expenses, cost of goods sold (stock and raw material purchases), major purchases and any external debt repayments. In addition to estimating your regular expenses such as wages/salaries, electricity, stationery and motor vehicle expenses you also need to estimate the cash outflow necessary to pay your accounts payable. Using an accounts payable ageing report should help you with this task, as would the examination of previous years' figures.
An accounts payable ageing report would list all your accounts payables, i.e. creditors. It then breaks these creditors up into amounts due in 30, 60 or 90 days.

If your business is a retail business or a manufacturing business it is important to estimate cost of goods sold as accurately as you can, as the largest cash outflows will be spent on cost of goods sold. Use your sales forecast to estimate cost of goods sold. In order to achieve a certain level of sales, your business will have to allow for a corresponding amount of cost of goods sold to support it. You can use prior year's figures to calculate the relationship between sales and cost of goods sold (express 'cost of goods sold' as a percentage of your sales).
If your business is new you may be able to get industry information for your type of business. This should be a starting point to estimate cost of goods sold.

Financial ratios
Financial ratios can help you to analyse and control stock and debtors.

- Stock turnover ratio
- Days' stock on hand ratio
- Debtors' turnover ratio
- Debtors to sales ratio

Financial stability ratios
To ensure the liquidity and long-term financial stability of your business you must monitor its liability to third parties. You should be able to assess if your business is able to meet its long-term commitments as they fall due. Is your long-term debt level appropriate for your business?

A business may be financed by a mix of internal funds (equity) and external funds (debt). This mix is called gearing or leverage. A highly geared business has a higher risk, as it needs to earn sufficient profits to meet interest and capital repayments.

Financial statements
The financial statements of the business are usually prepared at the end of the financial year by the accountant or by using an accounting software program. Many business owners simply take note of the bottom line and ignore other details.

Most business owners see these statements as a necessary evil of complying with taxation and legal requirements, but too complicated to be of any benefit to them.
Financial statements can be useful management tools once you know how to read and apply them. They can help you assess your business' past performance and also assist in identifying opportunities for the future.

Fringe Benefits Tax (FBT)
Fringe Benefits Tax (FBT) is a tax charged on some non-cash benefits supplied to employees or their associates (such as family members) in relation to their employment. It is a tax paid by the employer at a rate of 48.5%. FBT is calculated on the taxable value of the benefit provided for the FBT year, which starts on 1 April and finishes on the 30 March.

The following is a list of the most common Fringe Benefits provided by employers.

- Cars available for private use.
- Car parking.
- Payment or reimbursement of employee expenses.
- Loans with low or no interest.
- Meals, entertainment.
- Residential accommodation.
- Discounted free goods or property.

Items such as laptop computers and mobile phones are generally exempt from fringe benefits. However for some items, evidence may need to be provided to show they are primarily used for work purposes.
Employers must keep records of fringe benefits provided to employees. If the total of the taxable value of the fringe benefits provided to an employee in the Fringe Benefits Tax year is greater than $1,000 you need to report it in their PAYG Payments Summary. The employee does not have to pay income tax on the reportable fringe benefits.

Goods and Services Tax (GST)
The Goods and Services Tax (GST) is a broad based tax of 10% on most goods and services consumed in Australia. You must register for GST if you are carrying on an enterprise and your annual turnover is $50,000 or over. You may choose to register if your turnover is below the $50,000 threshold. Discuss with your accountant if there are any benefits to you for registering if you don't have to.
GST is paid at each step in the supply chain, with registered businesses including GST in the price of goods and services they supply. As registered businesses remit GST and claim input tax credits back, the cost of GST flows along the supply chain. It is finally included in the price paid by the consumer (who cannot claim input tax credits).

How much PAYG tax should you withhold?
You will be able to calculate the correct amount of PAYG to be withheld for each employee from the information given to you in their Tax File Number (TFN) declaration and/or withholding declaration. You can use the tax tables published by the tax office to ascertain the amounts to withhold from weekly, fortnightly or monthly wages.

Pay As You Go (PAYG) Withholding
If your business employs staff, you will need to register it for PAYG Withholding. It is your duty to collect this tax from your employees' wages and remit it to the tax office every tax period. If you are registered for Goods and Services Tax (GST) you would remit PAYG Withholding on the Business Activity Statement (BAS) on a monthly or quarterly basis. If your business is not registered for GST you will need to remit the withholdings on the Instalment Activity Statement (IAS). In this section we will refer to these statements as the Activity Statements.
You also need to register for PAYG Withholding if you make payments to businesses that do not quote you their Australian Business Number (ABN).

Remember that if your business operates as a company and if you are an employee of the company (which is most likely), you need to register for PAYG Withholding even if there are no other employees.
You can register for PAYG Withholding by completing a New Tax System application, which can be sent to the Tax Office in paper or electronic form.

Payment timing
The due date for paying amounts withheld to the Tax Office depends on whether you are a small, medium or large withholder. The Tax Office will advise you of the category that applies to you.

Payment summaries
You must give your employees payment summaries by 14 July after the end of the financial year. The payment summaries show total amounts paid to the employee and the PAYG Withholding Tax withheld from their wages. Employees need to include the payment summaries in their income tax returns.
You must also provide the Tax Office with a PAYG Income Tax Withheld Annual Report by 14 August after the end of each financial year. This report provides the Tax Office with information on the total amounts paid to employees for that year and the amount of PAYG Tax withheld.

Implementing your debt collection system
The amount of time you allow between the date when an account is due and the implementation of your debt collection system depends upon many factors such as:

- the size of the recoverable amount
- who the customer is

- how often the customer has been late paying bills

Luxury Car Tax (LCT)
Luxury Car Tax (LCT) is payable on all taxable supplies or taxable importations of luxury cars, unless the recipient of the car provides a quote in the prescribed form to the supplier or to the Australian Customs Service.
Generally, cars are subject to the tax if they have a GST inclusive value above the luxury car tax threshold ($57,009 for 2002 - 2003). The LCT is levied at 25%. In general, the tax is paid when a car is sold or imported at retail level.
If you have a liability for LCT, you report and pay this liability using your Business Activity Statement.

Managing your business cash flow
Having a healthy cash flow can mean the difference between the survival and collapse of your business. If you are able to meet your financial obligations, e.g. your creditors and pay your bills or loans, you will be able to stay in business.

In this topic you can find out how to calculate the cash flow you need to run your business successfully. You can try the 'Self test' at any time to test your knowledge of this topic.

Non-commercial losses
The Non-Commercial Losses rules say that you can only offset a business loss against other income if you meet certain conditions.

These rules apply to individuals running their business as sole traders or in partnership with others. Companies and trusts are not affected by these rules, neither are primary production or professional arts businesses that make less than $40,000 (excluding any a net Capital Gains Tax) in an income year from other sources. The rules do not apply to losses arising from passive investments in shares, rental property or infrastructure bonds.
Business losses can only be deducted from other income if the activity meets one or more of the following tests.

- It has assessable income of at least $20,000.
- It has made a profit in three out of the last five years.
- It uses real property (i.e. land and buildings) of at least $500,000, on a continuing basis.
- It uses other assets of at least $100,000 on a continuing basis.

Similar activities, carried out by an individual or partnership, can be grouped together for the non-commercial losses tests.

In certain circumstances you can ask the Tax office to exercise discretion to allow the loss to be deducted. For example, if the activity would have met one of the four tests except for special circumstances outside your control (i.e. floods or fire), or if the business has just started but because of its special nature has a lead time before it can reasonably be expected to make a profit or meet one of the tests.

Occupational health and safety
Work Cover is essentially insurance cover for all employees for injury, illness or aggravation of any injury or illness while at work, and is covered by separate legislation in each state and territory.

In Victoria for instance, employers whose estimated remuneration for the financial year is over $7,500 are required to insure for Work Cover. (Remuneration consists of gross wages and salaries as well as certain allowances, bonuses or fringe benefits that are paid to workers. It also includes all superannuation payments made on behalf of workers.) If total remuneration is $7,500 or less, a Work Cover policy is not required unless apprentices are employed, but workers are still covered by Work Cover in the event of an injury.

Consult your own state's Work Cover authority for the Regulations that apply to you. See the 'References' section for the Work Cover website for your state or territory.

Calculation of premium
The following are three key factors used to calculate your premium.
- Your total remuneration.
- The expected costs of any claims made by your workers.
- Your industry rate.

If you are a new employer, your premium will be calculated using the industry rate for your entire industry.

You must inform your Work Cover agent of your remuneration at least twice each year so that your premium can be calculated accurately.

If you don't have a policy because you are not required to (e.g. your business is in Victoria and your remuneration is $7,500 or less), you must register with Work Cover if any of your workers makes a claim.
Your Work Cover agent is the company with which you have chosen to insure. A list of Work cover agents is found on the Work Cover websites (see the 'References section').

Pay As You Go (PAYG) Instalments
Businesses, including companies and investors, would pay their income tax liabilities under the PAYG Instalments system. This tax system aims to match tax payments more closely with the timing of income earned.
Your PAYG instalments are usually paid quarterly, however, some taxpayers have the option of paying annually. The Tax Office will advise you if you have this option.

You do not register for the PAYG Instalments system. The **Tax Office must notify you** of your liability under this system. Once you are notified by the Tax Office of your PAYG instalments rate, you need to calculate your PAYG instalments payable, complete the Activity Statement and send it back to the Tax Office with any payments due. New businesses will generally not pay PAYG Instalments in the first year. They usually receive an instalment rate after they lodge their first income tax return.

You are still required to lodge an annual income tax return at the end of the income year. Any PAYG Instalments you have paid for the year will be credited to your assessment. You then make a payment of any additional tax owing, or receive a refund if you have overpaid your instalments.

Entities affected by the PAYG Instalments

The entities affected by PAYG Instalments are listed below.

- Individuals (sole traders and investors).
- Partners in a partnership.
- Beneficiaries.
- Trustees.
- Superannuation funds.
- Companies (and other entities taxed like companies).

Payment levels

To calculate the amount of PAYG Instalments payable you need to do the following calculation.
Instalment amount = Instalment rate (%) x instalment income ($)

Instalment rate - the percentage rate worked out by the Tax Office and pre-printed on your Activity Statement.

Instalment income - all your gross business and investment income before any deductions, but does not include GST that you charge.

If you are eligible you can choose to have the Tax Office work out your instalment amount. To use this method you simply fill in the instalment box on your Activity Statement with the pre-printed amount.
If you feel the instalment rate or instalment amount is too high or too low, you can vary it based on your own estimate. If your estimate is too low compared to your actual tax liability you may be liable to pay interest.

Profit and loss statements
The profit and loss statement is a list of all your business income less all business expenses, to arrive at a net profit or loss for the period. Your accountant will adjust your net income or loss figure to arrive at your taxable income in your income tax return.

The profit and loss statement is prepared at the end of the financial year by your accountant, but well organised businesses would prepare it at least on a quarterly basis. If you are using a computerised accounting system to record your financial data you should be able to request this report on a monthly basis.
Sales and expenses are broken down into categories relevant to the business owners' and managers' needs, and as dictated by taxation requirements. The categories would reflect the breakdown of the business' cash payments journal.

Fixed business assets
Make a list of the fixed assets of your business and their valuation. If you are not already in business make a list of the fixed assets you expect you will need to acquire. Keep this list for your budget planning and finance projections.

Insufficient working capital
Have you had experiences when running your business of not having enough funds to purchase stock or pay bills due to outstanding monies owed to you? Share with other learners your experiences and how you have resolved these difficulties in the past.

Cash cycle
Work out the average cash cycle for a product range in your business. You may find that the cash cycle varies a lot for different products. This will depend on stock turnover rates as well as the terms of purchase offered by yourself and your suppliers. If you do not already have a business in operation, find out the terms of purchase offered by your potential suppliers and work out the cash cycle based on different stock turnover rates. This will help you to decide on your own terms of sale and when you should expect payment to be made for your products or services.

Purposes of bookkeeping
What questions do you want to be able to answer through your bookkeeping activities? Make a list of the things you most want to be able to find out. Keep this list handy as you work through this competency to clarify which areas of study are most important to you.

Bank reconciliation statements
Prepare bank reconciliation for the last month of your business operation. If you do not already have a business, download the document 'Information for bank reconciliation statement' and use the cash receipts journal, cash payments journal and bank statement included in this document

Stock levels
Research the stock levels needed for your business. To do this you will need to find out the monthly turnover rate for individual stock items. Are there particular months when demand is high for some stock? Are there months when demand is low? Are there any external factors that would explain these differences?
Does any of your stock have to be ordered in amounts that are too large for the demand levels of your business? What is the cost to your business if you carry this excess stock?

Cash flow forecast
Draw up a business cash flow forecast for your own business. If you have access to Microsoft Excel, you may like to download the blank 'Business cash flow spread sheet' to use for your forecast.
Use your cash flow forecast to predict times when your business may be short of cash.

Work Cover
Do you need to insure for Work Cover?
If operating in Victoria, is your business remuneration over $7,500?
If your business is not in Victoria what is the rate of remuneration that requires you to insure with Work Cover in your state?

Awards
Find out about awards related to your staff or the staff you may need to employ in the future.
What are the minimum payment rates?
What other conditions do you need to comply with?
How do these award rates impact on your ability to employ staff?

Staff records
Draft a document that outlines the records you need to keep about your staff members. What information do you need and why?
Will you need to make provisions for privacy?
Where will you keep these records to ensure confidentiality?

Tax File Number
If you do not already have a Tax File Number apply for one at the Australian Tax Office. You will need this number for your income tax return and your business tax return if you are a sole trader.

If you already have a TFN, record it in your business records.

Withholding Declaration
If you have not already done so ask your employees to complete a withholding declaration as this may change their taxation requirements and the amount of taxation you must withhold and pay to the Tax Office on their behalf.
If you do not already have employees but are considering hiring staff in the future, obtain some withholding declarations and familiarise yourself with the changes to taxation related information given on these forms.

Tax tables
Obtain the tax tables relevant to payment levels in your business from the Tax Office.
Are you paying the correct amount of tax for your employees?
How much tax do you have to pay given your income level?

PAYG Instalments
Work out the PAYG Instalment for your business.
To calculate the amount of PAYG Instalments payable you need to do the following calculation.
Instalment amount = Instalment rate (%) x instalment income ($)
Instalment rate - the percentage rate worked out by the Tax Office and pre-printed on your Activity Statement.
Instalment income - all your gross business and investment income before any deductions, but does not include GST that you charge.

If you are eligible you can choose to have the Tax Office work out your instalment amount. To use this method you simply fill in the instalment box on your Activity Statement with the pre-printed amount.
Find out if you are eligible to have the Tax Office work out your instalment amount.

Ratio analysis
Business ratios are commonly used tools to assist with identifying trends and anomalies in your business. They must be considered and interpreted within the overall picture of the business, its activities, past performance and external industry standards.

Ratio analysis will help you to assess the following for your business.

- Profitability
- Liquidity
- Financial stability

Rules and regulations affecting business finances
Some rules and regulations impact on finances when operating a small business. In your business plan you will account for meeting legal requirements and the related expenses.
In this topic we will briefly look at financial implications of rules and regulations

Sales Forecasts
Will there be differences between your sales forecast and actual sales?
Your sales forecast will most likely not exactly match your actual sales; even if you take into account all of the known factors. There are also unknown factors and unforeseeable events which might affect your sales. These factors may include competitors' actions, world events and government policy changes.

Estimating sales
Part of estimating cash receipts involves the estimation of sales for the period. Sales of goods or services to your customers are likely to be the greatest source of cash inflows into the business. Cash sales are fairly straight forward as the cash is received immediately. Credit sales however require an estimate of the timing of cash receipts. This will depend on the business' credit terms, the type of customer and the credit and debtors collection policies.

Sales Forecast
The starting point for estimating your future sales should be your preceding year's sales, taking into consideration inflation, your marketing plan, the economy and any other factors which may affect your future sales.
A new business will need to prepare sales estimates based on market research and development already undertaken.

Besides sales receipts other cash inflows might include interest and dividends received, loans received and capital contributions.

Superannuation guarantee
As an employer, you have superannuation obligations to your staff. Generally speaking, the superannuation guarantee legislation says that you must provide superannuation contributions for your employees as a percentage of their earnings base. The percentage rate for 2002 - 2003 year is nine percent. Superannuation contributions must not be included in the payee's gross salary or wages on a payment summary.
Generally, an employee is an individual who receives payment in the form of salary or wages in return for their labour or services.

Your obligations when employing new staff:

Work out if your new employee is eligible for superannuation, and if they are then you should:

- set up a superannuation account for the new employee
- pay the minimum amount of superannuation

There are some types of employees you do not have to provide superannuation for. These categories are:

- employees paid less than $450 in a calendar month
- employees aged 70 years and over
- employees under 18 years of age working 30 hours or less per week
- employees paid to do work of a domestic or private nature for not more than 30 hours a week (e.g. a part-time nanny or housekeeper)

If you don't provide the correct amount of superannuation contributions, you will have to pay a tax called the Superannuation Guarantee Charge.
Superannuation contributions are most commonly made on a monthly basis. To meet the superannuation guarantee requirements these contributions must be made to a complying fund.

Tax File Numbers (TFNs)
A Tax File Number (TFN) is a number issued by the Australian Tax Office to all people when they start work for the first time or start receiving Government benefits or payments.

Each TFN is different for each person. If you do not have a TFN, you may pay more tax than you need to or you may not be able to get government benefits you are entitled to receive. Once you have a TFN, it stays with you forever - it does not change when you start a new job or change address.
You will need a TFN when you:

- start or change jobs
- put in a tax return
- open a bank account
- apply for government income assistance or support payments
- ask the Tax Office about your personal tax

Taxation requirements
Taxation requirements are an important and often complex part of operating a small business. You will need to make sure you have the records to support your taxation claims and payments.
In this topic there are several booklets you can download for detailed information. The information you need will vary from business to business and you may find that some of the information provided is not pertinent to your business.

The debtors' ageing report
The debtors aging report lists all overdue accounts and the length of time they are late (30 days, 60 days or 90 days). You may use this report to review any overdue accounts periodically and to follow up those that are 90 and 60 days overdue more vigorously.
Your computerised accounting system might be set up to produce this report upon request.
Other simple ways to improve your collection system and collection cycle include the following.

- Utilise a credit card system for customer payments.
- Send out invoices as soon as the goods or services have been supplied.
- Ask for up front payment of part of the bill, i.e. a retainer or bill on an interim basis if possible.
- Arrange to send orders and invoices before the end of the month.
- Sell on shorter terms (e.g. payment required in 14 days instead of 30 days).

- Be careful when selling to poor paying customers or those with financial difficulties.
- When contacting customers regarding overdue accounts you must be prepared with customer information, past payment history and for a possible request for extension of time.
- Telephone the client rather than writing to them.
- Specify the amount and the date the payment was required.

Tracking overdue accounts
If many of your customers are late in paying accounts you will need to devise an effective debtors' collection system and improve your collection cycle. This may involve the following steps.

- Put in place an effective system to identify when accounts become due and payable and to enable you to track who has paid their accounts and who hasn't.
- Keep track of how long an account is overdue.

Once you have designed your business debt collection system you must decide when you are going to start collecting your overdue accounts.

Uses of financial statements
Financial statements can help you to:

- Monitor your cashflow needs and identify finance requirements early
- identify unfavourable trends in your business operations so you can take the appropriate action
- monitor your business' financial health and key performance indicators
- assess your actual performance against projected budgets
- meet tax and other legal obligations

Wine Equalisation Tax (WET)
A Wine Equalisation Tax (WET) is a value based tax of 29%, levied at the wholesale level. It is paid on the value of the goods at the last wholesale sale or an equivalent value when there is no wholesale sale. This tax affects wine manufacturers, wholesalers and importers. They collect wine tax and remit it to the Tax Office. If you have a liability for wine tax, use your Business Activity Statement to report and pay this liability.

Working capital
To ensure the business' liquidity position remains healthy, you need to be able to control the funds available for the day to day activities of a business, such as paying wages, bills and suppliers.

This arises as an issue because of the way most businesses trade. It is common for a business to purchase stock on credit and need to pay for the stock within 30 days. The stock may not be sold immediately which means that you may not receive the money for the stock as quickly as you would like.

This is often referred to as an issue of 'working capital', though more accurately the problem is more of a cashflow issue relating to the **operating cycle**.
These three events form what we call the operating cycle.

- Purchasing trading stock.
- Having to pay for it.
- Receiving payment from debtors.

This operating cycle needs to be controlled so that funds are always available to meet day to day running expenses and owners' drawings. It is up to you to find out what operating cycle applies to your business and to try to keep it as short as possible. This is the case whether you are a retailer, wholesaler, manufacturer or a service provider. The shorter the operating cycle, the easier it is to control you cash and not incur bad debts from debtors. This also allows you to:

- take advantage of discounts for prompt payment
- pay less interest on overdrafts
- meet day to day payments

Being aware of the funds your business needs also helps you ensure you do not have too much in the way of available funds. Excess available funds means inefficient use of money which could be better used for:

- paying off debt
- investing to earn interest

- expanding the business

Two of the most important considerations when working out available funds are stock and debtors.
It is important that a business tries to minimise stock levels while still ensuring availability of goods for customers. This means available funds will be recovered quickly.

The same concept applies to debtors. Businesses must try to get their debtors to pay within the allowed time to keep outstanding debts to a minimum. If this occurs, funds will be available for other business activities.

Working from home
If you do work relating to your business at home you may be entitled to claim a deduction for some of the expenses relating to the area you use for business purposes. The tax deduction that you can claim depends on how you work at home. In general there are three ways that a person carries out work at their home.

1. Home is the principal place of business and a room is set aside exclusively for business activities.
2. You have a home work area - a room is set aside primarily or exclusively for business activities but the home is not the principal place of business.
3. You work at home but do not have a specific work area - the work is done in a living area or garage but the home is not the principal place of business and there is not a room set aside primarily or exclusively for business activities.

Workplace relations
The Workplace Relations Act has changed the Australian industrial relations system. You and your employees are now able to develop arrangements which are suited to your specific needs such as wages, working hours and the way in which your work is carried out. Terms and conditions of employment can be specified in awards, enterprise agreements or minimum entitlements.

Awards are documents which provide minimum legal terms and conditions for employees. To find out if your business (or its workers) is covered by an award you can contact your state government authority.

Enterprise agreements are documents which specify the terms and conditions at your particular workplace that are agreed on between you and your employees. The Australian Industrial Relations Commission is in place to assist in the making of agreements between you and your employees. It is also available to avoid and settle industrial disputes and to make possible equal conditions for work of equal value and to deal with claims.

The Workplace Relations Act has changed the Australian industrial relations system. You and your employees are now able to develop arrangements which are suited to your specific needs such as wages, working hours and the way in which your work is carried out. Terms and conditions of employment can be specified in awards, enterprise agreements or minimum entitlements.

Awards are documents which provide minimum legal terms and conditions for employees. To find out if your business (or its workers) is covered by an award you can contact your state government authority.

Enterprise agreements are documents which specify the terms and conditions at your particular workplace that are agreed on between you and your employees. The Australian Industrial Relations Commission is in place to assist in the making of agreements between you and your employees. It is also available to help avoid and settle industrial disputes and to make possible equal conditions for work of equal value and to deal with claims.

If your employees are not covered by any Federal awards or agreements you may make your own arrangements by agreement. There are however, a number of minimum conditions that still apply in each state. You can refer to your state government authority for these.

You are required to keep many records in relation to employment. For specific details download the document 'Employment records'.

Enterprise Resource Planning (ERP) Systems
Large, integrated, computer-based business transaction processing and reporting systems. ERP systems pull together all of the classic business functions such as accounting, finance, sales and operations into a single, tightly integrated package that uses a common database

Finance
A branch of economics concerned with resource allocation as well as resource management, acquisition and investment; deals with matters related to money and markets

Financial Accounting
Reporting of the financial position and performance of a firm through financial statements issued to external users on a periodic basis

Financial Control
In financial control the role of the centre is confined to setting financial targets, allocating resources, appraising performance and intervening to avert or correct poor performance

Formal Communication
Formal communication involves presenting information in a structured and consistent manner. Such information is normally created for a specific purpose, making it likely to be more comprehensive, accurate and relevant than information transmitted using information communication. An example of formal communication is an accounting statement.

Profit and Loss Account
A statement that sets the total revenues (sales) for a period against the expenses matched with those revenues to derive a profit or loss for the period

Annual Report
Document detailing the business activity of a company over the previous year, and containing the three main financial statements: Income Statement, Cash Flow Statement and Balance Sheet

References Websites

Australian Tax Office
www.ato.gov.au
Information about the new tax system
www.taxreform.ato.gov.au
Business entry point
www.business.gov.au
State workcover sites
www.workcover.vic.gov.au www.workcover.wa.gov.au www.workcover.nsw.gov.au www.workcover.com.au www.workcover.qld.gov.au www.workcover.act.gov.au www.workcover.tas.gov.au www.nt.gov.au
National Occupational Health and Safety Commission (NOHSC)
www.nohsc.gov.au
Environment Protection Authority
www.epa.vic.gov.au
Wages and conditions of employment
www.wagenet.gov.au
Human Rights and Equal Opportunity Commission
www.hreoc.gov.au
Australian Industrial Relations Commission
www.airc.gov.au
Access to the information and services of Australian federal, state and territory and local governments.
www.gov.au
Australian Business Register
www.abr.gov.au