



this issue

Cashflow Management **P.1**

SMSF Borrowing – Draft ATO Ruling **P.2**

Team Member Profile **P.3**

Cashflow Management

Justin McGrath – Director, Tax and Business Services Division

Cash is King when it comes to the financial management of any business. It is one of the most critical components for a small to medium sized business. Without appropriate cash flow management, profits are meaningless. It is a known fact that many 'profitable' businesses have ended up out of business because of their cash flow management.

Businesses that don't manage their cash flow effectively stand less chance of achieving future goals and end up borrowing money to function.

The most common sources of funding for businesses are:

1. Working Capital generated from trading activities
2. Secured Debt through financial institutions
3. Related or Unrelated investors
4. Government assistance through grants, tax concessions
5. Unsecured Creditors (including the ATO)
6. Unsecured Loans (usually family or friends)

If your business is relying on sources of funding from points 4 to 6, it is strongly recommended you seek assistance in evaluating your business performance and cash flow management techniques.

For business owners, it is difficult to effectively manage operations and the resulting cash flow if you are not able to measure performance.

Some valuable tools to assist in managing business cash flow include:

- Preparing an Annual Profit and Cash Flow Budget incorporating amongst other things projected income, expenses, taxes, debt repayments, equipment investments, personal drawings etc
- Average Debtor Days – understanding the average number of days your customers make payment
- Average Stock Turnover – understanding the number of days to convert your stock into cash
- Break-Even position – understanding the level of cash inflows required to meet all cash outflows
- Personal Cash Needs - understand level of cash required from the business to meet owner's lifestyle
- Benchmarking – comparing business performance against like business in your industry

Common mistakes which impact Cashflow within a business include:

- Lack of future planning in areas such as financial management, technology, human resources etc
- Inappropriate debt and asset structuring
- Poor management of working capital such as Debtor Collections, Stock Turnover

Whether through an Annual Budget or measuring performance against Industry Benchmarking, it is vitally important every business has the financial management systems in place to measure and manage its cash flow.

It is like the old adage 'a business which fails to plan, plans to fail'.

Please contact Justin McGrath on (03) 5244 6814 or justinm@davidsons.com.au to discuss how the Davidsons Business Services Team can assist you in relation to cash flow management and business performance measurement.

SMSF Borrowing – Draft ATO Ruling

Simon Abbott – Senior Accountant, Superannuation Division

The Australian Taxation Office (ATO) has recently provided clarification on the legislation that allows Self Managed Superannuation Funds (SMSFs) to borrow to acquire property.

The ATO's release of SMSFR 2011/D1 expands on key concepts of the legislation as follows:

Borrowing to purchase a "single acquirable asset".

The legislation outlines that a borrowing arrangement may only be entered into by a SMSF to acquire a "single acquirable asset". Multiple borrowing arrangements are required should more than one "single" asset be acquired.

Previously it was the understanding you could not have a borrowing arrangement over a property that had multiple titles. The ruling clarifies the ATO's position on the importance of considering both the legal form and substance of the asset particularly where it can be clearly identified that the asset is a single asset (ie a building over multiple titles).

Improvements to property

Prior to the ATO's latest draft ruling, there was little scope for SMSFs to improve a property that was acquired under a borrowing arrangement.

However the ATO have since clarified their position and have confirmed that a property can be improved so long as borrowings are not used to finance the improvements. The improvements would need to be funded with existing cash reserves and/or contributions.

Further to the above, borrowings can only be drawn down to pay for expenses incurred in maintaining or repairing an acquirable asset (and not to improve the asset). The ruling further explains the concepts of maintain, repair and improving an asset.

Changing the character of a property (replacing)

Whilst there is now scope to improve properties acquired under a borrowing arrangement, SMSF trustees need to be careful to ensure that any improvements do not inherently change the character of the property to cause it to become a "replacement asset".

Should the property become a "replacement asset", the borrowing exception will cease to apply. If the borrowing continues to be maintained, a contravention of the SIS Act will have occurred and be reported by the fund's auditor to the ATO.

The draft ruling provides guidance in the form of certain scenarios on what constitutes an improvement and what constitutes a replacement asset (ie a residential property that is rezoned and renovated into a commercial property is considered a replacement asset).

Whilst the ATO has provided guidance on the key areas above, the borrowing provisions are still very much in their infancy and it is very important that SMSF trustees obtain the necessary advice if they intend to rely on these provisions to acquire property inside their SMSF.

Do you have a SMSF that is looking at acquiring a property via a borrowing arrangement?

Do you have an existing borrowing arrangement in place that you would like reviewed in light of the ATO's latest draft ruling?

Our specialised superannuation team at Davidsons can assist you with your borrowing enquires. Please contact Kylie McClure on (03) 5244 6890 or kmclure@davidsons.com.au.



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Team: Private Wealth Services

Background

"A local Geelong boy, I graduated from Deakin University in early 2007 equipped with a Bachelor of Commerce degree (with majors in Accounting and Finance) and secured a role in a medium sized accounting firm in Melbourne, where I worked in tax and business services for 3 years. Eager to get back to Geelong, my fiancé and I decided to relocate in late 2009 where I secured a position in the Superannuation Division at Davidsons and obtained my CA qualification."

Current Role

"My current role is mainly compliance, and involves doing all the necessary legwork needed to prepare financial statements, tax returns and business activity statements for our superannuation fund clients."

What do you most enjoy about what you do?

"Working in a specialised high performance team that challenges each other every day and assisting clients to achieve favourable outcomes that exceed their expectations."

After 5.00 PM

"An avid sports fan you will either find me in the R J Hickey Stand on the weekends supporting the mighty CATS or keeping a close eye on the world of motorsport, particularly Mark Webber in his Red Bull Racing Formula 1 machine."

SAVE THE DATE

Superannuation Seminar – November 2011

Is a Self Managed Superannuation Fund Right for You?

Thursday 17th November 2011

6.30pm - 7.45pm

Captains Room, Geelong Football Club

Followed by end of year light refreshments and finger food

Tuesday 22nd November 2011

6.30pm - 7.45pm

Davidsons South Melbourne

Level 1, 26 Thomson St, South Melbourne 3205

Followed by end of year light refreshments and finger food

To reserve your seat

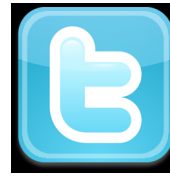
RSVP to Lesley on

03 5244 6820 or lesleyw@davidsons.com.au

by Monday 14th November 2011

Please feel free to bring along interested friends or business associates.

Davidsons is now on Facebook and Twitter



Or click on the links below

www.facebook.com.au/DavidsonsAccountants

www.twitter.DavidsonsAccts



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