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CASH FLOW IS VITAL FOR SMALL BUSINESS SURVIVAL

Our Services

We are a complete accounting, investment and business services firm. This provides you with the comfort of knowing that all your needs can be met by McCormack Reynolds.

We tailor growth and development strategies for our clients. The practical and diverse experience of our team means that we can provide expert and timely advice in the complex fields of:

- Estate Planning
- Financial Functions Outsourcing
- Growth and Profit Solutions
- Investment Services
- Management Reporting
- Self Managed Super Funds
- Statutory Accounting
- Taxation

MAINTAINING A HEALTHY CASH FLOW IS ESSENTIAL TO A SUCCESSFUL BUSINESS. ONE OF THE MAIN REASONS THAT SMALL BUSINESSES FAIL IS THEIR INABILITY TO MEET THEIR FINANCIAL OBLIGATIONS WHEN THEY ARE DUE, SIMPLY BECAUSE THEY RUN OUT OF CASH.

Cash cycles through the business, from sales, to debtors, cash in the bank, then purchases create creditors and cash flows from the bank. A healthy flow of cash can decrease the amount of capital required and increase profitability by reducing interest expenses. It can also help generate income on surplus funds so the business can expand and grow.

Why cash flow management is so important

While failure to generate profits is critical to a business, it is only one cause of business failure. Profits don't guarantee positive cash flow.

The immediate continued operation of a business is at risk of insolvency if it does not have the cash to finance working capital needs. Measuring the movement of money in and out of your business allows you to monitor your position and set in place strategies to deal with shortages and surpluses.

Timing of cash inflows and outflows is the basis of cash flow management. That is, making sure there are sufficient funds to pay essential payments such as wages and salaries, suppliers' payments and taxes when they fall due.

Yet, surprisingly many small businesses don't have a cash flow plan, or if they do prepare one, it is rarely updated to reflect changing circumstances.

Improving cash management

Generally, cash flow can be improved by cutting costs, increasing turnover or by speeding up cash inflows and delaying outflows.

Some examples of ways to improve your business' performance include:

- Look for ways to increase the number of customers, the frequency of their visits, the value of their purchases;
- Review costs, but be wary of cutting costs that may have a negative impact on the future of the business such as investment in staff, marketing or technology that will leave your business behind your competitors;

Continued overleaf

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WITH YOU EVERY STEP OF THE WAY

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(Continued from cover page)

- **Cash from sales:**
Ensure cash is flowing into the business as efficiently as possible by reviewing processes, send bills out quickly, shorten the collection period and bank money promptly;
- **Credit policy and debt collection:**
Screen credit customers carefully, set realistic credit limits and follow up on outstanding accounts quickly to reduce delays receiving payments;
- **Paying bills:**
Use trade credit where it is available as this amounts to a short-term interest-free loan and work out the value of discounts for prompt payment;
- **Alternative credit:**
Use credit cards for business purchases (as long as they are paid on time, this can be an effective form of credit);
- **Progress payments:**
If you are providing a service over a period of time, negotiate a payment schedule that gives progress payments during the job rather than just a lump sum at the end;
- **Buyers' terms:**
Check out the terms and conditions of payment before taking on a big job to ensure you will receive the cash when you expect you will;
- **Inventory control:**
Buy smaller quantities, if possible, or introduce just-in-time inventory strategies where the supplier holds stock until it is needed;
- **Capital purchases:**
Ensure you finance your purchases appropriately and don't use short term funds for a major asset.



Getting the most out of your surplus

The other side of cash flow management deals with how you handle your surpluses. Cash surpluses should be put to work, by either investing the surplus or using it to repay debt.

It is usually a good policy to repay debt before considering alternatives, as debt usually attracts a higher interest rate than investments. However, this decision should be considered in the context of future cash needs and business strategies. As your business grows, so does your need for cash. You can use internally generated funds to expand and reduce interest charges.

Cash flow planning

A cash flow budget is a projection of your business' cash inflows and outflows over a period of time. Preparing a cash flow budget:

- Provides early warnings of potential cash shortages so corrective action can be taken quickly
- Identifies if additional funds will be needed
- Assists in preparing requests to financiers for additional funding by demonstrating that the business can meet repayments
- Identifies potential surpluses that can be invested to generate additional income.

Your cash flow budget should be prepared on a month-to-month basis.

Unlike business plans and operating budgets, which are a mix of forecasting and goal setting, cash projections are strictly forecasts although they are usually based on past experiences. The purpose is to anticipate cash needs, not to set targets for performance. These should be conservative, as the impact of a cash crisis can be severe. Update forecasts if they become outdated.

Accounting for your tax obligations

Every business should ensure its cash management strategies take account of tax obligations. If you use cash accounting for GST, the impact on cash flow will be minimal. However, businesses using accrual accounting may be required to pay GST before they have received the money, therefore they need careful planning.

Businesses should plan to retain sufficient cash to pay the tax office when commitments fall due. With PAYG they can plan for tax instalments and manage their cash flow. Putting cash into a separate account to cover all tax commitments may be a wise move, as some businesses have failed through poor management of their tax obligations. At the very least, failure to pay tax, including GST, on time may result in penalties.

If you would like assistance with any cash flow issues, such as cash flow planning and/or cash flow management, please do not hesitate to ring either Tim McCormack or Ben Reynolds.

Source: CPA Australia

CLIENT PROFILE

MR SPORTS

For those clients of McCormack Reynolds who are interested in sport, you may not be aware of a specialist area of McCormack Reynolds – MR Sports, which is run by Ben Reynolds and Tom Carr and services the needs of professional sports people in SA, across Australia and overseas.

A particular interest for Ben Reynolds is his professional specialisation in advising sports people. Ben has gained a strong reputation amongst professionals in the sports industry throughout Australia. Ben advises over 30 high profile sports people, including Olympic athletes, several Australian and Sheffield Shield cricketers and AFL footballers.

Tom Carr played with the Port Adelaide Football Club in the AFL and subsequently, in the SANFL, played 158 senior games with the Port Adelaide Magpies Football Club where he held leadership positions and played in two winning Grand Finals. He was recently made a Life Member of the Port Adelaide Football Club.

With their background and interest in sport, Ben and Tom have established a professional, sports related network with other finance and law specialists. They examine Australian and International tax rulings and their implications towards Australians competing nationally and internationally as well as those athletes from overseas competing in Australia. Ben regularly liaises with the AFL Players' Association as well as Cricket Australia.

If you know of someone who is working towards a professional sporting career and may appreciate the need for specialist accounting and taxation advice, please inform them that we would be delighted to assist them. An initial meeting with Ben and Tom is free of obligation.

Introducing Russell Jeavons

JUSTIN HOGAN'S INTERVIEW WITH RUSSELL JEAVONS PROVED TO BE A VERY INTERESTING AND INFORMATIVE AFTERNOON. UNLESS YOU'VE BEEN LIVING OVERSEAS FOR THE PAST 17 YEARS, YOU HAVE NO EXCUSE FOR NOT KNOWING OF RUSSELL, WHO IS THE CREATOR OF RUSSELL'S PIZZA, AN ICONIC SOUTH AUSTRALIAN RESTAURANT IN THE BEAUTIFUL TOWN OF WILLUNGA ON THE FLEURIEU PENINSULA.

Much has been written about the restaurant; it creates beautiful, wholesome and fresh food; the wonderful setting; the character filled 1850's cottage restored by Russell himself and, most importantly, about Russell and the impact he has made on his customers. Russell has also left a lasting impression on those 25,000 people who have bought and read his famous book, *"Your Brick Oven – building it and baking in it"* (2004 - available from all good bookshops).

Though never having met Russell until this interview, I have been a customer of Russell's, bought his book and, more importantly, actually went and built a brick oven with the help of a great friend of mine. It was hard work but every day I look at it, I think of the great pleasure it has given me, my family and friends. Thank you Russell. As Russell told me and I agreed, it is not a book about how to build ovens but how to connect to people and possibilities.

Russell grew up at Lake's Entrance, his father being a professional fisherman. Russell talks about his first plate of quality flathead as an infant and how that sent him on his quality approach to the culture of food. Even as a young child he showed interest in food as well as the sourcing of food, whether it was catching a fish or finding the best and freshest ingredients.

Even while I was interviewing Russell he introduced me to a local Willunga woman who *"knows where all the best food is available on the Fleurieu Peninsula"*.

His visible excitement at the sight of her bringing in the very finest fruit and vegetables was testament to his belief in quality.

Russell became a professional fisherman like his father but after he witnessed the continuous mutiny of his fellow sailors being disgruntled with their cooks, he always ended up doing the cooking on the boats himself. His love of the sea has continued as he now spends considerable time fishing in St Vincent's Gulf especially around Kangaroo Island where the waters are clean and the fish in great condition.

Russell settled in the Fleurieu Peninsula as he realised the importance of the association between wine and the culture of food.

When talking about business Russell refers passionately to a time several years ago when he realised he needed to make a full commitment to both his business and his team. Russell told his team that he was 100% committed to the business, to his team and that he would never abandon the standards of the business. *"It is a commitment to fresh, wholesome food which is our self reference, our reason to be. Our customers should leave the restaurant feeling strong and healthy and revived. It is not just about the food. We are just a stage for whatever the people are celebrating in their lives. We are about raising the level of satisfaction and enjoyment in people's lives."*



"We are about raising the level of satisfaction and enjoyment in people's lives."

His leadership and his belief in shared responsibility has instilled in his team the confidence to continue maintaining the highest standards of obtaining food and delivering beautiful food. Since that time, it has allowed Russell to pursue other interests and get a better balance in his life. Russell quotes author Ernesto Sirroli about what it takes to run a business - you make the product, you sell the product, and you keep the accounts beautifully. But you cannot do all three! On that point, Russell kindly said that Tim McCormack and Matt Carlaw of McCormack Reynolds *"always make things clear and never confuse me. After meeting with them I always feel stronger and clearer in what I need to do. They actually enjoy interacting with their clients and our relationship is completely equal."*

To book a table can, at times, be a difficult pursuit, as Russell's Pizza is one of the most popular restaurants in the entire country. Word of mouth is Russell's only source of advertising. Quality is indeed a shining light.

Russell's Pizza can be found at 13 High Street, Willunga. Open Friday and Saturday evenings 6pm to Midnight. Booking can be made by phoning 8556 2571 on Wednesday to Saturday 1pm to 5pm.

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Disclaimer:

The McCormack Reynolds Update Newsletter is published quarterly to provide information of general interest to their clients. The content of this newsletter does not constitute specific advice.

Please contact your accountant at McCormack Reynolds for advice on specific matters.

DUNCAN CHESSELL CLIMBS ANTARCTICA'S HIGHEST MOUNTAIN

ADELAIDE ADVENTURER DUNCAN CHESSELL, WHO HAS BEEN A CLIENT OF MCCORMACK REYNOLDS SINCE 2003, HAS JUST RETURNED FROM LEADING HIS FIFTH EXPEDITION TO ANTARCTICA. THIS TIME HE LED A GROUP OF EIGHT CLIMBERS ON WHAT CAN ONLY BE DESCRIBED AS THE ADVENTURE OF A LIFETIME TO CLIMB ANTARCTICA'S MT VINSON AT 4,897M.

Duncan's group not only climbed Mt Vinson but ascended a new route on the north eastern side of the peak, a side of the mountain never before climbed!

The team also ascended two other peaks which had never been climbed before, including one peak without a name.

The expedition took 30 days over December and January. Temperatures were as cold as -30°C and strong winds forced the team to barricade themselves in to their tents for six days over Christmas. Overall they encountered mostly good weather, excellent skiing conditions and had a lot of fun.



In 2006 - 07 McCormack Reynolds was a sponsor of Duncan's Sea to Summit expedition in Antarctica which climbed Mt Vinson from the ocean via a 400km journey through the Elsworth mountain range, another world first.

In late 2010 Duncan will return to Antarctica to complete the Shackleton / Scott route to the South Pole and back again. It will be the Centenary of the first party to reach the South Pole in 1910 - 11.

Duncan Chessell Expeditions (DCXP) operates adventures worldwide to places such as Kokoda, the Himalayas and Antarctica as well as local corporate "fun" days.

Contact DCXP on 8232 4433.



PEOPLE POWER

Welcome Amanda Carruthers (photo top right) who comes to us with great experience from the recruitment and training industry. Amanda ably supports our accountants with her fine administration and organisational skills and has been a wonderful addition to the McCormack Reynolds team.

Another new addition to the McCormack Reynolds team is **Justin Hogan** (photo middle right) who has had extensive experience in marketing and business development in the motor and finance industries.

New Office Telephone Number

Please note that we have changed our telephone number from 8267 4977 to **8161 1000**. The old number is still active for a little while yet but please start using the the new number as soon as possible.

Ian Luong, a friend of McCormack Reynolds, was recently holidaying in China. While visiting the Great Wall, Ian took this photo, wearing the ubiquitous McCormack Reynolds polo shirt. We thought it was such a great photo that we were wondering if any of our readers were traveling to some exotic and interesting location we would give you a McCormack Reynolds shirt to wear for the photo.



It is a bit like "borrowing" the neighbour's gnome and sending back photos of the gnome in various places around the world but without carrying the excess baggage!

If you would like a shirt to take on your travels please let us know. We are currently ordering some new shirts in expectation of the flood of interest.