

# UHY HAINES NORTON NEWSLETTER

AUGUST / SEPTEMBER 2018



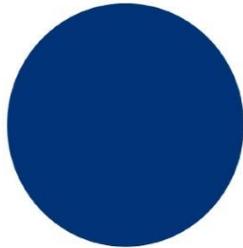
## The Beginner's Guide to Profit and Loss statements



*... How to use your profit & loss statement to  
understand and improve your business' profitability*

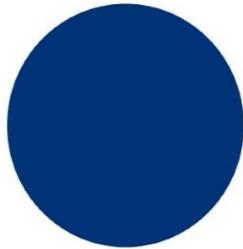
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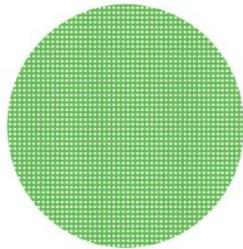
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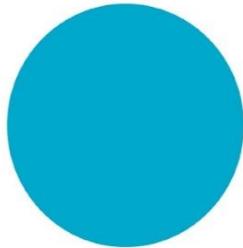
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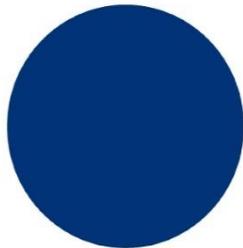
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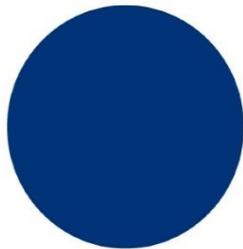


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## The Beginner's Guide To Profit And Loss Statements

Although you may think of your year-end financial statements as an annual exercise to keep the IRD happy, your statements are actually a valuable resource showing how your business is performing financially. They give you the opportunity to compare financial performance from the previous year and look at ways to improve future performance.

Profit and loss statements are an itemised picture of a business' income and expenditure and are used to determine its profitability.

### Income – Expenses = Net Profit/(Loss) Before Tax

	2017 \$	2016 \$
<b>Sales</b>	<b>200,000</b>	<b>180,000</b>
<i>Less Cost of Sales</i>		
Raw Materials	80,000	72,000
Freight	5,000	2,500
<b>Total Cost of Sales</b>	<b>85,000</b>	<b>74,500</b>
<b>GROSS PROFIT</b>	<b>115,000</b>	<b>105,500</b>
<i>Less Expenses</i>		
Wages	40,000	37,000
ACC Levies	500	500
Accounting Fees	900	900
Donations	100	75
Entertainment	250	200
Electricity	2,200	1,800
Insurance	1,200	1,000
Protective Clothing	250	300
Rent	15,000	14,000
Subscriptions	125	125
Depreciation	12,000	11,500
Telephone	3,000	2,000
<b>Total Expenses</b>	<b>75,525</b>	<b>69,400</b>
<b>NET PROFIT/(LOSS)</b>	<b>39,475</b>	<b>36,100</b>

### Understanding Your Profit and Loss Statement (P&L)

- The P&L summarises the results of a business by matching the revenue earned during a given time period with the expense incurred in earning that revenue resulting in a net profit or loss.
- The P&L is accrual based, not cash based. This means that it includes all revenue made and expenses incurred during that period, whether they have actually been received/paid or not.
- Revenue can be classed as either:
  - Operating revenue – income earned from activities directly related to the core activities of the business; or
  - Non-operating revenue – revenue earned from activities which are incidental to the business, for example profits from investments or the sale of assets.
- Expenses can generally be classified into the following:

- Cost of sales (or cost of goods sold) or direct costs – these are the costs incurred in acquiring goods for resale or in manufacturing goods for sale. Examples include stock, raw materials and freight.
  - Non-operating expenses or fixed costs (overhead expenses) – these are all of the other costs associated with running the business. Examples might include selling and distribution costs such as advertising, commissions and salespeople, administration costs such as accounting fees, telephone expenses, rent and rates, and financial expenses such as interest and bank fees.
- The P&L does not include any loans or loan principal repayments. It does include interest on loans as this is an (non-operating) expense.

## How To Use the P&L

### Gross Profit

Calculated by dividing the gross profit figure by sales (as a percentage), your gross profit margin reflects the percentage of each dollar of revenue that is left after accounting for the cost of sales. Gross profit margins vary by industry, and it is useful to compare your figure with industry averages to see if you are overpricing or under-pricing compared to your competitors.

As we explained, the costs/expenses are separated into two categories: direct costs (cost of sales) and non-operating expenses (overheads). This is important because direct costs are variable, i.e. they vary depending on your sales. Higher sales equals higher cost of goods. Reviewing your gross profit – and comparing it to the previous year – tells you about your business' profitability. For example, if your business involves freight and fuel prices rise significantly you are likely to see an increase in the cost of goods compared to sales, resulting in a lower gross profit margin. You could then look at ways to address this such as raising your prices to compensate for the higher fuel costs.

### Expenses To Sales Ratio

Non-operating expenses are largely fixed costs incurred with the general running of your business, and it is useful to calculate these as a percentage of sales. Assuming your non-operating expenses remain fairly consistent, any increase in sales can result in increased net profit, and likewise any drop in sales will reduce your net profit. The non-operating expenses should also be examined every year to identify any major increases and give you the opportunity to make reductions. For example, if your mobile phone costs have increased significantly you could look at alternative packages or suppliers for a better deal. Or if your postage costs have risen sharply you could email out all invoices and statements instead of posting them.

### Other Ratios

You can use P&L statements to calculate other useful ratios and determine whether these are increasing or decreasing in proportion to changes in sales. For example, calculating marketing expenses as a percentage of sales is an indication of how effective your marketing strategies are from one year to the next. The ratio of wages to sales can tell you if wages are changing disproportionately compared to sales, and gives you the opportunity to delve deeper into this area.

Please [contact us](#) if you have any questions regarding your P&L and how you can use it to understand and improve your business' profitability. For more information on understanding your financial statements, see our previous article "[The Beginner's Guide To Understanding Your Balance Sheet](#)".

## Making Your Business Worth More Without You

“My customers will be with me until the day I die.” “My business is my identity.” “My business is my superannuation.” Sound familiar? It’s called ‘key person reliance’ and can actually be detrimental to your business. A business that relies heavily on its owner is not as valuable as a business that is not reliant on its owner. Many business owners don’t understand how reducing or minimizing the risks of key person reliance can significantly improve the value of their business.



Compare the following valuation scenario of the same business when key person reliance is reduced or minimised:

	Business - Key Person Reliant	Same Business - <u>Not</u> Key Person Reliant
Business Profit	\$200,000	\$200,000
Business Capitalisation Rate	3.05	3.5
Business Value	\$610,000	\$700,000
Value Improvement		\$90,000
Improvement %		14.75%

Buyers will pay a higher price for a business that can be easily integrated into their current business or smoothly transitioned to a new owner. They will want some comfort that the business’ key customers and staff will stay with the business once the current owner departs.

What can you do to reduce or minimise the risks of key person reliance? There are many different business and risk management strategies business owners can implement.

- **Business Systems:** introduce systems into your business. For example, a good quality inventory management system will reduce reliance on the owner’s product and services knowledge.
- **Client Relationship Management:** establish customer relationship management protocols so staff can manage key customer relationships.
- **Management Succession:** invest in the professional development of your key staff so they can eventually share in part ownership (succession planning) of the business.
- **Risk Management:** the very nature of some businesses means it is difficult, if not impossible, to reduce or remove key person reliance. In these cases business insurance is considered to be an effective risk management strategy.

A good place to start assessing the impact of key person reliance on your business is with a business valuation. Here at UHY Haines Norton we have the knowledge and expertise to provide advice on key person reliance, business valuations, and business and risk management strategies to reduce, remove or minimise the risk of key person reliance.

UHY Haines Norton Director [Kerry Tizard](#) specialises in helping business owners to increase the value of their business. To find out more please contact Kerry on (09) 839-0300 or email [kerryt@uhyhn.co.nz](mailto:kerryt@uhyhn.co.nz).



## What Is The Difference Between An Accountant And A Chartered Accountant?

You may notice that our practice is called “UHY Haines Norton Chartered Accountants”, not “UHY Haines Norton Accountants”. Here at UHY



Haines Norton there are a total of 26 chartered accountants on our staff – that’s over 2/3 of our professional staff! But what does “Chartered Accountants” mean and what’s the difference between that and a regular accountant?

You may be surprised to learn that in New Zealand you do not require any qualification or training to work as and call yourself an accountant. In stark contrast, however, the bar is set high for becoming a chartered accountant (CA) these days. Fundamentally you must go through a demanding professional competence program followed by a strict period of practical experience assessment. All-in-all it takes a total of seven years of solid study and hard work to become a chartered accountant. The CA is a professional and internationally recognised brand which has significant history and credibility in the market place.

Chartered accountants are bound by professional ethics to observe the rules and the code of conduct as established by the [Chartered Accountants Australia and New Zealand \(CAANZ\)](#) institute. At the core these rules are established for the protection of clients. Following the code of conduct ensures that clients can have complete peace of mind when it comes to obtaining professional advice. A chartered accountant belonging to a professional body like CAANZ must behave professionally, be honest, have integrity, exercise due care and skill, and uphold all matters to the highest level of confidentiality for their clients.

On an annual basis CAs must complete continuing education courses, follow the strict quality control requirements of CAANZ and stay up-to-date with the current laws and regulations.

CAs who hold public practicing certificates – i.e. who can actively provide clients with accounting advice - must ensure they are compliant with the strict quality requirements which involves a review of the practitioners’ work on a regular basis. This is an educative way of ensuring that the CA is adequately trained and providing the appropriate level of advice to various parties.

It is also compulsory for all chartered accountants to carry professional indemnity insurance. Not only does the insurance protect the CA and their firm, it also protects the clients in the event of a claim.

Belonging to a professional body also assists the CA to obtain the right amount of competence and support at various levels. These include mentorships and training, development of technical expertise in various areas, and provides a reputable backbone to the entire brand.

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Doing business with a chartered accountant means that you are dealing with someone who:

- Is professionally trained and qualified;
- Will follow the rules and regulations;
- Provides the appropriate advice;
- Provides peace of mind in the form of professional indemnity insurance;
- Will be accountable as a qualified professional; and
- Operates from a professional brand.

Here at UHY Haines Norton we value our “Chartered Accountants” status very highly. We have complete confidence in the advice and service we provide, so our clients can have complete confidence in us.

## Being A Contractor

Being a self-employed contractor presents its own unique benefits and challenges. You can elect to work under your own name as a sole trader, or set yourself up as a company.

### Benefits Of Being A Contractor

- As a contractor you are essentially your own boss, and have control over how, when (and sometimes where) to do your work.
- Setting your own pay rate. Some contractors find they can earn more than they could in a salaried job. Your hourly rate should be realistic while covering all of your expenses.
- Contractors can enjoy the freedom they have to make their own decisions about how to run their business, such as management and investment decisions. You can hire other people to work with or for you without needing agreement from anyone else.
- You choose the standard or quality of work you perform.
- You are free to choose when, and for how long, to take holidays.



### Challenges Of Being A Contractor

- Your income can be irregular as you may not be able to control gaps between contracts. Managing cash flow and budgeting is an essential skill that contractors should master. You may need to regularly look for new work well before your current contract has been completed to minimise the gaps between contracts.
- As a contractor, you are responsible for providing the equipment or assets you need to carry out your job, which can require capital investment either from your own private funds or securing finance. You are also responsible for any training and licensing requirements.
- With the freedom to make your own decisions also comes the responsibility for losses the business incurs or poor management.
- Contractors don't get paid sick leave. A certain number of unpaid sick days (e.g. 5) should be incorporated in your budget. Likewise, contractors are not paid for public holidays not worked. New Zealand has 10 national public holidays plus one anniversary day per province every year, which should also be incorporated in your annual budget if you do not work those days.

### Your Obligations As A Contractor

As a self-employed contractor you do not have to pay PAYE tax on your income because you are not an employee. Some earnings may be subject to tax on schedular payments. You are responsible for meeting your own tax obligations, including filing IR3 income tax returns, declaring all income (including cash jobs) and registering and accounting for GST if your income exceeds \$60,000 per year. As your accountant we can help you to navigate your GST, income tax and provisional tax obligations, as well as setting budgets and cash flow forecasting to ensure your business stays on track.

Contractors are not automatically enrolled in a KiwiSaver retirement savings scheme, so you will need to set that up (or an alternative retirement scheme) yourself.

Please [contact us](#) if you would like to discuss any of the information in this article about being a contractor and how it may apply to your situation.

# Payday Filing

Payday filing became optional for employers on 1<sup>st</sup> April 2018, and it will be compulsory from 1<sup>st</sup> April 2019. Payday filing means filing your employment information on/after each payday instead of filing an Employer Monthly Schedule (IR348) every month.



## Key Points

- The due dates for your PAYE payments and methods of payment do not change – only the filing of employment information is changing. You will still need to complete and file an Employer Deductions Form (IR345) and make your payment every month.
- Payday filing cancels out the need to complete and submit the Employer Monthly Schedule (IR348).
- If your business' PAYE/ESCT amounts to \$50,000 or more per year you must file electronically from 1<sup>st</sup> April 2019. If your business' PAYE/ESCT is less than \$50,000 per year you have the choice of payday filing on paper from 1<sup>st</sup> April 2019.
- Begin payday filing from the beginning of a month as your final IR348 must cover a full month.
- Payday filing requires you to file your employment information within two working days of paying your staff, or within 10 working days from 1<sup>st</sup> April 2019 if you choose to file on paper.
- You will need to provide IRD with details for new employees and departing employees. These include the employees' start dates, addresses and dates of birth, and must be supplied to IRD before a new employee's first payday. These details are not required for existing employees.
- If you pay different employees at different times, for example some weekly and some monthly, you will still need to file the employment information within two working days of paying them. This means filing within two working days of the weekly payday and within two working days of the monthly payday.

## Electronic Payday Filing Options

There are three different options for electronic payday filing:

1. Direct from your accounting software if this function is supported by the software. You elect to use payday filing within the software. There is no need to opt in to payday filing within your myIR account.
2. Opt in to payday filing within your myIR account, which creates a Payroll returns account in the 'My Business' section where you can upload your payroll information. Again, this function needs to be supported by your accounting software.
3. Opt in to payday filing within your myIR account (onscreen filing), which creates a Payroll returns account in the 'My Business' section where you can enter your payroll information into. Onscreen filing is similar to the current process for filing your Employer Monthly Schedule (IR348). This is suited to smaller pay runs.

Please [contact us](#) if you have questions regarding payday filing and how it applies to your business.

## Succession Planning For Farmers

Is your will your farm succession plan? Unfortunately for many privately-owned farming enterprises, the preparation of their wills is their only attempt to address family succession. According to recent research, only 50% of farming enterprises have started to discuss succession, let alone prepared an effective succession plan.

We all know succession is a complex and emotive issue, often easier to ignore than to address. Yet it is becoming increasingly more of a critical issue for farming enterprises with the record numbers of baby boomers retiring, the growth in farm land values, volatile pay-outs and the rise in the number of relationship breakdowns. The easiest option, i.e. the preparation of a will, becomes the 'default' option. The consequences can be heart breaking for families.



There are many barriers to effective farm succession planning including:

- Parents finding it difficult to let go of control
- A changed focus of the ageing parents to asset protection rather than growth
- A lack of planning and implementation of their children's management and business
- Skills in the changing industry of farming
- Valuation disputes
- Difficulties in organising successor funding free of guarantees
- Family members choosing other careers and therefore a lack of obvious successor

An important initial step for farming families is to assess how prepared you are for succession by considering these questions:

- Are you willing to eventually transfer control of the farm business?
- Have you determined when you will retire from active control of the farm?
- Have you experienced a "succession event", either positive or negative?
- Do you have any reservations about your potential successor and/or their spouse?
- Do you consider the family successor suitably qualified to manage the farm business?

To protect your family's future, the future of your farming operation, and have peace of mind, now is the time to start developing your succession plan. Talking to an outside consultant such as your accountant, lawyer, financial planner or bank can really help you to consider all of your options objectively.

If no suitable successor exists within the family there may be alternative ways to pass on the family farm. One option may be to set up a governance board that your family can be members of even if they are not interested in actively taking over management of the farm. Corporate-style farming structures – particularly for dairy farms – are growing in popularity where successors can be brought in as shareholders. This can help farmers who may not have family successors to team up with people who are lacking in equity but have a desire to manage and one day own a farm.

*UHY Haines Norton Director **Mark Foster** is a specialist in Farm Accounting. If you would like to discuss succession planning or any other aspect of Farm Accounting, please contact Mark at [markf@uhyhn.co.nz](mailto:markf@uhyhn.co.nz) or phone (09) 420 7957.*

## Taxing Matters

*A summary of the latest tax changes and news relating to individuals and businesses.*

- Employers should be aware of the perils of not making the payment due on the Employer Monthly Schedule in time. If you file your EMS (IR348) but don't make the payment you may incur a non-payment penalty in addition to late payment penalties and interest. The penalty is calculated as 10% of the amount outstanding, and a further 10% penalty is added each month that the amount remains outstanding.
- On 28<sup>th</sup> June the bill was introduced in Parliament to simplify the tax obligations for individuals who only earn employment or investment income. It effectively removes the need for approximately 750,000 New Zealanders to file a personal tax summary in order to get their tax refund. IRD will now automatically work out the amount of refund or tax to pay for those individuals.
- Individuals aged over 65 years' old are now permitted to join KiwiSaver as a provider of low cost managed funds. Employers are not required to contribute for over-65s but can do so voluntarily.
- IRD now have a decision tree to help taxpayers decide if their property transactions are taxable or not. Find it here: <https://www.ird.govt.nz/calculators/keyword/property/property-tax-decision-tree.html>. For simple cases this can be helpful, however, for more complex situations where people are land dealers/developers or associated with land dealers/developers, we recommend seeking advice from your tax advisor.
- Business.govt.nz has developed the [Choose Business Structure](#) online tool for helping people to understand and select the best structure for their business. It can also be useful for existing businesses to ensure they have the right structure because as a business evolves its structure might need to evolve with it. Again, we recommend that appropriate advice be obtained from your accountant. Structuring is a multi-faceted exercise involving more than just New Zealand tax laws.
- The kilometre rates for the 2017/2018 income year for the business running of motor vehicles are:
  1. Tier one – 76 cents for all vehicle types. Tier one is a combination of the vehicle's fixed and running costs and applies for the business portion of the first 14,000kms travelled that year.
  2. Tier two – 26 cents for petrol or diesel vehicles, 18 cents for petrol hybrid vehicles and 9 cents for electric vehicles. Tier two includes only the running costs and applies to the business portion of travel over 14,000kms that year.
- The deemed rate of return for foreign investment fund income for the 2017/2018 income year is 6.44% (up from the previous rate of 6.28%).
- On 1<sup>st</sup> July 2019, new legislation requiring landlords to insulate their rental properties comes into effect. The insulation must meet specified standards and be fitted in the ceilings and under the floors. Penalties of up to \$4,000 could be incurred for noncompliance.
- Employment New Zealand is now on Facebook for sharing information, tools and resources for both employers and employees. Visit them here: <https://www.facebook.com/EmploymentNZ>
- Immigration New Zealand has helpful information, tools and a video, "Immigration Basics for Employers", all designed to help employers navigate the immigration process. Find them here: <https://www.immigration.govt.nz/employ-migrants/immigration-basics-for-employers>



## Client News: Supreme Sikh Society

*UHY Haines Norton are proud to have the opportunity to work with a large number of not for profit clients. These organisations operating in the not for profit sector work extremely hard and accomplish some incredible achievements. Here we share with you the story of one of these clients, **Supreme Sikh Society of New Zealand**.*

UHY Haines Norton audit clients **Supreme Sikh Society of New Zealand** was established in 1982 and has more than 500 financial members and 2,000 non-financial members. The Society's Sikh gurdwaras are located in Takanini – which is the largest gurdwara in New Zealand - and Otahuhu, and have a completely open-door policy.

From their gurdwaras in Takanini and Otahuhu, Supreme Sikh Society work incredibly hard to give back to the community they call home, providing constant assistance on a major scale. The Society provides free food to around 5,000 people every week, 52 weeks per year. Most of this is during weekends, where they service approximately 3,000 locals from throughout the community with lunches and dinners. Afterwards the leftovers are packed up and distributed to the homeless. To undertake this massive task the Society has a team of female volunteers who start at five o'clock in the morning every day. But that level of commitment to serve the South Auckland community is not uncommon among these gurdwara members.

The Society provides free cultural education to 420 students on a yearly basis and runs a fully-fledged school on their premises. Last year, with the help of the Healthy Families organisation and the Auckland Teaching Gardens Trust, they planted 80 fruit trees and developed a communal garden for their neighbourhood. During Matariki they planted an additional 4,000 seedlings of different fruits and vegetables on their 11 acre property.

The gurdwara operates off the grid, running completely on solar energy and two water bores. Now the Auckland Council are planning to make it a community hub in the event of a disaster. "They have so many facilities that would make their gurdwara and their land a place of safety for local community to gather in a time of emergency," said Melanie Hutton, who is the Senior Resilience and Welfare Advisor from the Council's emergency management department.

"We're very keen to support them in that role for being that place of safety," she added. "It's been a really precious and rare experience to have a place within a community have so many aspects of resilience embedded in their place, like the water, the photovoltaic, the gardens, the kitchen, the open hearted generosity."

Plans are now underway to build seven sports fields on the grounds, including South Auckland's very first hockey turf.

The Society's spokesperson Daljit Singh said connecting with their community has made their Sikh members feel proud to be New Zealanders. "Our generation came here but after that our kids were born here so they feel different to what we felt when we first came here," he said.

"We had a barrier because of the language, those of us who came from India and hardly spoke English back then. It was hard and people didn't understand us in the beginning. But this generation they feel there's no difference between other New Zealanders and them," said Daljit. "So they actually feel very honoured to be a Sikh in this country, having a freedom of voice, freedom of culture, freedom of religion and mixing more with other communities than just us."



UHY Haines Norton's Audit team are proud to act as auditors to Supreme Sikh Society of New Zealand.

### **How Can UHY Haines Norton Help?**

The not for profit and charity sector have very specific financial reporting requirements and standards. Our auditors are specialists in conducting not for profit audits and reviews to meet those specific legal requirements, ensuring Supreme Sikh Society and every other organisation has complete peace of mind in meeting their compliance obligations. We successfully navigate the entire audit, review and filing process for not for profit and charity organisations of all sizes, enabling them to concentrate on running their organisation.

*To learn more about how we can help with your not for profit audit requirements, please contact Audit Director [Bhavin Sanghavi](mailto:bhavins@uhyhn.co.nz) on (09) 839-0248 or email [bhavins@uhyhn.co.nz](mailto:bhavins@uhyhn.co.nz).*

## UHY Asia-Pacific Conference 2018

UHY Haines Norton (Auckland) Ltd Audit and Assurance Director [Sungesh Singh](#) shares his experiences of attending the UHY International Asia-Pacific Conference held in Malaysia recently.

The UHY Asia-Pacific Conference was held in Kuala Lumpur this year. The weather was warm and the food was absolutely fantastic! The theme for the conference this year was “driving revenue”. This was particularly interesting in the Asia-Pacific region as it allowed me to learn a lot more about what our other network firms do in Asia – and there was definitely a lot to learn.

Impressively our UHY firm in Bangladesh is the leading firm servicing the banking industry, and our UHY Kuala Lumpur office is doing a lot of work assisting clients in their initial public offerings (IPOs). Our Shanghai firm is also active in the listed space and there were several niche offerings coming out of various other parts of Asia. The key was trying to understand ways of referring to each other and how to break down the communication barriers.

Our Malaysia firm celebrated their 10<sup>th</sup> year as members of the UHY network and the event was celebrated in grand style. I almost felt like an Indian James Bond as I entered the Majestic Hotel and was greeted by the UHY Kuala Lumpur super stars. These stars are the upcoming staff at the Malaysia office and they performed a passionate dance act on stage. They wanted James Bond to perform on stage but remember he doesn't do that - he waltzes!

I think for me this year cemented an already strong group of relationships, and I feel very comfortable with referring to and working with our UHY network firms in Asia. The size of our network and the way we collaborate allows me to know most of the Partners in the Asia-Pacific region on a first-name basis, which in turn helps with the ease of doing business across regions.



## Staff News: August/September 2018

Congratulations to **Erin Gibson** who has been promoted to Manager of our Helensville office. Erin has been a Senior Accountant in our Kumeu team for almost three years.

Our busy audit department has welcomed back **Sanjana Govind** as a part-time auditor. Sanjana was a valuable member of the audit team several years ago before leaving to start her family, and we are glad to welcome her back.

Farewell to our Bookkeeper **Carol Rewaga** who has resigned and we wish her all the best for the future.

Congratulations to Accountant **Lorraine Agraval's** son and daughter-in-law who have been recognised in the 2018 Westpac Auckland Business Awards – South-East. Rick and Lisa Agraval's business "[The Meat Box Ltd](#)", an online butcher that delivers export-quality meat to your door, is a finalist in the 'Best Emerging Business' category. We wish them the best of luck for the gala award dinner on 17<sup>th</sup> October.

