UHY Haines Norton
Chartered Accountants

Newsletter

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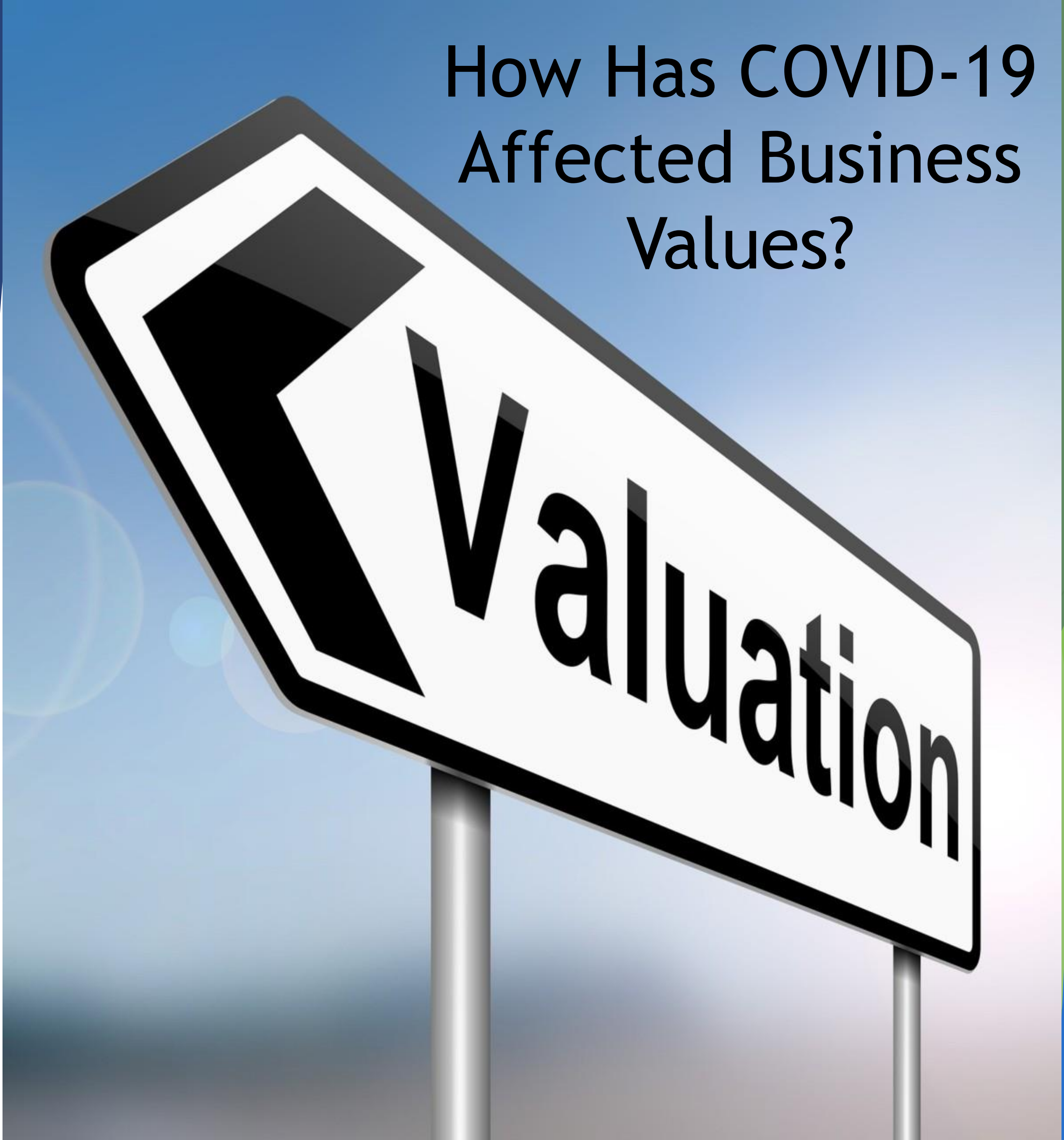
How Has COVID-19 Affected Business Values?



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How Has COVID-19 Affected Business Values?

While as individuals COVID-19 has challenged many of us physically, mentally, financially and spiritually, for business owners the challenge of merely staying in business continues to be an ongoing battle. The impact on the travel and hospitality industries has been particularly devastating, and the overwhelming majority of businesses have had to evolve at least to some extent to continue trading. So what does this mean when it comes to the value of a business in this economy? How has the impact of COVID-19 affected business values in New Zealand?

Redefining Business Value

To a certain extent, traditional business value drivers have evolved to those more relevant to operating successfully during (and beyond) the pandemic.

Long term survival strategies are more important to business value than ever before. Those businesses who have continued to operate successfully during 2020 and position themselves for a prosperous long term future will add substantial value to their business. For some this may involve developing multiple survival scenarios and forecasts to ensure as many contingencies as possible are in place.

Many of our clients have innovated aspects of their organisation to pursue online and digitisation strategies. They have also implemented permanent improvements such as diversifying their supply base. This is all positive for the value of the business.

Staff retention is also an increasingly important value factor. Those businesses who are able to retain their staff not just by using government assistance packages but because they have adapted and diversified their operations are clearly demonstrating they can “roll with the punches”.

Forecasting And Cash Flow Management

Historically business valuations have used Statutory Accounts as a starting point, and although this is still the case, COVID-19 is causing a shift in emphasis. Management accounts and financial forecasts which show how a business has coped in 2020 and how it is anticipating the future will play a greater role in valuations.

Although many small businesses do not use forecasts, they are an important financial tool. Updated financial forecasts – reviewed regularly – are now essential for establishing the business as a going concern. For example, a positive forecast is more relevant in a business valuation than a temporary drop in revenue.

We have always emphasized the importance of good cash flow management, and healthy cash flow contributes to overall business value. With lockdowns, the restrictions of different Alert Levels and the COVID-19 recession, cash flow management has become paramount. Poor cash flow management is not only a threat to day-to-day operations but it highlights weaknesses that devalue the business. Business owners and managers who have used the crisis to their advantage by focusing on improving their cash flow management and forecasting are both strengthening their financial management and positively affecting the value of their business.

UHY Haines Norton Director and Business Valuer Kerry Tizard works with business buyers and sellers across all industries. To find out more about the effect of COVID-19 on your business value, please contact Kerry on (09) 839-0300 or email kerryt@uhyhn.co.nz.

IRD Begins Wage Subsidy Audits

The government's three wage subsidy support packages (Wage Subsidy, Wage Subsidy Extension and Resurgence Wage Subsidy) are now all officially closed for application. Altogether over $13 billion was paid out to 750,000 applications, one-third of which were to self-employed individuals. Although they may have been developed in haste and short on initial detail, there's no denying that the schemes were an invaluable lifeline for businesses and their employees in unprecedented times.

Audit Focus

The schemes were presented as being 'high trust' models, with eligibility criteria that was both expanded on and tweaked along the way. Now the IRD have announced that they are beginning to audit businesses who applied for the schemes to check their eligibility and ensure the funds were applied as they should have been.

In particular, the IRD are likely to be checking that:

- The funds were, in fact, paid through to employees.
- PAYE was correctly applied and paid.
- The business did meet the various eligibility criteria, such as the specified drop in revenue.
- Treatment of the funds for income tax purposes depending on whether the recipient was an employer or self-employed individual.

Repayment Of The Wage Subsidy

The topic of repaying the wage subsidy has been in the media spotlight. Opinions on whether various businesses have or have not repaid the subsidy, or should or shouldn't repay it, have been widely bandied about. Those companies who have decided to repay the subsidy when it eventuated that they didn't need it to retain staff have certainly fared well in the media. It has been a very effective PR exercise that has boosted brands and reputations.

Has there been a flip side to repaying the wage subsidy? Certainly not from the public's point of view, but possibly for the stakeholders. Those responsible for the governance of an organisation usually have duties imposed upon them in their governing documents and we wonder whether some decisions to repay may be in breach? If an organisation is considering making repayment, those charged with governance should consider what the governing documents say about how the legally acquired resources can be used.

How Can Audits Improve Performance?

Mention the word 'audit' and the most common reaction is usually trepidation and anxiety. Even when it's a standard annual compliance audit, it's hard not to worry about having auditors going through your financials with their proverbial fine-toothed combs and asking uncomfortable questions. But an audit can and should be a positive process that gives you confidence in your business finances. So in addition to keeping your organisation compliant, how can audits improve performance?

1. **Peace of Mind**. The main aim of any audit is to ensure that the shareholders have been provided with the peace of mind that they so desire. The focus of an audit is mainly to identify any issues that would affect the current and future capital that the shareholders have invested in the organisation.

2. **Strengthen Weaknesses**. Many organisations are not aware of existing weaknesses in their internal processes. An audit of financial statements provides in-depth analysis of systems and processes, and therefore is extremely effective at highlighting inefficiencies and weaknesses. Audits catch errors and recommend changes the business can make to reduce risk and vulnerability. This not only applies to current weaknesses but also serves to recognise potential future concerns. Examples of risks which can be identified and minimised include fraud, employee error, health and safety issues, loss of key employees, IT system failure and loss of suppliers.

3. **Identify Opportunities.** Audits identify opportunities to improve business performance as they highlight procedures that could be performed more efficiently. The systems and processes put in place by management are evaluated within the audit process, and recommendations for improvement are then made to the Directors/Managers.

4. **Provide Valuable Insights**. Studies show that an increasing number of managers use audit results to make business decisions, as they provide independent insights evaluating business performance. An audit report includes objective analysis, recommendations and intuitive commentary. It is a unique chance to gain an outside perspective on how your organisation functions, and can be used to help the organisation achieve its objectives.

So take advantage of the opportunity that an audit provides to improve your organisation's performance.

UHY Haines Norton Audit Director Bhavin Sanghavi and the UHY Haines Norton Audit team provide audits for organisations of all sizes and industries. To find out more about how we can help you, please contact Bhavin on (09) 839-0248 or email bhavins@uhyhn.co.nz.

How To Create A Business Budget

UHY Haines Norton's Business Improvement Manager **Michael Jamieson** is often asked how to create a business budget. Here he shares his top three tips for developing a business budget that will help with both planning and control of your business' finances.

A good budget tells you how much you spend running your business, if you can afford to invest in business improvements and how much you can afford to pay yourself, staff and any shareholders.

1. Work out your projected turnover first. To do this use a combination of historical data, work you know will happen in the coming year (from recurring customers as well as booked or scheduled projects or orders), and the production capability of your business.
2. Be pragmatic with revenue, margins and expenditure expectations. Include everything – recurring as well as ad-hoc costs, depreciation, overheads, debt repayments and so on. Remember these should be realistic estimations, not a wish list. If the budgeted profit/loss you arrive at isn't as ideal as you would like it to be, take the opportunity to put strategies in place to improve the scenario. For example, could you save interest on loans by paying down debt quicker and reduce your expenses? Could you invest in new technology to improve efficiency and increase production?
3. Always include a cash flow budget along with projected sales and costs. This is because your projected profit may be strong but a cash flow budget will tell you if you are able to actually fund your operations. It gives you the opportunity to plan funding requirements or alter the strategy to work within your existing capital.

Your business budget should be flexible. Revise it in response to any changes to your situation to keep it current and as useful as possible.

***Michael Jamieson** is an expert in helping business owners develop business budgets to improve financial management and planning. For more information on improving your business' financial performance, contact Michael on 027-663-6062 or email mjamieson@uhyhn.co.nz.*

Business Exit Strategies *(With Examples)*

I'm sure you've heard it before, but its advice worth repeating: every business should have an exit strategy. If 2020 has taught us anything it's to expect the unexpected – who knew that life's curve balls could include a worldwide pandemic? Businesses with an exit strategy are undoubtedly better positioned to roll with the punches than those without any plan in place.

An exit strategy protects you, your organisation and your investors. In the event of a sudden illness or accident, change in market forces or technology, loss of a key individual or yes even a pandemic, planning your exit ensures that you have thought about your end goal and how to protect what you have built up along the way. Although it is much more than financial planning, at the very least your strategy should address how you will protect investments and limit losses should the unexpected happen.

In addition to deciding what your ideal end goal will be, also consider factors such as your business size and structure, market factors, competitors, like-minded family members/acquaintances and time projections.

Start-Ups Should Have Exit Plans Too

And it's not just existing businesses that should have an exit strategy. You should consider your exit plan before starting up your business. That way, if things don't go as well as you expected them to you will have already considered the steps you will take to ensure a best-case exit scenario. It is an important part of your business plan, and should be revised as your start-up grows and the market changes. Its important information to have when seeking finance to show how the investment will be protected should your business close.

Types of Exit Strategies

1. Merger – requires you to still be a part of the business
2. Sale to another trader or competitor – a good option when you want to relinquish ownership
3. Sale to a known purchaser such as a family member, friend, employee or colleague – personal relationships should be carefully considered
4. Liquidation – where operations cease completely and creditors are repaid before investors

Exit Strategy Examples

Your exit strategy should be included in your business plan and it may be worded like this:

The preferred exit strategy for ABC Ltd will be sale of the business to my daughter, who is completing a business degree and wishes to take over the business in the future. It is expected that upon completion of her degree in 2021 she will commence working in the business and in time progress to a managerial role.

Or:

The preferred exit strategy for ABC Ltd will be sale to another local business who wishes to expand their operations by purchasing our client base. This long-term strategy will coincide with my retirement. If interested please contact Mr Smith.

Or:

The preferred exit strategy will be to split the stock and brand from the property and manufacturing equipment for separate sale to maximise the financial gains. The stock and brand will ideally be sold to a competitor wishing to extend their product portfolio, while the property and manufacturing equipment could be sold to a general manufacturer. If successful, this strategy is likely to yield higher returns than sale as a going concern. I would intend to fully relinquish ownership.

Please contact us if you need help developing an exit strategy for your business. Don't leave it to chance - planning for the future is more important than ever before.

Farm Accounting Software To Make Your Life Easier

Here at UHY Haines Norton we use a variety of software packages for different clients and industries that allow better understanding, control and management of their finances. The farming industry has its own unique set of financial challenges and complexities. And because farmers are so busy running their farms each and every day, it can be hard to prioritise managing the accounts.

In saying this, there is one software system in particular that we use for (and recommend to) our Farm Accounting clients especially when it comes to reconciling stock numbers.

Figured is farm financial management software that was founded by two farmers who were also accountants. Its user-friendly software provides livestock and production tracking, cash flow forecasting, budgeting and planning in real-time.

Users report that they spend less time managing their farm accounts and yet have better, more meaningful information for making decisions with. And as your accountant we have access to the same information so it's easy for us to work on your accounts and help with your accounting and tax requirements.

Figured is particularly useful when applying for bank loans and forecasting the financial impact of purchasing new farms or undertaking particular projects such as cropping those extra paddocks or buying in additional feed.

All of our farming clients are on the lite subscription as we need the livestock information in order to produce the livestock trading account. But the system is capable of so much more, including forecasting your cash flow position during the season. As a farmer I find it extremely useful for this reason.

We can help you to get set up and start using it. It is integrated with Xero accounting software which makes the software ideal for our farming clients.

*If you would like to get started on Figured or discuss any aspect of Farm Accounting, please contact UHY Haines Norton Director **Mark Foster** at markf@uhyhn.co.nz or phone (09) 420-7957.*

Deducting Low-Value Assets On Rental Properties *(Case Study)*

Let's take a look at the scenario where rental property owners have made improvements to the property with low-value asset purchases. They have added insulation in the ceiling and installed an extractor fan in the external wall of the bathroom.

The government has temporarily increased the threshold for 100% depreciation claims on assets costing less than $5,000 purchased between 17th March 2020 and 16th March 2021. As each of these improvements cost less than the $5,000 low-value asset threshold, the owners now would like to make an immediate deduction for the full cost of the insulation and extractor fan under the new temporary rule.

Unfortunately, there are rules regarding immediate deductions of low-value assets that require that "the item has not been and will not become part of any other property that is depreciable property". In this example, both the insulation and the extractor fan have become depreciable property of the rental. They both form part of the building, and therefore the residential building depreciation rate of nil applies.

Taxing Matters

- If you are one of the many New Zealand businesses who are looking at changing the way you do business to survive the COVID-19 crisis there is help at hand. Business.govt.nz has a number of tools and tips to help businesses who need to change direction. These include a 4-step plan consisting of identifying what your customers want or value, deciding on a new offering to appeal to your target market, assessing your business set up for the new direction, and developing your position in the market so you have the best chance of standing out. You can access these resources and advice here: https://www.business.govt.nz/news/business-plans-up-in-the-air-tools-to-help-you-pivot
- Key tax due dates are published on the IRD website at www.ird.govt.nz/index/key-dates. When a due date falls on a weekend or public holiday, you can file and make payment on the next working day without incurring a penalty. The exception to this is the provincial anniversary days, as you must reside in the applicable province and usually make your tax payments over-the-counter in order to not incur a late penalty.
- Business.govt.nz's 'Funding Explorer' is a clever tool to help you explore your funding options. The interactive tool requires you to input some basic information from drop-down menus about your situation, such as how much funding you need and its purpose. It then provides recommendations complete with ratings on cost, risk and effort required. It's a great tool to help ensure you are aware of all of your potential business funding options. Check out Funding Explorer here.
- Generally employers must agree to an employee returning to work early from paid parental leave. This applies to both a permanent return and occasional days. In some circumstances, early return is permitted without the employer's agreement where the employee is no longer the primary carer or in tragic events such as a miscarriage. 'Keeping in touch' days are capped at 64 hours of paid work during the parental leave payment period. For more information on paid parental leave visit https://www.employment.govt.nz/leave-and-holidays/parental-leave/.
- The scheme allowing a 6-month mortgage holiday was due to end on 27th September 2020, but this has now been extended to 31st March 2021.
- If you have lost or forgotten your IRD number you can find it using the "find my IRD number" function on the IRD website. Your IRD number remains the same for life, so you never need to apply for a new one.

Staff News

Congratulations to **Veanthie Pollayah** in our Henderson office, who has now completed her exams and study to become a fully qualified Chartered Accountant.

We are sorry to say goodbye to Auditor **Mark Anthony Manait**, who is relocating to a new role in Hamilton. We'd like to thank Mark Anthony for his valuable contribution to the Audit team and wish him all the best for the future.

Despite all the unpredictability of 2020, our Social Club continues to come up with fun events where we can have a laugh and enjoy some friendly competition.

Games Night:

Staff News

Scattergories:

Table Tennis Tournament: