

Top 10 mistakes of new principals

(from a bean counters perspective)

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Overview

Solid Foundations

Tax & Compliance

Financial Management

Strategy

**My tips to not make these mistakes in
your business**

Mistake #1

Wrong legal structure

If you get it wrong, it will cost you either now or at a later date – get advice.

Legal Structures

Main considerations:

- **Income splitting ability**
 - **Asset protection**
 - **Legal Liability**
- **Need for additional equity holders**
 - **Exit Strategy**
 - **Tax rates**
- **Capital Gains Tax Discounts**

Common Structures

Mistake #2

**Burying your head
in the sand on tax**

**Tax is a problem that will not go away
– be very aware of your obligations.**

Dreaded taxes!

Income tax

Tax rates

Due Dates

Treatment of losses

PAYG Instalments

Tax timeline

'Double whammy'

Entity v individual

PAYG Withholding

Monthly v Quarterly (\$25k pa)

IAS v BAS

Goods and Services Tax (GST)

10% of net (1/11th of gross)

Pretty much on everything

Monthly v Quarterly

Cash v Non-Cash (\$2m)

Fringe Benefits Tax (FBT)

Motor vehicles

Entertainment

Loans

Gifts / Bonuses

Effective = 46.5%

Payroll Tax (state tax)

Wages, super, benefits paid > \$1m

Directors wages

Mistake #3

**Thinking that profit
equals cash**

**Acknowledge the difference and know how to
identify your true position**



Where have all the profits gone?

Significant owner drawings

Significant business loan payments

Significant VPA receivable

Capital improvements / new assets

**Balance Sheet unfairly impacting the perceived
performance of the business.**

Mistake #4

**No idea of your
profit formula or
breakeven point**

**You need to know these to
make the right decisions**

Profit formula

= **your business expressed in numbers**

Breakeven

= **the point that you start to make profits**

Cash Breakeven

= **the point that you earn enough profit to meet all your cash commitments**
(eg. owners drawings and loan repayments)

Profit Formula

Sales	X
x Gross Margin %	40%
<hr/>	
= Gross Profit	Y
- Net Fixed Commitments (\$100k)	
<hr/>	
= Net Profit (see note)	Z

Note:

- Fixed Costs**
- + Owner Remuneration**
- Director Sales**
- Rental Income**
- = Net Fixed Costs**

What profits should you make?

(the \$1m question)

**Need to consider on a
divisional basis:**

- **Sales**
- **Rentals**
- **Admin**
- **Principals**

Fixed Costs

If Fixed Costs increase, how many more properties do you need to sell?

Fixed costs in your business are the equivalent of the machine in a manufacturing business.
(Squeeze more sales through the machine)
(Squeeze more rental properties through the machine)

What are your average fixed costs per month?

Higher fixed costs = Higher Breakeven Point
Higher fixed costs = Greater Business Risk

Reduce Risk/Breakeven

Reduce Fixed Costs

Increase Volume of Transactions

(staff and/or sales)

Decrease Ave Rate of Commissions

(consider impact on staff)

Increase principal sales

Focus on incremental profits per person

Changes to the business model

Cash and profit breakeven

Mistake #5

**Not recover all
VPA upfront**
Principals set the standard

VPA Recoveries

Recovered VPA is money in the bank

Cost of VPA = \$ owing x Overdraft Interest Rate

Are you satisfied with your return on investment?

Do you really recover 100% of VPA upfront?

What about on principal sales?

Do you recover from salespeople?

Review O/s balance weekly by salesperson.

Mistake #6

**No provision for working
capital!**

Rule of thumb = 3 months.

Mistake #7

**Too many commission
structures!**

Focus on the average rate of commission

Commission Structures

How many is too many?

**See my recent newsletter at
www.uhyhnbrisbane.com.au.**

**Set the parameters for change in
commissions upfront.**

**Control the process = less bargaining
(achieve and receive).**

Sample commission structure.

not your average **Bean** counters



Mistake #8

No basic internal controls

Without some basic controls in place you cannot rely on anyone or anything.

Internal Controls

Structured month end process.

End of month checklist.

Documented procedures and processes.

External bookkeeper.

Trust account procedures.

Bank Reconciliation.

Backup procedures.

Timely preparation of accounts.

Budget.

Standard financial reports pack.



Standard Reports

- 1. P&L for the month (by division)**
- 2. P&L for the YTD (by division)**
- 3. Balance Sheet (as at)**
- 4. Aged Creditors Listing**
- 5. P&L for the month by person
(or payroll summary by person)**
- 6. O/s VPA by salesperson**

**Things can change overnight - if you understand your
business, you can make the right decisions fast.**

Financial Responsibility

Can you delegate financial management responsibility?

Director liability.

You need to know what is driving your business?

Ask for help if you need it.

Mistake #9

**Too scared to ask the
stupid questions**

**You need to find advisers that
suit you. One discussion a year with
your accountant is not enough!**

Mistake #10

Driven by sales not profit

**Yes, as a new business you need traction
– but it is a very short-term strategy
one that has to buy work.**

Uncertain Economic Times.

**Being a business owner can be an
incredibly rewarding experience – but
at times bloody hard work!**

Don't develop bad habits.

Strive for continuous improvement.

Profit not sales is what really matters.

Questions / Discussion?

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