BusinessPlus+ Newsletter

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Know the Financial Impact of Decisions Before You Implement Them

This is a strategy that many businesses are starting to implement, and it is generally known as "predictive accounting". The process starts with examining the physical number of units to be produced and the calculation of the direct costs that will be involved in that process.

The calculation of stock holdings can be made based on manufacturing/purchase estimates and the unit sales based on estimates from salespeople. These estimates should be checked to determine the level of investment in stock to determine whether that level of stock is going to be required.

From the sales department estimate of sales a calculation can be made as to what the debtors' balance might be based on targeted debtors' days outstanding.

Consideration could be given as to how debtors' days outstanding might be able to be reduced through quicker dispatch of tax invoices to customers, highlighting the due date for payment on the tax invoice, ensuring that any other information that the customer has requested is sent to the customer with the tax invoice so that there is no excuse for payment delay, prompt preparation and dispatch of the debtors' statement and the ongoing follow-up of customers whose payments are outside the negotiated payment terms for that customer.

The cash effect of these purchase decisions and receipts from customers for both cash sales and credit customers can then be shown in the Cashflow Forecast for the business.

If you are contemplating a major expenditure item such as business expansion, or a major research and development project (where, whilst you might be entitled to a Research and Development Incentive Rebate you will not receive the benefit of this until the next financial year), scaling up your business so that you can increase your turnover - this normally involves additional investment in stock and debtors and perhaps in additional premises.

All of these costs need to be examined and factored into your financial projections.

What is the result? Do you have the financial capability of funding these extra activities?

What is the shortfall? Will you be able to borrow the shortfall from a bank? Will you have enough security available for the bank to secure the extra loan? Are you and your colleagues happy to sign personal guarantees and to commit to monthly principal and interest repayments?

Are you interested in exploring the opportunities for your business to be able to raise capital direct from the public?

Companies can raise capital as follows:

- Under Section 708 of the Corporations Act, a private company can raise up to $2 million from a maximum of 20 investors in a 12-month period.
- Crowd Sourced Funding Equity Raising was legalised in Australia about 3 years ago by amendments to the Corporations Act to enable a private company to be able to raise up to $5 million in a 12-month period.

Young companies (normally under 3 years of age, but in some cases up to 6 years of age) that have been involved in the development of a new product, process, service, marketing or management methodology can raise capital from investors who can obtain a tax offset on their personal taxation debt and possibly avoid paying capital gains tax.

To raise capital from the public, companies need to produce a Business Plan, Market Position Report, Marketing Plan, Budgets and Cashflow Forecast and Business Valuation.

This has been a brief overview of knowing the impact of financial decisions before you implement them. If you would like to discuss this type of analysis for your business, please contact us at CBSW.

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