

# SHOMAR & ASSOCIATES

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## Welcome to 2011

Before we start with "accounting issues", let us pause to think of those who have been affected by the floods. Many of our clients based in these areas with family within the towns have been devastated; the destruction has been horrendous, and the personal tragedy is just gut wrenching. Anything that could be written would be utterly inadequate, suffice to say that all our staff and families join together in passing on our thoughts, emotions, and best wishes to those affected.

It seems amazing that we are already in 2011 and moving from the year of the Tiger to the year of the Rabbit in Chinese astrology.

At the start of the 2010 we talked about the correlation the year of the tiger had in respect to needing to be

cleverer with investments, tax, family and business planning issues.

Much can also be said for the characteristics the year of the rabbit projects. According to Chinese tradition the rabbit brings a year where we can catch our breath and calm our nerves. It is a time for negotiation and planning. It is suggested we do not force issues but be more open to negotiation and diplomacy. A rabbit focuses on home, family, security, and their relationships with their children. All quality traits, which from an accounting perspective we aim to deliver.

2011 may well be the year we can help you further review business plans, family protection issues, asset structure, ownership matters as well as look at in some cases, business succession or financial planning matters.

In this Newsletter we have tried to focus on some of these issues, addressing these partly from an



educational point of view but most importantly to provoke you to think about setting up a plan to make 2011 successful for you.

We do hope the New Year does bring you happiness, and we can continue to support any of your needs throughout the year.



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## Planning Ideas—If I fail to plan it's possible I am planning to fail

As we mentioned earlier, it is now the year of the rabbit, and as such it is a year when additional consideration should be given to having sound plans in place whether they be for business, personal, banking or taxation or financial.

From a planning point of view too many businesses make business plans only when they have no choice in the matter. Often when the bank or investors want a plan, there is no written plan.

"My business plan is in my head" is often a term we hear from small business owners.

We suggest a written plan will never eventuate if you think or feel like you don't have enough time. "I can't plan. I'm too busy getting things done," many small business people say. The busier you are, the more you need to plan. If you are always putting out fires, you should build firebreaks or a sprinkler system. You can lose the whole forest by not paying enough attention to the individual burning trees.

### Cash flow

Most people think in terms of profits instead of cash. When you imagine a new business, you think of what it would cost to make the product, what you could sell it for, and what the profits per unit

might be. We are trained to think of business as sales minus costs and expenses, which equal profits. Unfortunately, we don't spend the profits in a business. We spend cash. So understanding cash flow is critical. If you have only one table in your business plan, make it the cash flow table.

### Idea inflation

Don't overestimate the importance of the idea. You don't need a great idea to start a business; you need time, money, perseverance, and common sense. Few successful businesses are based entirely on new flash ideas. A new idea is harder to sell than an existing one, because people don't understand a new idea and they are often unsure if it will work.

### Spongy, vague goals

Leave out the vague and the meaningless babble of business phrases (such as "being the best") because they are simply hype. Remember that the objective of a plan is its results, and for results, you need tracking and follow up. You need specific dates, management responsibilities, budgets, and milestones. Then you can follow up. No matter how well thought out or brilliantly presented, it means nothing unless it produces results.

### One size fits all

Tailor your plan for its real business purpose. Business plans can be different things: they are often just sales documents to sell an idea for a new business. They can also be detailed action plans, financial plans, marketing plans, and even personnel plans. They can be used to start a business, or just run a business better.

### Diluted priorities

Remember, strategy is focus. A priority list with 3-4 items is focus. A priority list with 20 items is certainly not strategic, and rarely if ever effective. The more items on the list, the less the importance of each.

### Hockey-stick shaped growth projections

Sales grow slowly at first, but then shoot up boldly with huge growth rates, as soon as 'something' happens. Have projections that are conservative so you can defend them. When in doubt, be less optimistic.





## Self Managed Super Fund Compliance

An area of significant importance is the legal framework that your business, trust, super fund or partnership lies within.

A significant number of changes have occurred over the last 5 years, particularly in relation to Superannuation.

Many self managed super funds are being audited by the regulators, and this will increase as more and more people elect to have their own fund.

One of the biggest areas of non compliance has been that trustees have acted within changed laws of

superannuation but have forgotten or failed to update the superannuation fund trust deed that would allow them to do what they perceived was permitted for the fund.

The simple solution is to look to update the fund trust deed at least every 2-3 years or immediately if a major change occurs in the super rules that may be of relevance to members within your fund.

If you haven't updated, our office can assist with updating your deed. This will ensure your fund meets all current rules and allows members to

benefit from all of the opportunities having your own fund provides.

If you would like to discuss whether your fund does need to be upgraded or you are interested in talking about setting up your own super fund do not hesitate to call us, we can help.

At the same time if you would like to discuss your asset protection structures or would like to discuss the benefits of having a company, trust or partnership agreement we can assist.

## A few lighter notes

A few of our clients who receive the newsletter have said as an accountant we are just far too serious all the time. As a result we have included a few tidbits that we have seen that you might get a laugh out of.

### Did you know?

- Cleopatra married two of her brothers
- The tradition of brides carrying a bouquet of flowers started with the brides trying to hide their body odor
- The parachute was invented by Da Vinci in 1515
- The human brain is over 80% water
- Chewing gum while peeling onions will reduce your tears
- Women blink nearly twice as much as men
- A snail can slide over a razor blade without being hurt by producing slime that helps it slide harmlessly

- Red wine will spoil if exposed to light; hence tinted bottles
- Coffee beans aren't beans; they are fruit pits
- Fortune cookies were actually invented in America (not China), in 1918
- Blueberry juice boosts memory
- No president of the United States was an only child of his parents
- If you are right handed, you will tend to chew food on your right side. If you are left handed, you likely chew on your left
- Men's shirts have the buttons on the right while women's shirts have the buttons on the left
- We, as humans, forget 90% of our dreams, which emphasizes our earlier discussions about having a plan. Writing down your dreams will help more of them eventuate.





## Family Business—Succession Thoughts

A survey by Family Business Australia has found that just 40 percent of current family business owners plan to pass the baton over to their children or another family member. This is despite the fact that a higher proportion of respondents (45 percent) saying that they already have someone from the next generation working in the business.

Even with family within the business, more surprisingly, more than 20 percent say they intend to sell the business to people outside the family.

The reasons for this vary, but often there is no suitable family member successor, or no one is interested in stepping up to take over the business.

Whether or not owners hope their businesses will stay in the family, it is important to have in place mechanisms that help deal with family or business changes affecting any succession plan. For instance, the birth of a child

may change one family member's plans to stay involved in the business.

There is no right or wrong way to approach succession planning but the key is to start discussion early. It is best to make sure that the family's values and intentions, together with the business's strategic plans, are documented into what is commonly referred to as a 'Family Constitution' or 'Family Charter'.

These documents may include details of the minimum experience and tertiary qualification for next generation members before they will be considered for management positions within the business.

It may also include details of ownership transfers between generations once agreed targets have been achieved.

It is really about documenting the 'rules' for both the family and the business so that everyone knows what to expect.

Once the succession planning process commences, it should not end. There will continually be changes in family dynamics that will require the plan to be referred to



and, in some cases, updated to take account of new situations that arise – for example, separation or divorce. To survive, businesses may need to change their strategic direction and their succession plan would need to be updated in line with this change. Most succession plans require regular review to succeed.

One area that is often overlooked is the capital required to purchase a business from an estate should a family member die and their estate needs to sell their shareholding.

One way to address this is to have Partnership agreements and key man insurances in place.

Want to discuss Insurances in respect to key man or asset protection? We can help identify what level of cover, how the policy should be set up and recommend professional outsourcing if you need it.

