

Newsletter

MARCH/APRIL 2014

DB CHARTERED
ACCOUNTANTS LTD

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“A bad attitude is like a flat tyre – you’re not going anywhere until you change it.”

Our newsletter this month includes reminders about stock valuations and bad debts. Changes to accommodation allowances, financial reporting and the minimum wage are also covered, as well as a reminder about upcoming tax and year end information required.

HOW CAN STOCK ON HAND (INVENTORY) BE VALUED?

With 31st March being the last day of the financial year we thought it timely to remind you of the stock valuation rules.

Stock is valued at balance date using one of the following methods:

1. Cost – the cost price excluding GST (**include** freight, handling & all other direct costs).
2. Replacement price – you may choose either the last price you paid or the amount you would have to pay, to replace the stock
3. Discounted selling price – you first ascertain your trading stock at retail then divide stock into groups of similar profit margins. Then determine the gross profit margin for each group and discount the selling price of the stock to bring it back to cost
4. Market selling price – you must have reasonable evidence of selling price. To ascertain selling price you may deduct freight, insurance and discounts. This is normally used where stock is worth less than the original cost.



If your annual sales are less than \$1.3 million and closing stock is less than \$10,000 a stock count is not required (we can use your closing stock figure from last year).

Important:

You must have adequate records to substantiate your stock figures. You cannot use one stock value for the bank and another for tax purposes. Obsolete stock must be valued using one of the above methods.

BAD DEBT WRITE-OFF

For a debt write-off to qualify as a deduction it must actually be bad and physically written off from your debtors ledger before balance date (usually 31 March). Consider the length of time the debt has been outstanding and efforts taken to collect it. When bad debts are written off the appropriate GST adjustment should also be made. If you need assistance with this please give us a call.

GONE PHISHING

Overseas scammers are using a fake website almost identical in appearance to IRD. Emails were sent out with a link to the fake site with promises of quick refunds. If you receive one of these suspicious emails please forward it to phishing@ird.govt.nz



FINANCIAL REPORTING FOR COMPANIES

There has been recent commentary about changes to the Financial Reporting Act and changes to the financial reporting requirements for Companies. Effectively, Companies with less than \$30 million turnover are not required to meet the same disclosure requirements that larger entities are required to. However, the IRD has issued a prescribed list of information that the financial statements must show, including:

Balance Sheet, Profit & Loss Statement, accrual accounting (i.e. based on invoices issued and received), define accounting policies used, comparable (previous year) figures, reconciliation of taxable income, closing stock details, transactions with associated parties, including interest, loans, management fees, rent or royalties.

These changes start for financial statements prepared for the year ended 31 March 2015. Our current system already includes the majority of the above disclosures so we do not anticipate a major change for our clients.

LATEST CHANGES – EMPLOYEE ACCOMMODATION, CLOTHING AND MEAL ALLOWANCES

Changes have been indicated over recent years regarding employee allowances, in particular accommodation allowances. The proposed application date for the new rules is 1 April 2015, but employers and employees will have the option to apply the new rules to arrangements put in place on or after 1 January 2011, in some circumstances.



In the case of Canterbury earthquake recovery projects, the proposed application date is 4 September 2010, the date of the first earthquake.

The proposed changes apply whether an employer pays for the accommodation directly or provides an employee with an accommodation allowance.

CHANGES TO ACCOMODATION ALLOWANCE

Accommodation and accommodation payments provided to employees who are required to work away from their normal work place on secondment or projects will be exempt from income tax:

- for up to 2 years generally, when there is an expectation that the employee will be working away for no more than 2 years;
- this is extended to 3 years when an employee is involved in a capital project; and
- up to 5 years for employees involved in Canterbury earthquake recovery projects.

Accommodation and accommodation payments will also be exempt when there is more than 1 regular workplace.

CHANGES TO MEAL AND CLOTHING ALLOWANCES

The Bill proposes that the full amount of meal payments will be exempt, if the meal payment is linked to work-related travel (for up to the 3 months). The full amount of meal payments and light refreshments outside of work-related travel (such as conferences) will also be tax exempt.

A specific exemption is proposed for distinctive work clothing, to match the outcome when clothing is provided directly by the employer. Plain clothes allowances will also be exempt if paid to employees who are provided with a uniform but because of the nature of their current duties are required not to wear that uniform.

CREDIT CARDS FOR CASHFLOW

Many businesses who find cashflow becoming tight turn to using a credit card. While this can sometimes be a useful short-term fix, keep in mind that any areas that are creating the cashflow issue need to be addressed and that a short term loan or overdraft may be a cheaper solution for your business.



If you charge an amount of \$10,000 to your credit card and decide to pay this off, paying only the minimum amount each month (usually 2%), what is the actual cost based on a standard credit card 20% interest rate?

The answer is that it would take nine years to pay off and the interest paid during that time would be \$11,700. This is actually a greater amount than the original advance.

If you are experiencing cashflow problems and need some advice, please do not hesitate to give us a call.

PROVISIONAL TAX DUE 7 MAY 2014

If you have a March balance date the 3rd Provisional Tax instalment is due on 7 May. Remember that if the 2014 income year has seen an improvement in business results, there will be additional (terminal) tax over and above provisional tax to pay.



If this is likely, we recommend that you start planning to set additional funds aside for tax now. If 2014 income tax is higher this will also increase the 2015 provisional tax payments due, starting from 28 August.

Remember, it is often a struggle to meet increasing January, March, April and May tax payments if the Christmas period has been quiet. It is better to plan for this in advance.

MINIMUM WAGE TO INCREASE 1 APRIL

The adult minimum wage is increasing from \$13.75 an hour to \$14.25 an hour on 1 April 2014. The starting-out/training minimum wages will increase from \$11.00 an hour to \$11.40 an hour (80% of the adult minimum wage).

Now may be a good time to review your employees to check if any employee currently on the starting-out or training wage will need to be moved to the adult minimum wage.

The adult minimum wage applies to all workers aged 16 and over who are not starting-out workers or trainees, and all workers who are involved in supervising or training other employees.

The starting-out wage is for:

- 16 and 17 year olds starting out in the workforce (during the first six months of employment)
- 18 and 19 year olds who have been on a benefit for six months or more (employed less than six months)
- 16 to 19 year olds in training in a recognised industry-training course involving at least 40 credits a year.

The training minimum wage applies to employees aged 20 years or over who are doing recognised industry training involving at least 60 credits a year in order to become qualified.

BOOK REVIEW

“The Young NZ’ers Guide to Entrepreneurship” – Ian Hunter (2013)

This book looks at how to go about starting up a Business and what is required. It covers identifying strengths and weaknesses and how to ensure you get the right team together. The target market, production, business plans, marketing and management of the enterprise are also covered.

A quote from the book: “Everyone thought business would be straight forward. It wasn’t, but it was worth it.”



END OF YEAR INFORMATION

For those of you with a March balance date, we would like to remind you of some of the things you need to attend to for the year end. These include:

1. **Reconcile Bank Account** – whether you use a computerised or manual cash book system, you will need to make sure it reconciles to the bank statement as at 31 March 2014.
2. **Accounts Receivable** – Is your accounts receivable list accurate as at 31 March 2014? If you have any bad debts, ensure these are written off prior to 31 March. (This is an IRD requirement.)
3. **Accounts Payable** – All unpaid invoices dated 31 March and prior. We are able to claim these as expenses for you in the 2014 income year, even though they are not paid until April.
4. **Stock on Hand & Work in Progress** - Complete a stock-take and record stock and/or WIP as at 31 March 2014. If your stock as at 31 March 2014 is \$10,000 or less you do not need to calculate a stock value – we can use the previous years figure (if your total turnover is less than \$1.3 million).
5. **Computer Reports** - If you are using an accounting package, print out (or save to PDF) copies of the general ledger transaction report, trial balance, accounts receivable & accounts payable and bank reconciliation as at 31 March 2014 – and don’t forget to do a backup, especially before rolling into a new year.
6. **Other Information to Compile**
 - Bank interest “RWT” certificates
 - Dividend statements
 - Details of any other income received that has not been banked to your business account.
 - Details of Cash on Hand as at 31 March 2014
 - Income Protection Insurance invoice
 - Donation Receipts for your rebate claim
 - Provide any information relevant to child support and family assistance claims

We will soon be sending out our annual checklists to assist you to collate your information.

If you would like a copy of our checklist earlier, please contact us or you can download a copy from our website, www.dbchartered.co.nz/forms.php under *Annual Checklists*.

JOKE – VINCENT VAN DALISM

Two scruffy young boys are looking at an abstract painting hanging in a shop when one whispers urgently to the other: “Let’s get out of here before they say we did it!”

STAFF NEWS UPDATE ...

Jo Greene is now on maternity leave and will be returning to join us again at the beginning of next year.

We welcome Raywin Balderston to our team. Raywin will be starting with us on 14 April 2014 and is a Chartered Accountant and comes to us from PricewaterhouseCoopers.

If you would like to discuss anything mentioned in our newsletter, or you have a suitable joke you would like to contribute, please contact us at:

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