



trialbalance

The official newsletter of NZ CA Limited

DEAL WITH IMPORTANT STUFF NOW BEFORE BALANCE DATE

You need to think about the following before your balance date, which is 31 March for most businesses.

Bad debts

Don't forget to write off bad debts. It is illegal to backdate writing off bad debts, so go through your debtors ledger soon and determine which businesses are not likely to pay you. You must show you have taken all reasonable steps to collect the debt and also evidence it has been written off. If your business is very small, perhaps the best evidence you can show is to write on a copy of the invoice that you have written it off, sign it and put in the date.

Stock

Cull your stock. If some of it is only fit for the tip then get rid of it. If it is still on your premises, it has to be included. Remember, stock has to be valued at its cost, including the cost of getting it into your shop, warehouse etc. You may use market value, if it is lower than cost, instead of cost for an item, but you will need to keep evidence to show where you could have bought the item at the lower price.

Motor vehicle

If you are going to make a claim for use of your vehicle for business on a kilometre rate basis, remember to read your odometer at the end of the day on balance date.

Insurance premiums

If you get to the end of the financial year and you're paying off an insurance policy, make sure you have an agreed arrangement for payment with the insurance company. If you haven't and the insurance company would have a right to cancel your policy for unpaid premiums (even though it would be

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unlikely to do so), you might not be entitled to bring the whole of the unpaid portion into account as a sundry creditor (also known as Accounts Payable).

Vehicle logbook

If you need to keep a vehicle logbook, this needs to be for a continuous typical three months of vehicle running. A new recording needs to be made once every three years (or more often if there is a major change – more than 20%) in the proportion of business and private running. There are a number of issues that need to be considered when preparing year-end financial statements.

The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically, accountants in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be bought forward into the current period. The general rule is that business expenditure is deductible in the tax year that is incurred.



WHAT SHOULD YOU LOOK FOR IN YOUR ACCOUNTS?

Gross profit percentage

For many businesses the ratio of gross profit to sales should be reasonably constant. Gross profit is the amount left over after deducting direct costs from sales (direct costs are the costs that vary with sales, as opposed to fixed overheads)

To improve this ratio, look for:

- Wastage of materials and/or time
- Theft of goods or cash
- The proportion of high to low profit margin sales (sales mix)
- Quoting errors
- Underpricing
- Discounting to achieve increased sales volume
- Ways to maximize trade discounts
- Regular review of margins and markups
- Systems in place to ensure that all costs (materials, labour, travel etc.) are on billed
- Maintenance of accurate inventory records
- Regular review of inventory for slow moving and obsolete stock, monitoring stock turnover

OTHER ITEMS TO CONSIDER AT BALANCE DATE

Accounts Receivable

Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received.

March invoices paid in April are part of year end income as are April Invoices for March work.

Stock and Work in Progress

You must count and value your trading stock at balance date, unless it is less than \$10,000 and your sales are less than \$1.3 million. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of obsolete stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

Overseas Income

If you receive overseas income and are a tax resident in New Zealand, you will be taxed in New Zealand on your worldwide income.

There is a temporary tax exemption available for those residents who are 'transitional tax residents' for a four year period (please contact us for more details).

As the tax treatment of overseas income is quite specific it is important that you advise us of all the types and amounts of overseas income you have.

There are many issues to consider at year end. We strongly recommend you talk to your accountant/tax advisor before the year end to minimise negative consequences and avoid disappointments.

Kilometre rate

If you claim for the running costs of your motor vehicle on a kilometre rate basis, make a note to get an odometer reading on balance date. The rate is calculated based on the total number of kilometres travelled in the year and the proportion of them used for business. There is a two-step process for the calculation.

Vehicle logbook

If you need to keep a logbook you must do so for a consecutive three-month period at least once every three years.

Maintenance of equipment

Any maintenance you carry out before the end of your financial year is tax deductible for that year. If you are planning maintenance in the short term, it might save you tax if you got on with it before the end of the financial year. Maintenance means bringing the asset back up to its original condition.

Service contracts

Payment in respect of equipment service contracts or warranties if the consideration for the contract or warranty forms an inseparable and indeterminate part of the consideration for the asset or assets to which it relates.

Periodic charges

Periodic charges, other than those dealt

with elsewhere in this determination.

Stationery

Purchase of stationery, Newspaper/magazine subscriptions, Subscriptions for a newspaper, journal, or other periodical, including for the maintenance or annotation of a documentary information service.

Rates

Rates made and levied under Part 3 of the Local Government (Rating) Act 2002 to the extent of the amount invoiced on or before balance date.

Road user charges

Audit fees

Accounting fees

Mandatory accounting costs

Settlement costs

Direct claim settlement costs included in the outstanding claims reserve of a general insurer in relation to a contract of insurance, if the total gross claim cost (excluding GST) included in the outstanding claims reserve in relation to any 1 claim does not exceed \$65,000 (excluding GST)



FOUR WAYS TO GROW YOUR BUSINESS

- Increase the number of customers (of the type you want to have)
- Increase their transactions frequency
- Increase the average transaction value
- Increase the effectiveness with which you do things

PREPAID EXPENSES

Repairs and Maintenance

If carried out before year end, then the amount will be deductible in the current year. The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than \$23,000 for a full year. If purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

Stationery

If re-stocking is about to occur in April or May, consider moving this forward to March. The total costs of stationery are deductible in the year these are paid.

Travel and Accommodation

Advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and does not exceed \$14,000.

Subscriptions

Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Associated memberships are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed \$6,000

Insurance

Insurance premiums are deductible provided they are not prepaid for more than 12 months, and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed \$12,000, you don't have to adjust it for the prepaid period.

Advertising

If advertising is paid prior to year-end and if the period of the advertising relates to no more than 6 months after balance date and the advanced portion is less than

\$14,000, then it is fully deductible in the current year.

Rent

Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than \$26,000.

Livestock

Prepaid expenses for the lease or bailment of livestock or bloodstock are deductible provided they are not prepaid for more than six months, and the amount does not exceed \$26,000.

Consumables

Consumables used in conjunction with but not forming part of the final product can be deducted in the year of purchase, provided total stocks at year end do not exceed \$58,000.

Telephone

Payments for the use or maintenance of telephone and other communication equipment are deductible if not prepaid for more than two months.

Services

Prepaid costs for services, other than those mentioned above, of up to \$14,000 and for no more than six months are deductible in the current year.

Motor vehicles

Motor vehicle registration and driver licence fees paid in advance are fully deductible in the current year.

Leave Provisions/Bonuses

Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the tax year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

Bad Debts

Bad debts are deductible only in the year that they are written off. Bad debts must be written off before balance date.