



CHARTERED ACCOUNTANTS

Principal: Brian T Spragg BCom CA (PP)

Recommendations For New Business Owners

Business Operation:

1 **Bank Accounts:** Three Bank Accounts should be kept as follows:

- a) Business Cheque Account for all business transactions
- b) Private Cheque Account for all personal transactions
- c) Tax Reserve Account for accumulation of funds to meet future tax liability

Funds should be transferred monthly by Automatic Bank Transfer, from the Business Account to the Private and Tax Reserve Accounts. Transfer approximately 15% of total sales to your tax reserve account as this should be sufficient to cover your taxation liability. The transfer to the Private Account will represent the amount budgeted for personal expenditure.

Arrange for your Bank to send you bank statements monthly in respect of each account operated, or whenever they are full.

2 **Wills:** Everybody should have a Will including both husbands and wives and Wills should be reviewed approximately every 3 years. Generally, Solicitors charge either nothing or a nominal fee for simple Wills, but the initiative for preparation of initial Wills and future reviews thereof must be taken by the individual.

3 **Accounting Methods and Records:** Attending to business accounting will attain the maximum efficiency in the following manner:

- 1) Bank **all** income to your Business Bank Account (not to subsidiary savings accounts) and mark clearly on the deposit butt full details of this income.
- 2) Make all payments from this Business Account, with Internet Payments being the preferred choice.
- 3) When you receive a bank statement mark on the left-hand side the source of each deposit or cheque and highlight items with GST. Add up the highlighted amounts and total at the bottom of the bank statement. This acts as a good management tool and forms the basis of your GST work paper.
- 4) Keep a record of all monies received as follows:
 - a) **Cash Sales:** Keep a Day Book in which expenditure from till, daily takings and amounts banked are recorded.
 - b) **Credit Sales:** Payments for all charge accounts to be receipted so that receipts written out reconcile with amounts banked.

- 5) Keep all possible vouchers, ie: invoices, statements, receipts, etc... in respect of income received and payments made. This is particularly important because of Goods and Services Tax requirements. These should be kept in an alphabetical file. Start a new file at beginning of each new tax year.
- 6) Keep all of the above records in tidy order. We recommend purchasing an "East Light" folder for filing all invoices in date order and note on the tax invoice the cheque number and date when the account was paid.
- 7) Keep full details and documents in respect of any special transactions during the year, for our guidance when we prepare your Financial Accounts, eg: Hire Purchase documents, Legal Statements re Property Purchases etc.

- 4 **Payment of Taxes:** Self employed persons maybe required to pay provisional tax during the course of each business year and subsequently, following the preparation of Financial Accounts, to pay additional terminal tax or receive a tax credit or refund to adjust when the actual liability is known.

Generally speaking, taxes are payable each year as follows;

28 August, 15 January

& 7th May

7th April

-1/3 of provisional tax for current year

Terminal Tax from previous year

Where taxes are overpaid the overpayment will either be refunded or deducted from the next payment due by the taxpayer.

Provisional tax for the current year is generally based on the previous year's tax liability. However, if income for the current year is expected to be substantially higher or lower than that for the previous year, provisional tax can be estimated.

The first year in business no tax is physically paid, however in the second year two years taxation is payable - the first years 'terminal tax' and the second years 'provisional tax' - hence taxation planning is essential. This should be discussed at the initial meeting.

- 5 **Taxation Reserve Account:** A taxation reserve account should be kept and a monthly transfer of sufficient funds should be made to this account from the Business Bank Account to cover expected taxation liability. The amount transferred must be reviewed annually and adjusted where appropriate to provide adequate funds for tax liability. .

Where the Business Account is operated in credit, then the Taxation Reserve Account should take the form of a Savings Account on which interest will be earned. Generally speaking, 15% of gross sales (GST included) should be transfer to your Taxation Reserve Account.

- 6 **Personal Accident Insurance:** All people in business should have Personal Accident (and Sickness) Insurance policy giving a minimum amount to pay for personal commitments.

7 **Wage Records:** If you are employing labour we will have advised the Inland Revenue Department that you have commenced as a new employer. Shortly you will receive from the Inland Revenue Department literature on how to pay wages, including a copy of current taxation tables, and an IR345 Remittance slip for the payment of P.A.Y.E. deductions each month.

8 **G.S.T.:** If your income is expected to be over \$60,000 per year you are required to register for GST. If your income is below that you can voluntarily register for GST which may be advantageous. We suggest you discuss this with the person handling your affairs.

We are happy to assist with the preparation of GST Returns. However, GST is relatively simple and we can assist you in setting up a system to prepare your own GST Returns.

Proper maintenance of records as discussed in 3(5) is essential, as your GST Return could at any time be audited by the Inland Revenue Department.

If you require any more information concerning GST we have a GST Booklet explaining GST in more detail.

9 **Family Arrangements can Minimise Taxation:** Considerable taxation advantages can be obtained by making any one or more of the following arrangements;

- 1) By conducting certain operations in the wife's name alone, provided she has capital to put into the venture concerned
- 2) By paying wages to children who work for the Business.
- 3) Forming a Partnership or Company between Husband and Wife.

In each of the above cases of course, payment or sharing must be fully justified for services rendered or capital contributed and any arrangements so made will only be recognised by the Inland Revenue Department if they are reasonably based.

Where a husband and wife operate in Partnership or a Company, they must ensure that all trading is done in the Partnership or Company name, that they operate through a Partnership or Company Bank Account, and that Partnership or Company assets, eg; Vehicles, Plants, etc... be in the Partnership or Company name.

10 **Limited Liability Companies:** Companies are generally formed to obtain one or more of the following advantages;

- 1) **Limitation of Liability:** This is of particular importance in high risk businesses or where large business transactions are undertaken. Liability of shareholders is limited to the amount of share capital they initially agree to take up in the Company.
- 2) **Reduction of Taxes:** There are long term advantages for businesses operating as a Company in reducing Income Tax as Company tax rates are lower than some higher individual tax rates..
- 3) **Providing Security to a Lender:** A Company can create a debenture over its assets including stock, debtors, work-in-progress and plant thereby providing an acceptable security, particularly for Bank lending. It is not possible for an individual to offer stock, debtors and work-in-progress as security.

- 4) Ease of Transmission of Shares: A Company, having the total capital divided into several shares, provides a convenient method for transfer of an interest in a business or other undertaking to family members or key employees.
- 11 Fees: As with other Chartered Accountants in New Zealand our firm charges on a time basis, and the amount of your fee is determined by the amount of time we spend on the job.
You can keep your fee to a minimum by;
- a) Discussing early with us the form your business records should take.
 - b) Maintaining full and clear records of all transactions.
 - c) Ensuring all information we need at year end (set out in the check list from us) is provided.
 - d) Writing informative descriptions on the Bank Statements alongside each payment or deposit on the left hand side of the bank statement.

If you wish to have an estimate as to the likely cost of your accounting service, please do not be reluctant to raise this matter and discuss it with us.

- 12 Priority of Work: work in our office is processed on a first in first out basis, therefore the earlier in the year your records are forwarded to us the earlier we will be able to complete your work. If there is an urgency to prepare your information please advise us and we will make this a priority.
- 13 Services Available: The average business person looks to a Chartered Accountant primarily in connection with taxation matters. However, we believe our primary task is to assist out clients with business management to ensure that their businesses are run the most efficient and profitable manner. The following is a list of some of the services we are able to provide for our clients.

1. Preparation of Financial Statements & Taxation Returns
2. Formation of a Company
3. Filing Company Annual Returns
4. Preparation of budgeted Cashflow Statements
5. Business Management Advice
6. Advice on investments
7. Following up slow debtors
8. Preparation of monthly Management Accounts

We would like to assist you or your friends. Please contact us if we can be of assistance.