

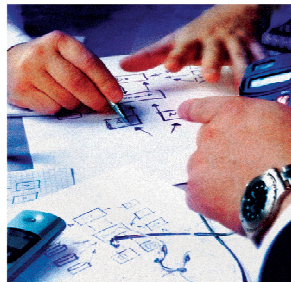
# **ACCOUNTANCY + BUSINESS ADVICE CENTRE**

## **HELPING MY CLIENTS**

**10 Case Studies**

**by**

**NICK ROBERTS**



**ESSENTIAL BUSINESS INFORMATION  
BEFORE IT'S TOO LATE TO MAKE A DIFFERENCE**

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## **THE ISSUE: TIGHT CASHFLOW AND UNHAPPY BANK MANAGER**

"The recession had reduced my cash flow and I was under pressure from my bank. I had cut costs as much as I could but I still needed, so I thought at least, to take wages from the business of \$8,000 per month to cover my large mortgage and

o u t g o i n g s  
which meant I  
was paying the  
IRD o v e r  
\$2,000 p e r  
month in PAYE  
just on my

**As usual, my accountant couldn't suggest anything practical. I was desperate.**

wages. I couldn't face going back to personal Provisional Tax and taking my money gross as I never had the cash to pay the damn tax in lump sums. I spoke to my accountant who, as usual, couldn't suggest anything practical and was more interested in getting hold of my books so she could charge me to churn out my Tax Returns.

In desperation I approached the Chamber of Commerce who referred me to Nick. I explained the problem to Nick who asked to see my annual financial statements and asked a few questions, including what my personal mortgage had been used for.

I told Nick that \$100,000 of the mortgage had been injected into the business as that seemed to be the cheapest way at the time. Nick also pointed out that the business owed me \$130,000 which was sitting in my advance account, which I never really understood anyway.

Just imagine, Nick came up with an immediate solution, firstly to stop taking wages and draw upon my advance account (which no one had ever told me I could!) and secondly to rearrange my borrowings so that \$100,000 was borrowed in the name of the business (at the same interest rate as it was secured on the house just the same) which meant I didn't have to draw net wages equivalent

**Nick asked me a few questions and, to my amazement, suggested an immediate solution.**

to the loan repayments on the \$100,000.

So simple but what a result! My

cash flow suddenly improved by over \$3,500 per month, my bank manager was happy and needless to say, I appointed Nick as my accountant there and then!"

## **THE RESULT: OUTGOINGS SLASHED BY \$3,500 PER MONTH**

## **THE ISSUE: THE IRD IS DEMANDING \$1 MILLION IN TAX ARREARS**

"To be honest, we didn't believe Nick at first. It's true, we were in a bit of bother with the IRD (having hidden approx. \$1.5m sales overseas at our old accountant's sugges-

tion). Yet we didn't accept that we could be prosecuted and jailed by

**At our accountant's suggestion, we had hidden \$1.5m sales overseas.**

the IRD. Our optimism proved to be misplaced. After the first meeting with the IRD my business partner and I were sick with worry. On the home front my wife gave me an ultimatum - sort it out or she was gone! As tempting as that was, I couldn't afford it. Then the IRD brought up their big guns: they raided our old accountant's house and office, looking for our files! That sort of brought the message home. Only then did we listen to

Nick when he said we needed specialist advice. He suggested bringing in a top tax guy. His rate was high (\$600 an hour, which at first we had thought was ridiculous) but he proved to be worth every cent of it. He in turn brought a top tax lawyer. Between the three of them, they negotiated an excellent deal for us: immunity from prosecution and only paying up \$70K each (instead of half a million). My house, the business and my marriage were saved.

**Nick made us take a realistic view on the enquiry and brought in the help we sorely needed.**

Nick and I became firm friends, sharing many great lunches at our local Italian restaurant."

## **THE RESULT: THE IRD ONLY GETS \$140K, HOUSE BUSINESS AND MARRIAGE SAVED**

## **THE ISSUE: STAGNATING PROFIT AND CUTTING COSTS BRINGS NO RELIEF**

“Our profits had stagnated over the last couple of years or so and on the advice of our previous accountant we tried to cut our costs which actually did more harm than good as the quality of supply suffered. Our accountant at the time always seemed too busy to come and see us and hadn’t helped us at all.

Nick was a customer of ours and asked us one day how we were doing which lead on to a discussion about our need to increase profits. Nick suggested that to achieve a meaningful increase in our profits we needed to spend more time on the income side of the Profit and Loss Account than the cost side and that we needed to analyse our turnover which was made up of three components:

- The number of our customers
- The average amount they spent with us
- How many times they bought from us over the course of the year

As we weren’t clients of Nick’s he left us to do the required analysis but as the bookkeeping was done by our accountant for GST only we didn’t find this very easy, so the next time Nick came by we asked him to help. Nick said that to make things easy, we needed our own MYOB accounting software (which would cost us less than \$500) and an additional suite of reports which he had custom-developed to analyse business performance which would only cost us another \$150.

Well, we were keen so we gave Nick the go-ahead. Within a few months we knew exactly how many live customers we had, what our average \$ sale was and how many times the average customer bought

from us in a year. We knew the figures were about right by multiplying the three components together which equalled our turnover. As a bonus, we could also run a really useful report on obsolete stock and rank our customers by gross profit earned (which enabled us to focus on our top 20% of customers who we discovered, earned us 75% of our total gross profit).

**We found out 20% of our customers earned us 75% of our profit.**

Nick then explained that the secret of success lay in two things:

Firstly, to improve anything you need to know how you are currently performing as what you can measure you can manage. Just knowing how many customers we had or the average \$ sale meant that we would know that we were getting better or failing.

Secondly, smaller easier-to-achieve improvements in each of the three components would bring about a much greater overall improvement than trying to make big changes in one area.

Nick then helped us to choose five of the hundreds of strategies he could help us with in each area to reduce the customers we were losing, to increase our conver-

With Nick, we chose five strategies amongst the hundreds that he had available. sion rate of prospects, to increase the number of our sales leads, increase our average \$ sale and the customer buying frequency. We tested and measured each strategy to ensure they were as effective as possible and then set to working on the strategies with a will.

By the end of the first year our turnover was up 20%, equivalent to \$250,000, our gross profit had also increased and our worries about reducing our costs were a thing of the past!”

## **THE RESULT: TURNOVER UP \$250,000 AND GROSS PROFITS UP TOO!**

**THE ISSUE:  
SPENDTHRIFT BUSINESS  
PARTNER ANNOYS BANK**

"As much as I liked Nick, I was sick and tired of meeting Nick in our bank manager's office to explain, yet again, why we were at the top of our overdraft limit following yet more excessive spending by my partner, the majority shareholder in our company. I said "Nick, I can't take this anymore, what shall I do?"

**Sick and tired of meeting my bank manager.**

Well, Nick must have been sick of the meetings too, because he replied "leave it to me". Within a month he had got a deal

**Within a month, Nick had put a deal together.**

together and then, after making sure my partner obtained independent advice, helped me negotiate to buy out my partner, despite me not having two pennies to rub together!

I've never looked back since - no more trips to the bank and with Nick's help, the business has gone from strength to strength."

**Since then the business has gone from strength to strength. I've never looked back.**

**THE RESULT:  
A SIMPLE DEAL ALLOWS THE  
MINORITY SHAREHOLDER TO  
BUY HIS PARTNER OUT**

**THE ISSUE:  
LACK OF ADVICE RISKS  
\$250,000 INVESTMENT**

"I had \$250,000 invested in my business in my advance account (and no bank debt) and unfortunately my business went belly-up following a totally unexpected uninsured legal claim of \$400,000.

I had been in business for many years and paid the same accountant good money for 10 years. My lawyer had acted for my family for three generations. Yet neither my previous accountant nor my lawyer had bothered to mention the simple and straightforward technique suggested by Nick soon after I met him. In short, it was only going to cost me \$250 in lawyers fees to save the whole \$250,000 I'd invested in the business!

**Nick immediately suggested this simple and straightforward technique.**

You can imagine how pleased I was that a good friend of mine had referred me to Nick!"

**THE RESULT:  
SPENDING \$250 SAVES  
\$250,000.**

**THE ISSUE:  
TAX SAVING SCHEME  
OVERLOOKS PROPERTY  
RELATIONSHIPS ACT**

"I'm so pleased I met Nick! He reviewed my affairs and saved me a cool half-a-million dollars by pointing out that the tax saving scheme that my previous accountant had suggested was exceptionally risky from the Property Relationship Act point of view. I was a year into my second relationship (I thought at the time I had found a new lifetime partner) and was about to transfer investments selected for capital growth worth about \$1 million into my partner's name to save tax of a mere \$10,000 a year."

**He pointed out the risks of the Property Relationship Act.**

"Following Nick's advice the investments were transferred into my trust instead, my partner was made a conditional beneficiary only of the trust and the tax arising was still reduced. Six months later, as a result of difficulties with step-parenting, we went our separate ways but at least my assets were safe!"

**THE RESULT:  
THE CLIENT SAVES \$500K BY  
FOLLOWING NICK'S ADVICE**

## **THE ISSUE: POOR SYSTEMS AND LOW GROSS PROFIT MARGIN**

"We are importers and wholesalers of over 4,000 product lines which we hold in stock and sell throughout New Zealand mainly through self-employed agents who we pay commission based on sales. Our accounting and inventory systems were in a bit of a mess as following our request for help, our accountants had sent in one of their trainees who had **Our accountant had sent a trainee who had actually made things worse.** We import in several different currencies and also have to cope with import and freight costs so our accounting is not straightforward.

A friend recommended Nick as someone who would come in and sort out our problems so we asked him for help. We explained to Nick that in addition to sorting out our accounting and inventory we also needed help in pricing, budgeting and most importantly of all, to boost our gross profit margins which had not increased in line with the growth of our turnover.

When Nick had sorted out our accounting and inventory issues he started looking at our gross profit margins. He told us that it was no good just looking at the overall gross profit margin, we had to drill down into this and find out why we were falling

**Nick customised our accounting system so we could get the relevant data.**

behind and that we needed to be able to produce regular reports showing how we were tracking, not just carry out the odd test analysis here and there as others do. Nick explained that the best way to do this was to customise our accounting system to analyse our margins in several areas, by different types of customer, across product categories, by supplier, by salesperson, or by individual customer if significant, and lastly by individual product line.

After some months of looking at the various reports which Nick produced for us in

line with our GST periods, we found wide variations in profitability between our sales agents, our suppliers, customers and product categories. Working closely with Nick, we set a target gross profit margin and then looked at everything below this level. We dispensed with a couple of our sales agents, replaced 10 suppliers and stopped stocking about 250 product lines. We also focused more on the types of customer which were generating the highest margins, looking for more of the same and in addition, introduced more product lines in the most profitable product categories. Nick also pointed out that there wasn't enough difference on some of our margins between the top-end and budget lines, as customers expected to pay more for luxury items so we in-

**We set a target gross profit margin and looked at everything below this level.**

creased prices on our more expensive lines.

Our gross profit margins were definitely on the mend and we knew exactly how much profit we were making from month to month and all our import and freight inwards costs were now reflected in our inventory and prices. We could compare actual results against budgeted and immediately identify slow-moving inventory. And most importantly of all, after our first year of working with Nick our gross profit margin had increased by over \$160,000 and we had a lot more cash in the bank."

## **THE RESULT: ANALYSING GROSS PROFIT RESULTS IN \$160K INCREASE IN MARGIN**

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## **THE ISSUE: PROFIT MARGIN DECREASING AND CANNOT INCREASE PRICES**

"My wife and I run a specialised bakery with 32 different product lines (mostly with different prices for different customers), supplying wholesalers. Our largest customer was a larger bakery. What with additional hassle from the OSH (we had

an unfortunate accident) and increased wages, our costs had been rising steadily but we found it difficult to raise our prices and our gross profit margin was decreasing. Our accountant at that time did point this out but wasn't able to pinpoint why or tell us what to do about it.

A friend mentioned Nick and he came to look around the bakery and at our systems. And although we had bought QuickBooks to produce monthly reports (which we never actually got round to) that was as far as it went. Nick said that we needed to look at our different product lines and determine whether they were all sufficiently profitable and offered to help. Nick then did a costing exercise, analysing our prices and raw material and labour costs and worked out how much it cost to produce each and every one of our lines based on the actual products we had baked and the costs we had incurred over the last six months.

What Nick found was that we were making losses on at least 10 of our product lines (eight of which were sold to our

**He found out we were making losses on 10 of our product lines.**

largest customer) and two of our wholesaler customers, especially the fancier lines which consumed more fruit and toppings. Although we were initially disappointed we soon realised we were, for the first time ever, in a position to do something about our falling gross profit margins. We approached the two wholesalers and explained we couldn't continue to supply at the existing prices and also went and met the buyer at our large bakery customer and showed him Nick's figures. One of the wholesalers refused to budge so we stopped supplying but the other agreed a reasonable price increase. The bakery dropped two of the lines but allowed us to increase prices in stages on most of the lines, not just the ones making losses.

Following our initial success, Nick also helped us to do some research on poten-

tial additional wholesale customers and then sat down with us and drafted a detailed marketing action plan where each and every step and who was doing what, and by when, was set-out. We knew exactly what our objectives were and what we had to do.

**For the first time ever we were in a position to do something about our falling GP.**

We were stoked. Within a few months our gross profit margin had increased by over 4%, about \$75,000 and for the first time in years, the number of customers were increasing, not declining, so things were really looking up!"

**Our profit margin increased by 4% (about \$75,000) within a few months!**

**THE RESULT:**  
**A CLEVER WAY IS FOUND TO INCREASE THE PROFIT MARGIN AND ATTRACT MORE CUSTOMERS**

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**THE ISSUE:**  
**IRD ENQUIRY OVER USE OF TAX HAVEN: MILLIONS AT STAKE**

"Nick was instrumental in achieving a very favourable outcome with a particularly difficult tax situation. Our company had been set up by a firm of Swiss lawyers as a tax scheme on behalf of the Russian owners and acted only as an agent to a Bahamas based company. The idea being that the majority of the profits on the group business would be transferred to the Bahamas.

**Nick dealt with all the complex issues.**

As one could expect, Inland Revenue was not happy seeing tax disappearing out of the country and suddenly took a keen interest in our tax affairs. Nick dealt competently with all of the complex issues including the much-feared transfer pricing issue and in the end negotiated a minor

settlement to the taxman for the arrears of about \$10,000 and going forward, he made sure we left a 10% return on sales to contribute some tax which allowed the group to keep the great bulk of profits tax-free. The potential tax at stake was into millions of dollars.

**He set up a system so we could continue to trade virtually tax-free**

This whole episode was conducted with Nick's normal highly pragmatic and thorough approach where all issues and potential benefits or problems were explained in full."

### **THE RESULT: A MERE 10K TAX SUCCESSFULLY NEGOTIATED AND SOLUTIONS ARE FOUND FOR THE FUTURE**

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### **THE ISSUE: FINANCIAL MESS AND NO SYSTEMS - INVENTORIES AND DEBTORS OUT OF CONTROL**

"Although our previous accountant was preparing our books and GST returns and sent us bi-monthly reports and graphs showing our cash flow, we were in a financial mess.

We never knew what we owed our suppliers or more importantly what we were owed by our customers. Producing a statement for a customer to show how much they owed us was a real hassle and

**We never knew what we owed to our suppliers or what our customers owed to us.**

some took ages to pay us (many months or even a year overdue). We never seemed to have any cash, we didn't know what inventory we held and often promised to sell the same inventory to different customers, much to our subsequent embarrassment. We were never in a position to re-order stock in time and we were at our wit's end. Our accountant never came to see us and we couldn't pay his huge bills anyway.

The minute we met Nick he knew what to do. He bought MYOB for us and sat down

**The minute we met Nick, he knew what to do.**

with us to plan an implementation timetable which included importing into

the software all our customer, supplier and inventory details. He set a date three months in advance to go live and then trained us on the bits that were important that we do. Not content with that, he then found us a good bookkeeper to do the difficult bits of the bookkeeping so that the bank was reconciled at each month end.

It went like clockwork. All of a sudden we could print off a list of Aged Receivables to chase, we knew exactly what to pay on the 20<sup>th</sup> and we knew exactly what inventory we were holding. We saved huge amounts of time invoicing customers (no

**Our inventory had increased by \$100K, which is why we had no cash!**

more laborious writing out the same old details on our sales invoices) and

could produce statements in a flash. We found that we had lost control of our inventory which had increased by over \$100,000 (that was one reason why we had no cash). We got rid of the customers who always paid late. Lastly, at a click of the mouse we could run off a monthly Profit and Loss report which (unlike the accountants reports) included the AR's, the 20ths and our inventory, which told us exactly whether we were making any money.

The end result of Nick's involvement was a \$150,000 reduction in our bank borrowing and a \$25,000 improvement in our profits, together with a lot less stress and more time to work on the more important areas of the business - thanks Nick, you're been great!"

### **THE RESULT: AN EASY ACCOUNTING SYSTEM IS INSTALLED, BANK BORROWINGS DECREASE BY \$150K AND PROFITS INCREASE BY \$25,000**