

WHEN STARTING UP A BUSINESS WHAT YOU CAN DO TO KEEP AN ACCOUNTANT HAPPY

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Introduction

This paper focuses on the practical aspects of starting a business and keeping your accountant happy. This is important because your accountant is a key person to involve in your business, especially when starting up a business. Their input dovetails well into the help your banker and potentially your lawyer (depending on the complexity of your business) will give you. As a farmer, who is currently a lower order sharemilking 1200 cows near Ashburton, I have been involved in two 2 business start-ups - an equity partnership and my current lower order sharemilking business. Prior to farming I studied at Lincoln University and worked for Dexcel as a consulting officer.

Planning

When starting a business and in order for your accountant or other rural professional to offer you the correct advice, planning is a key element – up to 70% of any project should be spent in the planning phase. You all know the saying, “aim at nothing and you’ll be sure to hit it”. Personal plans, business plans, goals etc may sound a little tedious, for some it is even a question of, “what’s the point writing something down when life and circumstances can change so much?” We need to remember though, that these plans are not set in concrete but rather have a life of their own. This means they can be constantly changing and evolving.

To start off the planning process you need a feel for the following:

- where are you now
- where do you want to be
- how are you going to get there

Understanding yourself, knowing what’s important to you (your values and aspirations) and being aware of your own strengths/weaknesses all helps in chunking down the “where you want to be” into achievable steps - the “how you will get there” phase. Answers to all three of

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these questions can act as a yardstick when considering different opportunities. You and your accountant are more than likely to put in place the correct structure if you are able to clearly discuss these three key points together.

Choosing the right accountant

What makes an accountant good? How do you answer such a question on a subject you may know little about? A brainstorm of this, along with what you think you need and want from one, is a good start.

Personally, I required my accountant to be:

- technically sound and professional
 - CA registered
 - accessible
 - a provider of good info when I needed it
 - well informed on current issues (e.g. Kiwisaver)
 - able to provide some benchmarking data
- and have:
- a good reputation and strong client base
 - a thorough understanding of my business and aspirations.

Consider family, friends, your boss, your bank manager and other rural professionals as a sounding board to check aspects you may have missed. They may also have some suggestions on different accountants to approach. Realise that often the first meeting is free, so shopping around for one is easy and affordable, if that's your style.

Some accounting practices have a consultant-type accountant who will front the relationship on behalf of the practice and employ others to prepare the books etc. Don't be fazed by this as it can be a good mix.

The nuts and bolts of establishing and running a business as well as utilising your accountant

Generally accountants charge on time. Bankers charge on fees and interest. Therefore be sensible in how you use your accountant, but remember that failure to spend extra time openly discussing your needs or situation initially, and throughout the relationship, could cost you significantly more than the cost of a few extra hours.

Structures

A key aspect of starting up a business is establishing it within the right business structure. This I'm not going to discuss, however most of you would have heard of the four main business structures; a sole trader, partnership, company and trust. (For further information on these

structures, refer to SIDE proceedings 2001 – Financial Health – Advanced Business Structures by Graham Brown for an excellent paper on business structures.)

Key aspects to consider when choosing a business structure are:

- tax implications
- administration requirements and compliance costs
- asset protection and succession planning

Try to anticipate the change and growth that is likely to occur within the business as this is likely to be influenced by the structure you put in place. Also realise the taxation implications when transferring assets from one entity to another, a potential yet very real cost if you begin with a structure that you outgrow.

Budgets

An accountant is a good source of budgeting help, figures and advice. They will certainly be a big help when it comes to assisting with the taxation aspect of the budget. You definitely need to plan for this, as it can have a major impact on the cash flow budget. There are other sources of budget information that could represent a bigger or better sample size, which may need to be considered. Whilst a budget is a best guess and only a guide, the real value in the budget is very similar to a feed budget as it helps you identify the pressure points at different times of the year. Assess risk by getting a feel for how your business can cope with different variables through looking at the budget's sensitivity. Also run scenarios through the budget. By knowing the results of this analysis you are empowered in your management, and monitoring, to be more proactive according to the variables within your business environment. You will also have a fix on the likely contingencies you'll need in place.

Tax

You'll need to have a reasonable understanding of taxation principles. Your accountant will help you here. Realise the IRD (www.ird.govt.nz is a great site) is a great source of help and resources which are free – internet/information booklets. Your accountant is most likely to ensure you are registered for GST, PAYE etc.

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Information your accountant needs

Another aspect that you need to establish with your accountant is how much recording and reporting you intend to do as this can range from you sending in monthly invoices, receipts and bank statements through to doing your own GST, PAYE etc and providing the accountant with the information at the end of the year. Ask yourself if you have the inclination, time and skills to drive this aspect of the business. Talk this through with your accountant and be aware of the potential risks involved with each option.

Computer programs

Obviously you'll need some systems in place to record information for PAYE and GST. Computer programmes are a way of doing this. The more you do yourself, provided you aren't creating problems for your accountant or missing payments etc, will reduce the amount of money you spend at the accountant. A further positive is that through doing your own PAYE, GST etc you are gaining the discipline of managing and monitoring your budget. Personally I use banklink books and my own spreadsheets in Microsoft Excel. That is not to say I won't move into a more advanced programme in time, however my business isn't that complex at the moment.

Working out the relationship

Your accountant is going to be happy if you do what you say, when you say will. Your accountant has obligations to the IRD as well, and has timeframes to work within, and like any relationship it's a two-way street. You need to keep your accountant advised on relevant changes etc within your business.

You'll know your strengths/weaknesses, skill set and time commitments. These factors will help you decide how much you drive the accounting aspect of the business. Don't over commit yourself in an area that is very easily out sourced.

Closing comments

Be prepared for a lot more mail and make sure you open it when it comes in!

Don't hesitate to pick up the phone and call your accountant.

Don't be daunted by the prospect of being in business. It's a great learning curve - I've made mistakes, I wasn't the first, nor will I be the last! Once you've done a few of the different returns, budgets etc you will be fine as it's easier than you think, and you are more than likely to gain in confidence as you go. Operating a sound farm with a happy team for a profitable business links a vast set of skills together and provides further stimulation to your job. Success at this can be measured relative to your goals.

Realise that one of the easiest ways to keep your accountant happy is to pay your bill on time!