

Chartered Accountants

Business **in focus**

Monthly audio program > presented by Michael Schildberger

September 09

A portrait of Harold Mitchell, a middle-aged man with dark hair, wearing a dark suit, white shirt, and red tie. He is sitting with his hands clasped in front of him, looking directly at the camera with a slight smile.

Winning and losing in business

*Harold Mitchell, Mitchell
Communication Group*

The extras



Chartered
Accountants

NUMBER ONE IN NUMBERS



We are always on the look-out for people who have been successful in business and who are prepared to tell us about their experiences. We have several well-known names on our CD this month. Harold Mitchell is one of them, and Australia's leading media buyer has heaps of ideas, experience and success in business to share with us.

He's had many ups and downs in his life, including alcoholism when he was young and going broke years later, but he's back on the rich list.

The importance of cash is uppermost in the minds of those surveyed recently by MYOB. But a surprising result of the survey is that a large percentage of businesses don't track their cash closely enough. MYOB's CEO Tim Reed advises business operators to seek outside assistance if they need help and tells them don't remain in denial. He brings us details of the survey results on the CD.

Independent funds management analyst, Roger Montgomery says we could be better off with a simpler approach to portfolio construction and looks at conventional methods compared with a successful alternative.

Chartered accountant Brendan Halligan of Halligan & Co. compares legal approaches to claims for commercial and personal injury damages.

And Liz Smith CA of Grant Thornton has details of changes from the AASB in its revised Business Combinations Standard for valuations.

I'm sure you'll find value in all of our interviews again this month. Enjoy.

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Track 1

PORTFOLIO CONSTRUCTION

Roger Montgomery, Independent Analyst

- > In the short run the stockmarket is a voting machine and prices are driven by popularity or a lack thereof. In the long run it's a weighing machine and prices track business values
- > You are not investing unless you know what the business is truly worth and what its prospects are
- > Business valuation should drive investment decisions
- > Returns can be higher and risk lower if a portfolio is built without the use of conventional wisdom
- > Purchase, at a rational price, a portfolio of businesses that meet three basic criteria

Track 2

COMMERCIAL CLAIMS v PERSONAL INJURY CLAIMS

Brendan Halligan FCA, Halligan & Co.

- > In a personal injury claim lost cash flows in the past are treated differently to lost cash flows in the future. Past losses are not discounted
- > Over-compensation occurs because the losses are not adequately reduced to take into account the risk associated with them
- > Damages for commercial claims:
 - both the past and future losses should be discounted, not just future losses
 - the losses should be discounted back to the date of the breach, not the notional judgment date
 - the discount rate should reflect both the time value of money and the risk of the losses
 - the court may award simple interest on the present value of the losses for the period from the date of the breach to the date of judgment

This month's **essentials**

Track 3

ECONOMIC UPDATE

Professor Neville Norman, Melbourne University

- > It was a lonely feeling to predict in the spring of 2008 that the economy would
- > recover by the end of 2009. But the Governor of the Reserve Bank now
- > concurs!
I can't recall such a spread of opinion about the state of the economy:
 - The doom and gloom merchants, predicting sluggish economic activity for another year, unemployment rates over 10%, interest rates staying low
 - The middlists, predicting a mild recovery, slow growth and budget deficits for years
 - The recoverists, looking at China and the role of the stimulus packages, with worries about inflation, the return of a boom, and rising interest rates
- > Beware some of the economic headlines, particularly the negative ones

Track 4

WINNING AND LOSING IN BUSINESS

Harold Mitchell, Mitchell Communication Group

- > Start with a plan: update it as you go along, but be clear about where you want to go
- > Take your staff with you, with your customers and suppliers: they are the pillars of a successful business
- > Be patient: success won't come overnight, and there'll be setbacks along the way
- > I was an alcoholic at 23 and bankrupt years later – now the company turns over a billion dollars a year
- > For me, determination not to lose is a more powerful motivator than making money
- > Work hard, know when to relinquish control, and remember you're in a marathon, not a sprint

Track 5

WHERE THE PROPERTY MARKET'S HEADING

Nicholas Don, Odyssey Financial

- > All indicators show that we're at the start of a new property cycle
- > Middle Australia has returned to the market with strong clearance rates everywhere

- > We've also seen rental increases annualised at about 7% - very good for investors
- > The top end of the market is picking up, with opportunities to buy in at 10-15% discount and good long-term growth
- > Median growth figures around the country are tremendous
- > The property clock: Melbourne and Sydney are pointing to 7 o'clock, right where values are rebounding

Track 6

VALUATIONS UPDATE FOR FINANCIAL REPORTING & TAX

Liz Smith CA, Grant Thornton

- > It is no longer allowable to capitalise acquisition costs (e.g. legal fees and stamp duty) and include in goodwill
- > Intangible assets are still required to be measured at fair value. The valuation of intangibles is complex and should only be done by someone with appropriate qualifications and experience
- > In the current market conditions many companies rely on the value in use test to support the carrying value of their intangibles
- > ASIC has indicated that asset impairments will be a key focus area in coming months. Companies will need to ensure appropriate care is taken in undertaking intangible asset impairment reviews
- > The ATO has recently issued a new valuation guidance statement

Track 7

TAX UPDATE

Michael Jones CA, Cummings Flavel McCormack

- > Opportunity to get 12 month interest free payment arrangements with ATO for business activity statement debts (GST, PAYG)
- > Directors are personally liable for a company's unpaid employees' withholding tax
- > New directors are also liable for unpaid withholding amounts due prior to their commencement
- > Specific steps are required to avoid personal penalties
- > Be pro-active with tax compliance

Track 8

SURVEY REVEALS POOR CASH FLOW TRACKING

Tim Reed, MYOB Australia

- > The latest MYOB Small Business Survey shows 2 businesses in 5 are struggling
- > A common – and dangerous -- weakness is poor tracking of cash flow
- > Many business owners are reluctant to seek help
- > Two-thirds of small businesses offering credit have reduced their payment terms
- > Fuel prices, pressure on margins and cash flow problems are seen as the main inhibitors to growth in the coming year

Track 9

SHAREMARKET UPDATE

Tim Lincoln, Lincoln Stock Doctor

- > The All Ords index has passed through the 4,000 mark – a welcome surprise
- > The market has rebounded 30% in a couple of months – that's fast, but rebounds are often stronger and quicker at the start
- > There's still plenty of upside in the market
- > The reporting season is underway with some very interesting results
- > Stocks of the month: JB Hi-Fi, CSL, Beach Petroleum, SMS Technology. ERA and - if we must have a bank - Westpac

Track 10

WORKPLACE STRESS – FRIEND OR FOE

Meiron Lees, InnerCents

- > Tough economic times add to workplace stress, increasing fears about job security
- > Other causes include bullying, harassment and office politics
- > Some stress can be positive, but it's important to recognize the danger signs
- > Practise daily routines to head off negative "thought attacks"
- > Employers have a duty under OH & S law to keep stress to acceptable levels
- > Clear and open communication is vital: stress feeds on uncertainty

For more information about the topics discussed on this September 2009 program, please contact the relevant organisations listed below.

PORTFOLIO CONSTRUCTION

The Institute of Chartered Accountants in Australia 1300 137 322

Web: www.charteredaccountants.com.au/training

COMMERCIAL CLAIMS v PERSONAL INJURY CLAIMS

The Institute of Chartered Accountants in Australia 1300 137 322

Web: www.charteredaccountants.com.au/training

ECONOMIC UPDATE

Professor Neville Norman, Melbourne University,

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WINNING AND LOSING IN BUSINESS

Harold Mitchell, Mitchell Communication Group

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WHERE THE PROPERTY MARKET'S HEADING

Nicholas Don, Odyssey Financial

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Web: www.odysseyfinancial.com.au

VALUATIONS UPDATE FOR FINANCIAL REPORTING & TAX

The Institute of Chartered Accountants in Australia 1300 137 322

Web: www.charteredaccountants.com.au/training

TAX UPDATE

Michael Jones CA, Cummings Flavel McCormack

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SHAREMARKET UPDATE

Tim Lincoln, Lincoln Stock Doctor

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WORKPLACE STRESS – FRIEND OR FOE

Meiron Lees, InnerCents

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