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Newsletter, December 2012

Practice update

We're almost half way through the financial year and I would like to thank everyone for their support. 2012 has been an exciting year, Fausto and I have been working together again for almost twelve months. We're winding down now after a busy festive month full of social occasions (engagements, weddings, birthdays and Christmas parties) but we both look forward to getting back to business in 2013 with the new opportunities that the New Year will bring.

Summer is now upon us and it's not too far from the arrival of Santa and all of his helpers. We would like to take this opportunity to wish everyone and their families a very happy Christmas and New Year.

Business valuations

Do you know what a business is worth? There are a number of reasons why you may need a business valuation (employee share scheme, family law matter, financing, business sale/purchase). A business is not actively traded like shares on the stock market so there is no identifiable market value. The book value of a business reflects the original purchase price of business assets (less liabilities and depreciation reductions). It does not reflect the price the assets may actually sell for or any value that is generated by the business' intangible assets (goodwill).

There are a number of different valuation methods but it is generally accepted that the discounted cash flow method, where the basis of valuation involves the calculation of the net present value of future cash flows, is theoretically the most appropriate. The capitalisation of Future Maintainable Earnings (FME) is the general method used as it is effectively a substitute for a cash flow based valuation. FME is generally expressed on the basis of EBITDA because it removes the distorting effect on the valuation of differences in depreciation, amortisation, financing and tax between the entity subject to valuation and other comparable entities. The capitalisation multiple applied to EBITDA reflects the risks of the business (a multiple of 4 represents a 25% return) and is usually based on an industry standard. RevenueSA use a FME approach when calculating the stamp duty on business transactions.

Valuations are generally calculated on a going concern (continued use) basis by the current owner. They therefore exclude any additional value which may be derived by a specific purchaser that may operate the business differently than from the current owner.

Just like valuing a property (which is easier due to more similar transactions and comparable properties), there are other various factors that lead to the decision not being based solely on the numbers. We can assist with preparing valuations and the financial factors.

How does Santa's accountant value his sleigh? By calculating its net present value!

Lodgement dates

The end of the December quarter may easily be forgotten over the Christmas period so you should be aware of the following dates:

- 28 January 2013 December quarter superannuation due
- 28 February 2013 December quarter Business Activity Statement (BAS) due

Did you know that if your Tax Agent lodges your quarterly BAS electronically, you get a four week electronic lodgment and payment concession? This isn't available for the December BAS as the normal due date is extended by four weeks after the Christmas period for everyone.

Kind regards, Nick