PKF

Accountants & business advisers

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Professional practices sector

Does your business have direction?

Business plans – like sat-nav for your business

A well constructed strategy is essential for ensuring a business knows where it is going. Often, business plans are considered only when new or additional financing is required. However management should, as part of its financial controls, plan, develop and review a business plan on a rolling basis, covering a period of three to five years, to monitor the actual performance of the business against the benchmarks set.

A good business plan will not simply set a target and aim for it regardless of circumstances. Economic, social and personal pressures change over time, so a business plan should incorporate as many variables as possible, which are accommodated through regular review of the plan. In this way it becomes an evolving strategy without losing sight of the ultimate goal.

A plan should also aim to promote the business. This is clearly necessary when aiming the document at external parties such as banks or potential purchasers, but is equally necessary when focusing on internal personnel, in order to promote the partners' strategy through the document.

The evolution of such a plan will require the participation of all partners and senior staff who have an input into the direction of the business. It is also useful to have an external contributor who can add an impartial critique of what may be an emotional process involving personal views.

The benefits of a good plan are manifold. On the one hand, it provides an indicator of how the business is progressing, through comparison with actual performance. On the other hand, it contributes to better informed decisions, more effective financial management and the ability to judge the performance of individual business streams. Less tangible, but still important, is the confidence it gives to providers of finance, potential partners and existing staff; they can see that the business is well managed, has a clear vision and believes in itself.

So what should a business plan contain? By its nature, it should be tailored to the business in question. However some ground rules are that it should follow the "five Cs":

- Clear – professional and easy to read
- Concise – focuses on the pertinent points

- Concentrated – centres on your business and your chosen strategy
- Credible – achievable and sustainable
- Corroborative – feasible and justifiable.

The contents will depend upon the purpose of the plan. However, it is always advisable to summarise the objectives, the vital ingredients and the steps to be taken to achieve the intended outcome.

In short, business plans should be tailored to your business, your objectives and your strategy. A plan is a working document to help you achieve the right result and control the business. Your PKF adviser will be happy to discuss any aspects of business plans with you, so please get in touch with any questions.

The new LLP SORP – the highway code for LLPs

The new Statement of Recommended Practice (SORP) on accounting by limited liability partnerships (LLPs) was published on 31 March 2006, and has immediate effect from that date LLPs have to prepare their accounts in accordance with the Companies Act and accounting standards, and the SORP provides authoritative guidance to apply these in the context of LLPs.

LLPs have been presented with particular accounting issues thanks to a couple of developments in the financial reporting environment. Particularly in the spotlight has been the distinction between equity and debt.

Members' capital has formerly been treated as equity, on the basis that it was for long-term use as working capital. However, the substance behind such amounts is that they are really a debt owed by the LLP to its members. As these amounts are normally repayable on demand to the members, they are now required to be shown as creditors, unless the terms of the Members' Agreement with the LLP allow the LLP to refuse to repay the amounts, even on retirement. As you would expect, few Members' Agreements are phrased in such a way.

Similarly, the SORP requires that members' remuneration is shown in the profit and loss account. If the members are contractually entitled to profit shares, it is an expense of the LLP and needs to be presented as such. This even extends to amounts such as interest on Members' capital.

It is likely then, that many LLPs will report no profit for an accounting period (as it is shared amongst the members and treated as an expense) and a zero net asset position (as all capital will now be included within creditors).

There is concern that some readers of the accounts may misinterpret this treatment. To counteract this, the SORP allows a different presentation, both in the profit and loss account and balance sheet, to indicate what amounts are due to members by providing for the option of sub-totals within those statements. Similarly, in the absence of an automatic division of profits, some profit will be reported and will be shown in the balance sheet as equity until it is allocated to members.

Another revision to the SORP requires provision in full for any annuities payable to members as at the date of their retirement, through a method of recognition of these liabilities as they are earned over the employment life of the member. It is likely that this will require actuarial input on an annual basis to establish the costs and liabilities arising from such arrangements.

The implementation of these changes will require planning and proactive advice. If you require help with this or any other aspect of LLP accounting, please do not hesitate to contact us.

Fuel efficiency – working the capital harder

Over the last few years, professional partnerships have faced a number of challenges. Implementation of new regulations, appraisal of the option of LLP conversion and IT development are just a few examples. In such periods of change, consideration of future cash flow demands is necessary to ensure that business objectives and the resources they require are not overrun by commercial reality.

Professional partnerships have always experienced limitations when looking to obtain capital injections. Partner mobility does not suit debt finance and the availability of bank financing is limited to what the individual partners can borrow. The cost of university education and recent house price inflation will curtail the debt capacity of the next generation of partners. Introducing new partner equity can also cause tensions in attempting to maintain the level of profit per partner, and could even result in dilution of the firm's value/assets per partner.

Many of the problems are replicated in LLP corporate structures where personal guarantees from the members are often required for external financing.

Following the adoption of UITF 40, many firms are now deliberating how to finance any uplift in profits, ensuring sufficient cash resources are available, initially to cover the tax bill but ultimately to allow the partners that have benefited from

the uplift to draw the related increase in profit. While UITF 40 has undoubtedly been a source of controversy, it has emphasised the importance of sound working capital management.

Improving working capital and cash flow management will help reduce the need for external finance, avoiding a number of the problems outlined above and helping to reduce interest costs.

Many firms are currently finalising their annual financial results and calculating profit per partner. Although other measures such as leadership, quality of service and people management contribute to reward strategies, the bedrock has historically been profitability and growth. In light of the above, the performance of equity partners in the management of working capital should be added to the list.

You should consider benchmarks achieved by other UK firms in terms of working capital cycles for different types of work. Appraising the benchmarks and taking individual circumstances into consideration mean that performance goals can be set. These should be high but achievable, providing a challenge for partners and reducing the time taken to turn work done into cash ("lock-up"). In some cases, a long-term approach may be required in order to get current performance up to an acceptable level.

It is important that the plans are clear, simple and well communicated within the partner group. Performance objectives often fail because of a lack of clarity. The firm's financial system should provide reliable information in order to monitor the working capital cycle. Monitoring performance against the target, and an emphasis on good practice, will lead to improved performance of the partnership overall.

We are able to offer a great deal more advice on working capital management, so please do give us a call.

Self assessment changes – speed cameras for the self employed

As most will now be aware, the Government has indicated that the timescale for filing self assessment returns should be shortened by four months, with a two-month extension to this for e-filing. The theory behind the proposed reform stems from Lord Carter's review of the current HMRC online service. By shortening the paper filing deadline, it provides a two-month "delay incentive" to file the self assessment return on-line, and thus help the Government achieve its objective of "e-government".

The new filing deadlines are proposed as 30 September for paper returns and 30 November for electronic returns. This will put increased strain on both accountants and clients. Indeed, many firms of solicitors who have 31 March year-ends and wish to file paper returns would have to submit the self assessment returns in the same timeframe as the Accountant's Report to the Law Society. This means that partnership accounts will need to be prepared and agreed, and the partnership tax return and the individual tax returns completed and agreed with the partners, all within a six month period. This will put increased pressure on the solicitors themselves, as they will need to co-ordinate their own personal information with their accountants at a much earlier date than before. The proposed implementation date is 2008, so there is time to plan for the changes, should they be adopted. If you would like to find out about the situation in more depth, and how it is likely to affect your practice, we can help.

Tax rates – how much do you pay?

In a recent study by an economics professor at Cardiff University, published by the Centre for Policy Studies, it was found that the UK's top earners are suffering an effective tax rate of 57.1%. Taking into account all factors, including "hidden" taxes, the more affluent of society are only receiving approximately £43 of goods and services for every £100 earned. Average earners appear to be better off, suffering a marginal rate of around 48.5%.

This comes on the back of another survey by Sage, which found that approximately one-third of businesses believe their accountant does not save them money. In addition, of the two-thirds that did think their accountant provided savings, about 40% believe that these savings do not cover the fees incurred to make those savings.

The moral is to ensure that you have an accountant who understands your business, and is sufficiently proactive to ensure all practicable measures are taken to minimise those taxes through effective and legitimate planning.

We take pride in ensuring our clients are provided with such advice. They are comfortable in the knowledge that their affairs are in the hands of quality professionals.

If you would like to be certain of such quality service, please contact your local PKF office.

For more information on any of the above issues, visit www.pkf.co.uk or contact your local office representative

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