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SPREADSHEETS – A TICKING TIME BOMB

It has become customary to use spreadsheets to enable decision making in business. They are easy to use and are a fast and powerful tool in many areas of business. Yet how much do we question the accuracy and integrity of the spreadsheets we have come to rely on?

Consider this

If we get software developers to write a program for our business, we expect that it will be carefully planned and designed with required outputs and the program will be written by qualified experts who will extensively test the

Subscribe

software for bugs. Finally, it will be tested to ensure the required outputs are achieved. If changes need to be made to the software, these will be done leaving an audit trail, so it is possible to keep control of the program.

When staff in the business write spreadsheets is the same criteria used? In many instances it is not. Surveys by KPMG and Price Waterhouse show that more than 90% of spreadsheets they checked contained errors.

There are many horror stories relating to spreadsheet errors – the National Bank of Australia had to take a $3 billion write down of its U.S. mortgage bond holdings due to a spreadsheet error.

What should be done?

The starting point is to establish what spreadsheets exist in the business? Once this is established, they should be ranked in terms of potential impact on the business. Those with high rankings should be subject to additional review – have they been planned, do they produce the desired output, are changes easy to follow, are they subject to last minute changes and have they been thoroughly tested? As best practice now indicates, they should be part of the business' risk profile and ranked with other risks in the business.

It is a relatively easy exercise to do – to check and manage spreadsheets in an entity. The losses can be substantial and the benefits, subject to management control, can contribute to the success of the business.

CORRUPTION: THE SCOURGE THAT CAN AFFECT YOUR BUSINESS

Anecdotal stories plus growing media focus point to corruption being on the rise. Have you considered what this can do to your business?

A fourteen country survey of companies by Price Waterhouse Coopers pointed to growing fear of corruption.

What the survey said

1. 63% of companies have experienced some form of corruption
2. 55% say the biggest fallout from corruption is damage to the company's reputation
3. 39% have lost a bid due to corruption
4. 70% think an understanding of corruption will enable their business to make better decisions, become more competitive and enter new markets

What is happening locally?

Major legislation has been passed. The Prevention and Combating of Corrupt Activities Act was passed in 2004. Regulation 43 of the new Companies Act, 2008 instructs state owned companies, listed public companies and other companies with a public interest score of more than 500 points in any two of the past five years (i.e. medium to large companies) to set up Social and Ethics Committees. Part of this committee's mandate is to implement the Organisation for Economic Co-operation and Development's (OECD) anti-corruption guidelines. These guidelines require implementing controls to prevent corruption.

Where does that leave you?

It makes sense to, at least:

- Review your customers and suppliers and categorise them by risk of potential corrupt dealings
- Audit your controls over procurement
- Impress on your staff and stakeholders that corruption is not acceptable in your business

You have no more valuable asset than your reputation – take steps to protect it!

IS YOUR BUSINESS ELIGIBLE FOR SMALL BUSINESS CORPORATIONS (SBCs) OR MICRO BUSINESSES (MBs) TAX BENEFITS?

Section 12 E of the Income Tax Act offers relief to SBCs – plant and machinery is written off in the year of purchase, other assets (such as furniture and equipment) are written off in three years and SBCs only pay tax of R24,580 on their first R300,000 of taxable income. MBs pay tax on *turnover* where the turnover does not exceed R1 million. The tax is on a sliding scale and at R1 million turnover, R39,250 is payable to SARS. Thus, both SBCs and MBs get substantial tax benefits.

An example best illustrates the tax differences. Assume there is a normal company (for tax reasons), an SBC and an MB. Assume each has R1 million in gross income and each bought plant and machinery for R200,000 (they are all involved in manufacture) and furniture for R100,000. Their tax calculations will look as follows:

Tax Calculations

	Normal Company	SBC	MB
Gross Income	1 000 000	1 000 000	1 000 000
Less Deductions:			
Plant & Machinery (cost - R200 000)	R80 000 (40%)*	R200 000 (100%)*	R0 (N/A)
Furniture (Cost - R100 000)	R16 667 (16.67%)*	R 50 000 (50%)*	R0 (N/A)
= Taxable Income	R 903 333	R 750 000	R 1 000 000
Tax Payable	R252 933**	R150 580***	R39 250****
After-Tax Income	**R 747 067**	**R 849 420**	**R 960 750**

* Wear and tear allowance (N.B. SBCs enjoy the full 100% write-off only if engaged in manufacturing)
** R903,333 at 28%
*** R24,580 on 1st R300,000 + R450 000 at 28%
****R39 250 (Tax on R1,000,000 at sliding scale)

(Note: If the table above does not display correctly, please see the "online version" - link above the compliments slip)

As you can see the SBC is R102,353 better off than a normal company and the MB is R213,683 better off than a normal company. *It is also worth noting that MBs are only taxed on turnover and thus if an MB has substantial costs, it may not be worth becoming an MB.*

The problem

There are requirements to qualify as an SBC or an MB. One of the most significant being that income from “personal services” has to be less than 20% of the entity’s revenue for SBCs and 10% for MBs.

SARS considers “personal services” as a specific occupation (lawyer, auditor, architect etc) or involved in consulting, broking or management. **The latter three words are very broad in meaning and have scared off many businesses who may qualify as SBCs or MBs.**

Recently a taxpayer took SARS to court over the definition of “personal services”.

What happened?

The taxpayer provided marketing services to clients. On behalf of his principal, he negotiated discounts, promotions and listed products in chain stores like Shoprite and PicknPay. From time to time, he also gave advice to his principals. SARS maintained this came within the ambit of consulting, broking or management and thus rejected the contention that he should be treated as an SBC.

But the Court differed

The judgment defined “consulting, broking and management”. Using common law principles (the words are to be used in their literal context), the judge used the dictionary to define the words. Thus, management is “the activity or skill of directing and controlling the work of a company or organisation ...” As the taxpayer works for other entities, this does not apply. Broking is “the business or service of buying and selling goods or assets for others....” Clearly broking cannot be considered either.

Consulting is more difficult to define and the judge used two concepts to arrive at this. Firstly, what was the intention of the legislation – in an interpretation note SARS refers to the law as “being not intended to benefit any professional person such as an architect or a lawyer....” Secondly, the judge said the word “consulting” should be considered in the context of the words around it – words like “auditor” or “lawyer” which meant a professional belonging to a professional body. The taxpayer did not belong to a professional body and could thus be said not to be a consultant in terms of the definition of the Act. The judge found in favour of the taxpayer and in addition ordered SARS to pay costs.

What can we take away?

If you have been discouraged from claiming to be an SBC or applying to be an MB because of SARS’ interpretation of “personal services”, look at the services you provide and see if you may qualify as an SBC or MB – speak to your accountant if in doubt. Secondly, if you get a ruling from SARS, check it critically. In the case above, the judgment was worth challenging. Use your common sense and judgment and if you are not satisfied, appeal the SARS finding.

FINANCE 101: HOW SERIOUSLY DO YOU TAKE YOUR PRICING

Pricing is one of the fundamental drivers of a business. It is worth shining a light on how it works within a business as any improvements in pricing go straight to the profitability line or as accountants say, they go straight to the bottom line.

The issues

There is plenty to look at in pricing:

- Are price points per customer optimised? Taking into account the competition how much demand is there per product, product group etc? Is the demand matched to the price you set?
- How much management attention is given to discounts? Are there trade discounts (e.g. wholesalers get a standard 15% discount whereas retail gets 10%)? Are there additional trade deals with individual customers, such as volume discounts, seasonal price reductions etc? Do these discounts make commercial sense?
- Who has the power to implement these discounts? If it is a sales function, how much management oversight is there?
- Are any attempts made to measure the benefit of discounts or to establish how much discounts cost your business?
- What type of analysis is done on credit notes? Are they categorised (price difference, incorrect goods sent, breakages, short supplied) and investigated to see if they can be reduced? Are they measured month by month?

What do studies show?

It is interesting to look at a study done by Deloittes. They examined 100 case studies which focused on pricing and found that on average a 3.2% benefit was achieved. Some delivered over 20% while some delivered 1%.

The study also showed that in many cases results were achieved within eight to ten weeks of beginning an investigation. What is also interesting about the study is that in examining businesses' pricing policies, benefits were experienced in other areas such as marketing, order management, logistics and management accounting.

Management is the art of motivating staff, organising and controlling a business. **Examining pricing can lead to substantial benefits – 3.2% pricing improvement means a 3.2% profitability gain**. Strengthening and controlling your pricing policy will result in an improved business.

YOUR TAX DEADLINES FOR SEPTEMBER

- If you submit a manual income tax return (i.e., you don't use E-Filing), the deadline is 28 September.
- For provisional taxpayers who still owe tax for the 2012 year, make use of the voluntary third payment to avoid paying additional interest. The deadline for this is 30 September.

Have a great September and Enjoy Spring!