

# SNAPSHOTS

## Summer 2008



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## MI – the key to sound financial management?

Nick Forsyth examines what a business might need



It does not matter which business text book you read they all have one message – make sure that management information (MI) is produced, accurately and that it is up to date. Despite this many businesses do not feel it necessary to produce a regular pack and in a strong regional economy that might be acceptable; but if that economy changes might some remedial action be necessary? Most commentators feel that 2008 will be a difficult year and we are all now hearing anecdotal evidence supporting these claims. Is now the time to reflect, review your MI and determine whether it covers all the required areas?

### What is included in the MI pack?

There is no right or wrong answer to this question. It all depends on what are your key drivers. For example, some clients have regular orders that are instantly despatched so a note of the sales achieved each month satisfies this objective, whilst others have larger sales taking time to produce so a note of monthly orders taken may be the more appropriate measure.

Generally the month's profit and loss account and balance sheet would be included unless the business was particularly small. If a forecast for the current year exists the profit and loss account and balance sheet should be compared to it and variances calculated for analysis and explanation. The aged debtors would normally be included to identify slow payers as might the aged creditors showing outstanding sums to suppliers.

Larger businesses might also include their important balance sheet ratios including stock turnover, debtor days, creditor days and the current/quick ratio. It is likely that they would also have some form of cash analysis.

So what does your MI pack include and is it sufficient to help you manage through more difficult times? I suspect that some of you might still be asking, "Do we really need any of this stuff – after all we know what is going on in the business". Think of it this way; Yes, you might - but does your lender? They don't work in the business with you every day, and are the one who needs to retain confidence in you and your ability to repay borrowings.

To sum up your monthly financial MI should include a profit and loss account, the balance sheet if easily accessible, a cash analysis – all containing variances to your budgets - and reports on stock, debtors, creditors and fixed asset investment.

### Can you easily produce such a pack?

Without effective systems the ability to produce a quality pack does not exist. We often find, when producing year end accounts, that the bank has not been reconciled and that there are unentered transactions. If this is the case how can the MI submitted to the Bank be accurate and when the final accounts are prepared and submitted to the manager will they reduce your businesses credibility in his eyes?

It is vital to follow a routine each month to ensure that the basic controls have been dealt with so that the accuracy of the pack is the best that it can be. For example, the bank and cash should be controlled and the purchase ledger kept open for a set number of days to allow month end supplier invoices to be posted in the correct period.

Good decisions need to be taken over the capital/revenue argument rather than leaving this to the accountants at year end. This can be dealt with by calling your local contact partner for a decision if you are unsure. As your business gets larger accruals and prepayments also need to be considered to include invoices you know you will receive later as a quarterly invoice or have paid in full for a period into the future, such as an insurance policy.

This type of sophistication can be more advanced than your internal skills currently allow for. Never fear, help is close at hand either in the form of monthly assistance or training if you think you can cope with some 'one off' help.

For best results MI should be available by a fixed date each month to assist your business managers to review it, draw conclusions and take action upon it. If this does not happen then the team can draw the conclusion that things are either 'OK' or that it does not matter as no one is interested and from here the business might be on a downhill spiral. If you would like to talk about producing a pack please contact me or your local Lambert Chapman partner.

Continues on Page 2 looking at using MI as a tool and "Controlling the Cash"...

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Nick Forsyth

### Using MI as decision making tool

If you have demonstrated to your own management team that the pack is to be used to implement decisions it is likely that you already have budgets in place and that departments have costs to work within. If you have not, perhaps now is an appropriate time to think about it? In times of economic downturn a team approach can assist in bringing costs and efficiencies into line more quickly than you could possibly do on your own. It will certainly be less stressful.

Often we are called in when a business has suffered a downturn and the Bank may be concerned about working capital and asking questions of management. But what can we instantly do? We have not been closely enough involved to easily prescribe the right solution and the best people to talk to are those who you don't want to know about it so that they don't worry about their jobs. Yet these individuals are often more worried because they know things aren't good and would offer sensible help if asked.

Our waste management product can overcome this and have extremely positive outcomes for the business. Our role in this process is as a facilitator running sessions for key staff members looking to save costs whilst increasing efficiencies. All the savings come from staff suggestions rather than us

working through the business top to bottom looking for a number of needles in the haystack.

### Control the cash!

It has been said many times, "Cash is King". Yet most MI has no comparison to any cash flow produced and takes no account of how different the final cash position will be to that originally calculated. If profits are on target there is no guarantee that the cash position will be as forecast. Debtors may not have paid, assets might have been bought outright rather than financed and invoices paid early because cash was available.

Consequently if sales start flagging the final position must be worse than originally anticipated and early action to make sure that sufficient working capital is available, whether through internal action or by negotiating extensions based upon a revised plan, will be welcomed by your lender. Our role in this is to assist in identifying the required limits and the most appropriate method of financing. We can also assist in the negotiations to allow you to continue your focus on the day to day activities.

### In Conclusion

Working in a slowing economy can provide a different set of challenges to the management team. Yet with good MI, and a supportive team of advisers, the process can have a positive outcome. If you would like to sound Lambert Chapman out on how we can help please give me a call on 01376 326266.

## From Customer to Suspect

### Mike Carabine Examines Our Fall From Grace



Mike Carabine

Ever since the Inland Revenue and HM Customs & Excise merged in 2005 to form HM Revenue & Customs, it became apparent that many of the harder edged ideas and attitudes

that were the domain of the VAT Man were seeping across the whole organisation.

In December 2007 the Revenue department was granted powers that allow them to bug people's homes and telephones, intercept letters and e-mails and even arrest people suspected of criminal activity. Now proposals due to come into effect from April 2009 may finally give Revenue inspectors the same powers that their colleagues in Customs have always enjoyed. Amongst the proposed changes are:

- The ability to turn up on your doorstep unannounced and demand to inspect "records, assets and premises".
- Powers to obtain information from third parties, such as banks and building societies, more easily.
- A restructuring of the penalty regime.

However, even if HMRC do get the power to carry out an inspection unannounced, I believe it would happen incredibly rarely. After all, looking at the long list of information they request when they currently carry out an enquiry, the Inspectors would end up drinking coffee and twiddling their thumbs for most of the first day awaiting collation of the necessary details. In the very few cases where it might occur, there would be very good reason for it I feel.

The ability to secure information about taxpayers (or maybe people not actually paying tax!) from third parties is already in place, but all those who remember the panic that ensued when the crackdown on offshore accounts took place last year will recall that HMRC only managed to obtain details from the banks after taking court action.

Finally turning to the issue of penalties, I see this as an area where activity will continue to increase. It would be political suicide for a party to fight an election promising to increase tax rates; however there continues to be a need to increase the monies coming into public coffers. Recent experiences show that more failings are now being punished with fines. Indeed, some critics suggest that the recent shortening of return filing deadlines has been done, at least in part, to generate further income without public outcry. We continue to monitor developments and await announcement of the final legislation.

## Testing times for our Government?

Paul McCartney sings, "When I find myself in times of trouble" and offers his solution "Let it Be". Unfortunately Gordon Brown's cabinet have not been heeding this advice on the 10p tax rate and may collapse on the fuel duty increases. Whether we think that these are mistakes or "necessary realignments" of policy we can all see how decisions taken can look really poor when circumstances change.

The 10p rate band may have taught everyone in politics a serious lesson. The solution sees everyone given a £120 windfall with higher rate tax payers having it immediately withdrawn. The first payment of £60 will be made in September with £20 each month thereafter till the end of the tax year. What happens from here remains unclear but business owners should be delighted that they

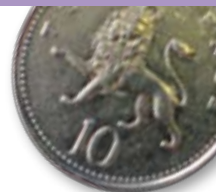
were not asked to contribute to the compensation pot as one solution offered involved increasing minimum wage payments to some age groups. Payroll departments will be busy amending everybody's tax code and the banding parameters to affect these payments so expect a busy first week in September!

The fuel problem is a more pressing issue as it threatens to stay with us for a considerable period. Had oil prices not rocketed to \$135 a barrel the extra tax burden would have caused mild annoyance; it now threatens pandemonium. The Government are doing what they can to encourage increases in production to bring down the price, but is this likely to be successful?

We all know that we need to do more in terms of green issues whether it be use less

energy or more recycling to reduce our carbon footprint; but 21st century life makes that difficult. Greener vehicles exist but little is done to push them by either Governments or manufacturer. Surely the long term answer rests in better tax incentives across the world to provide more efficient like for like vehicles not using petrol or diesel. If the G8 grasped this nettle then commodity speculation would eventually subside and oil would return to being a vanilla product forcing producers to drop their prices. It may not happen in the next few years but will whatever pressure Gordon Brown brings to bear have an immediate impact?

Lambert Chapman LLP has set up a blogging facility on our website so if you have thoughts on these points please drop by and leave us a comment.



# Changes in company law

**Nigel Whittle and Sarah Brewer**  
examine some of the changes



Nigel Whittle



Sarah Brewer

In an attempt to simplify and modernise company law, the Companies Act 2006 (CA06) has been issued – the longest Act ever to have been passed by Parliament.

The CA06 restates or revises almost all of the current company law and is being implemented over a two year period

ending October 2009. Included within the many changes to reduce the regulatory burden to private companies are the following:

- No legal requirement to hold Annual General Meetings
- No longer required to have a Company Secretary

Newly formed companies will automatically take into account the new provisions. Companies formed before 1 October 2007 are regulated by their existing legal documentation which may preclude the above changes.

The law no longer requires private companies to have a company secretary, although they may continue to have one if they wish. Many of the tasks that the company secretary performed remain and directors will have to ensure that these are still completed.

If you wish to modernise and update your current procedures, please approach your contact partner to discuss your own specific circumstances and any action that may be required.

There are also new penalties for late filing which take effect for accounts filed after 1 February 2009.

Length of delay, measured from the date the accounts are due:	Private company		Public company	
	Current	New	Current	New
Up to 1 month	£100	£150	£500	£750
1 to 3 months	£100	£375	£500	£1,500
3 to 6 months	£250	£750	£1,000	£3,000
6 to 12 months	£500	£1,500	£2,000	£7,500
More than 12 months	£1,000	£1,500	£5,000	£7,500

As the table shows the categories have a shortened time length leading to a rapid increase in the level of fines currently experienced. On top of this the penalty will be doubled if the company failed to file its previous set of accounts on time. (All companies will start with a clean slate under the new Act). Let us consider an example of the rules:

Derek has a company that unfortunately has a consistently late filing record. The accounts to 31 December 2007 were due for filing by 31 October 2008 but incurred a penalty of £100 as they were filed on 30 November 2008 one month late.

The 2008 accounts are filed in November 2009 and incur the new penalty of £150.

The accounts for 31 December 2009 have the shortened filing date of 30 September 2010, one month earlier than previously. If Derek delivers them to Companies House on 14 November 2010 then this will now be in the category of 1-3 months late and incur a penalty of £375. Despite the fact that Derek's accounts were late for the previous year this is not taken into account due to the "clean slate" rules.

The accounts for 31 December 2010 are filed in November 2011 and incur a fine of £375 doubled to £750 as they are the second set late following the reduction of the late filing deadline. Under the existing rules the penalty would have been £100 as the initial penalty period lasted 3 months. Had Derek delayed further until April 2012 then this penalty would have reached the maximum of £3,000.

The new rules provide a clear incentive to file a company's accounts on time and we would be delighted to take your call on 01376 326266 to discuss these with you in more detail.

# Inheritance Tax – Plan now or pay later



Chris Harman

On average we in the UK have to work around five months in order to pay our taxes for the whole year. January to May, a long time. Every year; and it is likely to get worse which means that tax planning is something to be reviewed on a regular basis.

One area of tax planning that is often neglected is in connection with Inheritance Tax.

Inheritance Tax (IHT) has been around in many guises and the current IHT system followed on from Capital Transfer Tax which followed on from Estate Duty. Whatever it is called it is still a tax and in a majority of cases it is a death duty.

IHT was designed to be a tax on the wealthy but rapid increases in the value of houses, people benefiting from spare money and careful investment has meant that more and more people have been dragged into the IHT net.

With IHT affecting more people this tax has climbed to be one of the most despised taxes

Can you avoid IHT? In many cases 'yes', but avoidance is likely to either mean entering into some complex and expensive tax planning, or, giving money away now so you end up living a more modest lifestyle, or, leaving the slice of your Estate that would be taxed to IHT to charities. You may not wish to take any of these routes but I expect your goal will be to leave as many assets as you can to your loved ones and to pay the taxman as little as possible.

In his Pre Budget Speech Alistair Darling softened the overall impact of IHT on many Estates of married couples and civil partners but don't let that stop you seeking professional advice on IHT planning. We can offer you clear, straightforward 'no-nonsense' advice on where you should be taking action to reduce the taxman's slice of your hard earned money and also to give you thoughts and ideas for the future. Everyone has different circumstances so a meeting with us could not only save money by reducing your IHT but will also save you and your loved ones unnecessary worry.

## Illegal working changes



David Kemp


On 29 February 2008, the government introduced changes to the requirements which employers need to comply with in order to avoid penalties and/or imprisonment for employing illegal migrants. From this date the Immigration, Asylum and Nationality Act 2006 increased the civil penalty which can be imposed on an employer to a maximum of £10,000 for every illegal worker employed in the UK. It also introduced a new criminal offence of knowingly employing an illegal worker, with a maximum penalty of two years in prison and/or an unlimited fine.

An employer can avoid both a civil penalty and committing a criminal offence by checking, on recruitment, that workers have a right to work in the UK but to obtain this protection the employer must make the checks before the individual starts work. There are two lists of acceptable documents for checking identity, similar to the lists which employers have used since 1997.

- List A contains items, such as a British passport, which have no time limits on working in the UK and which indicate that the person has an ongoing entitlement to work in the UK; and
- List B sets out a list of documents which carry restrictions on the amount of time individuals will be able to spend in the UK.

A significant change is that employers will have to carry out annual checks for those workers whose documents appear on List B, such as work permit holders. These changes to the rules are substantial and you may wish to implement new procedures to deal with them. If you have any questions please contact our new HR Manager David Kemp on 01376 326266 to discuss how they might affect your business.

## Did you know about?

	<b>Beverley Hill</b>
<b>Born</b>	Canterbury 1972
<b>Qualifications</b>	ACA BSc (Hons)
<b>Work done</b>	Variety but audit and accounts including schools and charities
<b>Life outside</b>	Looking after an active toddler requires most of my spare time! But, I also enjoy walking, swimming, baby yoga, travelling and gardening.
<b>First Job</b>	Checkout assistant at Sainsburys
<b>Fave: Film</b>	Dirty Dancing
<b>TV Show</b>	Cracker
<b>Group/music</b>	Bee Gees
<b>Book</b>	Anything by Grisham
<b>Decade</b>	1970's – for the great music
<b>Daily journal</b>	Yahoo News
<b>Favourite Place</b>	Hawaii or Disney
<b>Great Meal</b>	Bangers and Mash Apple Crumble and Custard
<b>Tipple</b>	Vodka and lemonade
<b>Biggest fear</b>	Heights!
<b>Ideal day away from the office</b>	Walking in the park, feeding the ducks, playing on the swings and eating chocolate.

## Baby Lauren

Baby Lauren was born to Lindsey Sugars on 18th February at 6.20 am. She weighed in at 8lb 13.5oz and is a sister to William



## iPod Nano Quiz Winner

Once again the Snapshots quiz causes consternation amongst the readership over one of the answers and this time it was Nick in the firing line. All of the answers were taken from the Lambert Chapman 2008 diary and the internet did not agree on one answer concerning Cinderella! All the answers are published on our website.

The winner was Rose Evans of Abbey Mortgages Limited and she is pictured receiving her prize from John Smith-Daye. Abbey Mortgages are a mortgage broker and if you would like advice on what products are available at this time give Rose a call on 0208 304 0992.



## The Quiz

The summer quiz is on airport call signs and offers £100 of holiday spending money in the required currency! The entry form can be downloaded from our website from Firm news on our homepage - Good Luck.

## Forthcoming Events

### 3 Transformative business tools

#### 15 July Essex Regiment Way

Imagine being able to plough through key projects in double quick time rather than seeing them take longer and longer. Imagine your team developing at such a rate that they are impressing customers, impressing you AND freeing up your time. Imagine fine-tuning your product or service so that it becomes impossible for your customers to stop talking about you and sending you more customers. These are the three tools that we will be discussing in the workshop and they are all suitable for businesses of any size.

**To register use our Events page on the website or call 01245 216800.**

#### Using MI to beat the Credit Crunch

#### 17 July The Corner House Braintree

This interactive workshop will consider what your monthly pack could include and provide an insight on what your lenders are looking at. Each delegate will leave with an action plan to help produce the information their business needs to monitor.

**To register use our Events page on the website or call 01376 326266.**

A £10 charge exists for both these events.

## Marathon efforts a success



The Flora London Marathon took place on 13th April 2008 and included Rebecca Osweil, daughter of our founder Mike Lambert, who ran for The Stroke Association raising £5,000 completing the course in a time of 5 hours 51 minutes. We congratulate Rebecca on her achievement.

May 11th saw the 14th running of the Halstead Marathon. The firm acted as a co-sponsor along with a number of other local businesses and provided a number of marshals who were situated on the final mile of the race. The picture shows Duncan Forsyth, James Fuller, Richard Hamilton, Halim Rashid, Nick Forsyth, Debbie and Sean Wiegand and was taken by Chris Harman who acted as MC at the finish line.

