

Client eBrief



Institute of Certified Bookkeepers
Making you count



Margins or Markup – Break-even how do you look at your business

When you are reviewing your profits don't confuse margin with mark-up.

A 50% mark-up on your Cost of Goods doesn't mean a 50% margin. If you buy a widget for a dollar then sell it for \$1.50, your profit is 33%, not 50%. And that's before taking your other costs into account.

Margin is expressed as a percentage of the *SELLING price*:

$$\text{Margin} = \frac{\text{Gross profit} \times 100}{\text{Sales}}$$

Mark-up is expressed as a percentage of the *COST PRICE*:

$$\text{Mark-up} = \frac{\text{Gross profit} \times 100}{\text{Cost}}$$

E.G. if a new product costs \$100 to buy & you need to make 40% to break even, how much do you sell the product for?

The answer is \$166.70, since a profit of \$66.70 on a \$166.70 sale gives you a margin of 40%. Knowing which of your products & services have the highest margin & are therefore most profitable allows you to make the most of them.

Break-even point

Your break-even point is the point at which revenues exactly cover your expenses. Start by calculating two other numbers:

Fixed costs. Costs you have to meet including wages, rent, leases and administrative costs. They don't include the variable costs of sales. E.g. Let's say your fixed costs are \$100,000 a year.

Gross profit margin. The percentage of each sale left over after costs of that sale have been covered. It equals total sales minus variable costs, expressed as a percentage. E.g. If you're selling a toy for \$100 which cost \$60 - the gross profit is \$40 and the gross profit margin is 40%.

Once you know those numbers, you can work out how many sales you need to make to break even:

$$\text{Break-even point} = \text{Fixed costs} \div \text{Gross profit margin}$$

Using the figures above:

$$\text{Break-even point} = \$100,000 \div 40\% = \$250,000$$

You need to sell \$250,000 worth of toys to break even each year.

Break-even analysis helps you work out:

1. The profitability of your product.
2. How far sales can drop before you start making a loss.
3. The units you need to sell before you start making a profit.
4. The effects of changing your price or volume of sales.
5. If costs increase, how much you have to sell at current prices to cover these costs.

ATO Lodgement Dates

These dates are from the ATO website & do not take into account possible extensions. Contact us to establish when your information is required for lodgement. You remain responsible for ensuring that the necessary information is with us in time.

If you use your bookkeepers - BAS Agents Portal to lodge your Activity Statements then you can be eligible for an extension.

BAS lodgement-JUNE Quarter (including PAYG I) 28th July by form

Electronic BAS lodgement-JUNE Quarter (including PAYG I) 11th August by electronic lodgement + payment

PAYG/EMPDUPE annual report/form lodgement- 14th August, 2012

FBT return 2012 – 21st May 2012

BAS July 2012 Monthly lodgement 21st August 2012

SGC PAYMENTS :29th JULY, 2012 (If required contributions are not made by the due date for quarter 4 the SGC is not tax deductible)

Where a due date falls on a day that is not a business day (that is, the due date is a Saturday, a Sunday or a public holiday), lodgment or payment may be made on the first business day after the due date without incurring a penalty or general interest charge (GIC).

A business day means a day other than a Saturday or a Sunday, or a day which is a public holiday.



Set up of Opening Balances for Debtors & Creditors

When you set up a new Customer (Debtor) in QuickBooks, there is the facility to add an opening balance to the customer record, as at a date that can be selected from the calendar.

By entering a figure on the customer record, what QuickBooks is doing behind the scenes, is generating an invoice. This invoice can somewhat be edited, the name, the date, the amount etc but a tax code cannot be added to the tax column.

If the business is registered for GST on an accruals basis, this is fine because the GST would have been picked up in the previous accounting system. However, if the business is registered for GST on a cash basis, then once this invoice is paid, the GST should be reported – and the GST figure is not split from the total sale.

Another point to consider is that the opening balance may be made up of more than one outstanding invoice and may cause havoc if the customer is paying per invoice, reducing the one opening balance amount, but having no concept of aging of the debtor, or individual invoice totals.

Instead of using the opening balance feature on the customer record, create a QuickBooks item called OB (opening balance) positing appropriately in the general ledger. Redo any outstanding invoices in the new data file, using a single line item (OB) to pick up each invoice as at the date that it was originally generated. If the business is registered on a cash basis, add the appropriate tax code to the tax column. There is no need to add the tax code if the business is registered for GST on an accruals basis.

There would still be original documentation, so not much detail is required when the invoice is re-entered. This would then give accurate aging reports as well as reporting the GST on sales correctly.

Creditors

When you set up a new Supplier (Creditor) in QuickBooks, there is the facility to add an opening balance to the supplier record, as at a date that can be selected from the calendar.

By entering a figure on the supplier record, what QuickBooks is doing behind the scenes, is generating a bill. This bill can somewhat be edited, the name, the date, the amount etc but a tax code cannot be added to the tax column.

If the business is registered for GST on an accruals basis, this is fine because the GST would have been picked up in the previous accounting system. However, if the business is registered for GST on a cash basis, then once this bill is paid, the GST should be reported – and the GST figure is not split from the total expense.

Another point to consider is that the opening balance may be made up of more than one outstanding bill and may cause havoc if you are paying per invoice, reducing the one opening balance amount, but having no concept of aging of the creditor, or individual bill totals. Instead of using the opening balance feature on the supplier record, redo any outstanding bills in the new data file as at the date that it was originally generated. If the business is registered on a cash basis, add the appropriate tax code to the tax column. There is no need to add the tax code if the business is registered for GST on an accruals basis.

There would still be original documentation, so not much detail is required when the bill is re-entered. This would then give accurate aging reports as well as report the GST on purchases correctly.

QuickBooks

Reckon

Quicken

Disclaimer: All or any advice contained in this newsletter is of a general nature only and may not apply to your individual business circumstances. For specific advice relating to your specific situation, please contact your accountant or contact me for further discussion.

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