



September, 2004

Accounting

Tax Consulting

Management/
Interim Accounts

Computer
Business Systems

Computer Network
/Communication

Payroll

Agricultural
Consultancy

REPS Planning

Early Retirement

Investments/
Stockbroking

Pensions

MANAGEMENT ACCOUNTING MADE SIMPLE

For more years than I care to admit I have read and listened to much hype on Management Accounting. It has even come to the point that presentation seems to be more important than substance or content. The theory seems to get more press than the practical steps to achieving results and the principles of Management Accounting seem to have become an end in themselves.

Thankfully a number of my clients brought me down to earth about 20 years ago when I tried to impress with my newly learned fancy terms such as Gross Output, Gross Margin, Markups, Owners Net Investment, Return on Equity, Debt/Equity ratio, Gearing, Liquidity etc. Back then I was sure I knew everything but now I know there is always more to learn and I wish to thank a number of clients who have co-operated with me over the years in developing better information systems and clearer, more meaningful reporting and action plans.

It is to the credit of the FDC Group that it has resisted becoming an aloof organisation and has dismissed as snobbish being shrouded in that professional halo that so many other so called professionals allow themselves grow into. FDC staff get stuck into the practical nitty gritty and help you on site if needed.

Unlike 20 years ago there are now many good tools to choose from to help us sort information and make better decisions.

Businesses can now buy hardware and software for sums as low as €1000. Most popular computerised accounting packages such as MYOB, SAGE, TAS, QUICKBOOKS, BIG RED BOOK and THESAURUS have become very similar to each other and merely frog leap each other with each new version to provide some new tools to help business.

Most recent versions include the ability to email quotes, purchase orders, invoices and statements direct from the package, the ability to download bank statements directly into the package that automatically reconcile bank transactions, the ability to sort and search by number, name or amount or even a couple of letters in a description. Some already link direct to the revenue online service for direct submission to the tax office. Job Costing, Departmental Analysis, Time Billing and stock control and nominal ledger are standard in many packages. **Some** of these packages cost less than €500 for all these advanced features and modules. Obviously **all** these packages have the standard purchases, sales and bank modules.

So the Information Systems for Management Accounting have never been better value. However many people neglect their commitment to **training** and others sign up for classroom type training from which I see little benefit. Real practical training on handling current business records is much more meaningful and allows the trainee and trainer to vary the pace and duration to suit each situation as well as getting through some real work while learning.

Within a couple of months an average trainee should be able to reconcile creditors and banks and be sending out sales invoices and monthly statements to customers.



Mortgage/
Borrowing.

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Corporate Finance
(BES)

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Income Tax
Planning

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Inheritance/Wills

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CGT Planning

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Corporation Tax

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Auditing

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Co. Formation

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Co. Secretarial

There are a few who burn the midnight oil to get up and going sooner. We find more and more trainees progress on quickly to being able to submit VAT and PAYE/PRSI returns through the Revenue On Line System which we recommend all clients to apply for by going online at ROS.ie.

The next step for some businesses is to progress on to doing advanced tasks such as full stock control, job costing and monthly management accounts. The skills for these require much more training and discipline and it is often the second year before some bookkeepers can master these skills. However many businesses sub contract in the required skills until they can do their monthly or quarterly management accounts themselves. These skilled sub contractors I term “**Practical Management Consultants**”.

A system to control stock is essential for many businesses. While excess or dormant stock can cause a business to run out of cash, a business, which regularly runs out of key stock items, will lose customers. Even low cost packages can be customised to reorder stock automatically once the number of items fall to a minimum level and will have a range of reports to identify the most profitable stock items etc. They also will have tools to help with pricing.

Many low cost packages now include Time Billing and Job Costing modules as standard and at no extra cost. These are especially useful for builders, engineers, accountants, plumbers etc, who provide time and wish to identify loss making jobs and ensure they are pricing their quotations properly.

Before I conclude I must make some mention of my more academic colleagues in the Management Accounting service industry.

I must admit that some businesses can improve further by engaging

them for Time Management,

Goal Setting, Stress Management, Brain Storming, Positive Thinking etc.

Some of these “Power Management Consultants” act as mentors while others can coach or badger some of the most stubborn of business owners into changing bad business habits. Others act as trouble shooters to sort out difficult situations e.g. over staffing or handling banks, creditors/debtors etc.

Some Management Accountants get to be very good on the psychology of business while the rest of us get on with the more mundane but equally important every day practical steps.

So if you are not already producing regular up to date management accounts and interpreting them wisely why not contact your local FDC office to discuss its value to your business. They will show you some basic practical steps to make it simple.

Pat Finucane - Manager Limerick

LAND SALES

The increase in property values continues to surprise. There were suggestions that the death of the celtic tiger and the threatened increase in interest rates would result in a slowing down of the increase in land/house prices. On the ground, this does not seem to be the case. We do note that buyers are more hesitant in property purchases than heretofore, but Vendors are still expecting **and** receiving high values for lands. In respect of our clients, we observe that the continuing demand for houses, and in particular, the demand from people who are taking advantage of the equity in their houses by “trading up”, has led to a surge in the sale of sites

Many clients recognise that monies obtained for the sale of a site, is a multiple times the amount they may have received from the continuing farming of that land or indeed sometimes, from their entire annual farm trade profit.

An important aspect arising from our dealings with Revenue is that an increasing number of these sales are liable to VAT, in addition to other taxes.

It is quite easy for the unsuspecting Vendor to fall into the VAT net. The sale of a site/property may be liable to VAT when it is “developed” within the terms of the VAT legislation. The scope of this term is extremely broad, and the simple laying of a temporary or construction roadway on or through a site may deem the property developed. Any such development before the sale of the site may make it liable to VAT. It is advisable therefore to delay any such work until after the site has been supplied.

In addition, many sites are now sold with services, in other words, with the provision of water, sewerage etc. These sales are very likely to come within the charge to VAT. It is the Revenue’s contention that a serviced site will include property where the water/sewerage has only been brought up to but not on to the land. It is their direction that bringing services up to the perimeter of land is developing the land. The current rate of VAT on these transactions is 13.5%.

An extension of the above relates to farmers/developers who choose to engage builders or contractors to construct either a house or a number of houses on land, and then sell on the finished product, to the end consumer. In other words, rather than just sell a site, they are selling a completed house. In this case it is probable that the entire sales proceeds (including the site) are liable to VAT at 13.5%. There are many other taxation consequences of such a venture, and there are also many tax-planning opportunities. For example, the profits may be liable to Income Tax, Capital Gains Tax and / or Corporation Tax, depending on the structure used. The use of a limited company is attractive in view of the current Corporation tax rate of 12.5% for trading profits.

The implications of extracting the profits in a tax-efficient manner from the company influence the extent to which a company is suitable as a vehicle for development / house

construction ventures.

Stamp Duty is also a significant factor in such developments.

In summary, the market dictates that land owners cannot avoid the attractiveness of selling a site or two. In considering all aspects and structures for the sale, one must also compare the value receivable for the sale of a green field site without VAT, against the market value for a serviced site less VAT of 13.5%.

Donncha Collins - BCL, AITL, TEP

BUILD THE RIGHT TEAM FOR YOUR DREAM HOME

Statistics show the number of Irish people opting to build their own house remains high at approximately 20,000p.a.

It is a very trying time, as people have the stress of organising planning permission, mortgage and builders.

The self-build option gives people the freedom to choose a home designed to fit very closely with their needs and it can also provide better value for money.

There are normally two building options available:

1. Building Contractor - a building contractor will manage the entire building project and provide you with a fixed rate contract. This builder should be registered with Home bond or premier guarantee. You will still need your own architect / engineer to supervise the construction of your property to ensure the work done, is up to standard and also he/she can certify your stage payments, in order for the mortgage lender to release funds to you.

2. Direct Labour – this is where you sub-contract out all the building work, i.e. you hire out bricklayers, carpenters, plumbers etc. individually

Direct labour would normally work out the cheaper option, however it does require a lot of organisation. With direct labour it is also advisable to take public liability and employees liability surance, sometimes referred to as “site insurance”.

This can be quite expensive and can typically cost between €3,000 to €6,000. An architect / engineer is also required for direct labour building.

It is suggested that people who buy a site and hire a builder to construct their own home stand to save one third of the cost, over those who buy their home from a developer and the savings could be even greater if you are prepared to go the direct labour building route.

It is important to set a realistic budget during the design of your property and it is even more important to stay within this budget. Your architect/ engineer should be in a position to advise you here on all the costs you will incur during construction. Then by speaking to your IMAF mortgage broker, he/she can advise you on how much you qualify for and the monthly cost of this amount to suit your budget.

Once construction has commenced, and you have purchased the site, the lender will release your mortgage in stages, as the builder requires funds.

Normally the first stage payment is made when the foundations are complete. Your architect / engineer will then certify the work has been completed, then the mortgage lender releases the funds.

All stage payments are drawdown in line with architects certificate for work completed, until the final payment.

The house owner is then paying back on their mortgage even though they are not living in this property. This can often be a financial strain, as they could be in a position where they are paying rent and mortgage for a period of time.

Some lenders have flexible options, where for instance you could defer your payment for a 6 month period, allowing the customers some breathing space whilst they are in this position.



FDC Accountants
Tax Consultants Ltd

Management Accounts

Interim Accounts

Personal Taxation

V.A.T.

P.A.Y.E.

Bureau

Consultancy

Budgeting

Loan Negotiation/
Restructuring

Grants

Business I.T Solutions

Agri-Consultancy

By employing a professional and efficient engineer/architect, solicitor and mortgage broker, a lot of the strain of building your home can be alleviated.

When all is said and done, you will have your dream home at an economic price and all the stress and strain will seem worthwhile.

***MAD RUSH TO BUY
PROPERTY ABROAD***

With both interest rates and oil prices likely to rise, the attraction of buying property abroad is likely to fade. Investors should ask crucial questions after recent property collapses in Bulgaria. Investing in property in Central and Eastern Europe is no easy thing. Think of the language and legal barriers to be overcome and then understand that many of the properties that are over-priced may not attract the level of rent needed to fund the mortgage required.

Our obsession with property has taken on an Eastern European flavour it would seem. It is one thing to get away with buying investment property or holiday homes without giving sufficient thought in Spain, Portugal or France, where the buying process is pretty well established and language isn't such a problem. It is another thing however to leave your wits behind you as you get on a plane for Hungary, Poland, the Czech Republic, Cyprus, Malta or any of the other ten new entrant EU countries.

Why are so many Irish people putting down-payments on un-built Bulgarian apartments or golf villas? Well because they are so cheap by our standards (though definitely not the Bulgarian ones).

Therefore, you should consider the following issues before signing for your next Bulgarian property.

1.Bulgarian property prices may be cheap, but Bulgaria is never going

be anything other than an expensive holiday destination for Western Europeans for the simple reason that it is too far away for cheap sustainable airfares. Who is actually going to rent all those apartments and villas anyway? Other Irish?

2.Oil prices are going in one direction over the next 20-30 years and that is upwards. This frankly puts a question mark over the whole concept of sustainable global tourism where the client needs to justify owning a holiday apartment in Spain, let alone Bulgaria – another 1,000km away.

3.Ask questions about Ownership Rights, Capital Gains Tax, Inheritance Laws and Management Services.

4.What if Bulgaria doesn't make it into the EU?

5.What happens to European holiday home values let alone Irish prices even when global interest rates go up again? Very simple – For Sale signs go up and prices go down. Spectators make the biggest profits by getting in and out of the market quickly.

However, it should be recognised that these markets do offer real value for investors where proper thought and planning has gone into the property purchase beforehand. It has never been more important to engage your financial advisor before embarking on such a property project. Real gains can be made in these markets on a much more sustainable basis where commercial property is concerned. Despite the question marks over holiday homes, countries such as Bulgaria and Latvia have commercial developments that pay real rents and the yields relating to same make the returns on commercial property in Ireland positively bad value.

In summary, I would strongly advise against rushing head-long into individual property acquisition in Eastern Europe and advise instead that you inform yourself fully in relation to these property markets and take advantage of the advice and information readily available to you via your local FDC office.

**Emily Collins, Mortgage Manager
FDC Financial Services Ltd**