



## WATCH YOUR CASH FLOWS

"No business will fail because of the G.S.T." These are the words of the Treasurer, Mr. Peter Costello. Whilst the introduction of the G.S.T., per se, will not adversely affect business, it will affect those businesses (both large and small) that do not adequately manage their cash flows:

Business can account for G.S.T. on either a cash or accrual basis. Using a cash basis, income would be recognised for tax purposes when received and expenses when paid. Under an accrual system, income would be recognised when earned, not necessarily when received. Expenses would be recognised when incurred, not necessarily when paid. Businesses that extend credit to customers may find that they will be paying their customers' G.S.T. expenses to the Tax Office, before actually receiving those monies from their customers. If so, these businesses will have to cover those monies for that period of time, perhaps by increasing the size of their overdraft. On the other side of the coin, if those same businesses manage their cash flows well, they might be able to pay their invoices after claiming back GST inputs from the Tax Office.



Darwin's theory on the survival of the fittest seems apt here. However, in the case of the GST, it would seem that those businesses that will survive under the New Tax System will be those that are able to manage their cash flows well.

For those who need assistance in adjusting to the NTS, make an appointment with your accountant before the 30<sup>th</sup> June. Many accountants are set up to receive the \$200 vouchers for GST start up assistance. You can also attend the Professional Practice Program. This Program will address this issue as well as other financial and marketing issues of importance to service businesses.

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