
Welcome

Introduction

This module, Introduction to Financial Statements, is the first of four modules in a course that looks at analysing financial information with respect to assessing whether a job offer is genuine and the business that is offering the job is sustainable.

You need to complete all four modules. The four modules are (in suggested order of study):

- Module 1 Introduction to Financial Statements
- Module 2 Statement of Financial Performance and Analysis
- Module 3 Statement of Financial Position and Analysis
- Module 4 Financial Sense.

There is also a Quiz to check your understanding of all the material when you have completed Module 4. This may be found on the LMS.

Analysing financial statements problems

There are two main problems associated with analysing financial statements when assessing a whether a job offer is genuine and sustainable.

- The information is historic – it presents a picture of what has happened in the past, not what may happen in the future.
- Too often you won't have all the relevant information in order to analyse the financial statements accurately.

It is important then to gather as much information about the business; not just the financial statements. You will need to gain an overall view of the business and even make some assessment of its managers and owners.

The analysis of a business' financial statements is very complex, and should really be done by a qualified accountant that has the experience and skill to analyse and interpret the financial statements.

These four modules present some ideas on what to look for and provide some tools to help you assess whether a job offer is genuine and sustainable.

Instructions

In order to complete this module:

- Print this document
- Read the document
- Complete the Checkpoint (suggested answer is at the back of this module).

References/disclaimer

This training material was accurate at the time of publication. Officers should always refer to updated sources of information, as listed below, when making decisions.

- Immigration Act 2009 and associated Regulations
 - Immigration Instructions
 - Staff Toolkit.
-

Next

Well done!

You have completed this first module in which you have seen that the New Zealand business scene is made up of a large number of small businesses. These businesses should have financial information in the form of Statements of Financial Performance and Financial Position - which you will learn more about in the following modules. An analysis of these statements will help you assess whether a job offer is genuine and sustainable along with all the information provided by an applicant and his/her prospective employer.

Now, print out and complete the following modules (suggested order shown):

- Module 2 Statement of Financial Performance and Analysis
- Module 3 Statement of Financial Position and Analysis
- Module 4 Financial Sense.

Checkpoint Check

The answers to the Checkpoint on the previous page are shown below.

1. You can expect to receive with a job offer application a Statement of Financial Position and a Statement of Financial Performance.
2. The first day of the new financial year (12 months) for Hogg Harnesses Limited was 1st July. The balance date will therefore be **30th June**.
3. The three elements of the title of a financial statement are:
 - **Who** = Name of the business
 - **What** = Statement of Financial ...
 - **When** = as at/for the year ended DD Month YYYY.

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Checkpoint

For each question below, write your answer in the shaded box.

- 1 You can expect to receive with a job offer based application a Statement of Financial Position and a Statement of _____

- 2 The first day of the new financial year (12 months) for Hogg Harnesses Limited was 1st July. The balance date (day and month) will therefore be _____

- 3 The three elements of the title of a financial statement are?

See the next page for answers

Preparation of the statements

The financial statements should be prepared and presented by someone who knows and understands accounting, such as a Chartered Accountant (CA).

Chartered Accountants are members of the New Zealand Institute of Chartered Accountants and, as such, are required to follow generally accepted (International) accounting practice and apply good accounting principles. But it is not always a requirement that the statements are prepared by a Chartered Accountant.

Some financial statements may be prepared by the business' 'accountant'. This does not mean that the accountant is a Chartered Accountant. If this is the case, then there may be an issue relating to the reliability of these statements. Even if prepared by a CA they will only have access to records supplied to them by the business, so have less credibility than audited accounts, described below.

Audited accounts

The financial statements may be included in a Financial Report. This report may also have an audit statement.

If businesses can afford to¹, or are required to, they may have their financial statements and financial systems audited (checked) by an independent Chartered Accountant known as an auditor.

The audit report will express the opinion of the auditor on whether the financial statements represent a **true and fair view** of the financial position and results of operations for the year.

The auditor must be independent of the business.

¹ Note that audited accounts can be expensive to prepare, and officers should not oblige companies to provide audited accounts if they are solely for immigration purposes. Request PAYE, and other tax statements to check the accuracy of unaudited accounts.

Financial Statements' Presentation

Introduction

The financial information that businesses should provide along with a job offer based application are (at least):

- Statement of Financial Performance (also known as Profit and Loss)
- Statement of Financial Position (also known as the Balance Sheet).

Cassino Replicas Limited
Statement of Financial Performance
for the year ended 31 March 20XX

Sales		6,200,000	
Less Sales returns		700,000	
Net Sales		5,500,000	
Less Cost of Goods Sold		4,000,000	
Opening Inventory	100,000		
Less Purchases		3,900,000	
Net Closing Inventory		100,000	
Cost of Goods Sold		3,800,000	
Gross Profit		1,700,000	
Less Expenses			
Selling and Distribution expenses	200,000		
Advertising	2,000		
Cleaning - sales	15,000		
Delivery vehicle expenses	170,000		
Stationery - sales	4,000		
Telephone - sales	13,000		
Administration expenses			
Cleaning - office	2,000		
Depreciation - building	1,000		
Insurance	100,000		
Postage	200,000		
Stationery - office	100,000		
Telephone - office	14,000		
Repairs - building			
Repairs - motor vehicle			
Travel expenses			
Bank charges			
Provision for doubtful debts			
		400,000	
		277,000	
		100,000	
		14,000	
		200,000	
		1,300,000	
		400,000	
		900,000	
		1,300,000	
		1,300,000	

Such statements are prepared at the end of a financial period (usually of 12 months). They are prepared GST exclusive (i.e. no GST is included).

The above financial statements are used in the next two modules on Financial Performance and Financial Position. The business, Cassino Replicas Limited, is a trading business: it buys and sells goods. The business presented the financial statements for the financial year, of 12 months, ending 31 March 20XX. The statements do not present the previous year's figures.

Summary

Many businesses are small, employing 20 employees or less, and are mainly located in the North Island, particularly Auckland.

The implications of this for Immigration New Zealand is that applications of job offers may well come from small businesses. Are these businesses able to supply sufficient financial information for the job offer to be assessed correctly and completely?

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Business Environment

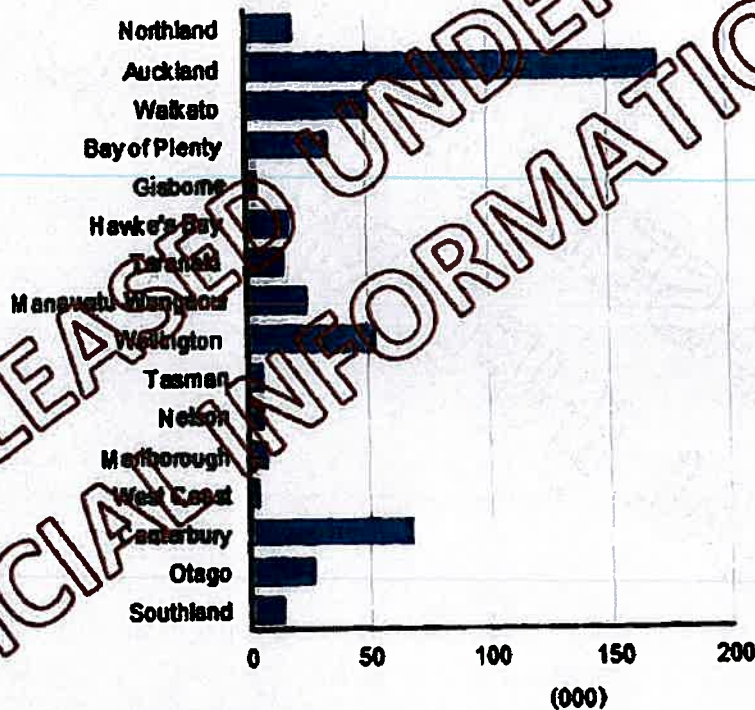
Introduction

The New Zealand business environment (from New Zealand Business Demography Statistic at February 2014, Statistics New Zealand) is made up of 487,880 enterprises and employed nearly two million paid employees as at February 2014.

Business location

A third of all businesses were located in Auckland.

**Number of business locations
By region
At February 2014**



Source: Statistics New Zealand

Business location by percentage

Business size

Many businesses are small in New Zealand, 97% employing 20 employees or less. These enterprises accounted for 30% of all employees.

Job Sustainability

Instruction categories

In the Skilled Migrant, Adult Child & Sibling, Pacific Access and Samoan Quota categories, applicants must have a job offer that is genuine, ongoing and sustainable.

Under the Long Term Business Visa category applicants must also present a business plan which includes realistic financial forecasts.

Job offer sustainability

When looking at the sustainability of a job offer, you may need to think about:

- The type of business – what type of business is it? What type of ownership structure? sole trader? company? partnership?
- The residence status of the employer – in New Zealand and intending to stay in New Zealand? Is the employer a resident? A citizen?
- Is the owner also the manager? What is the management structure? How experienced is the management?
- What industry is it in? How is that industry doing? How is the economic climate?
- How long has the business been established? Is it well established and well known? A start up business?
- Is the business a going concern (is expected to be able to continue to operate in the foreseeable future)?

Financial information will help in answering the questions above.

Financial information

The financial information of a business will be contained in the business' financial report that should include, at the least, the following statements:

- Statement of Financial Performance (or Profit and Loss)
- Statement of Financial Position (or Balance Sheet).

The analysis of these statements involves calculating percentages and ratios. This analysis, though, should be done in conjunction with other analysis in order to see the "big picture".

About this module

Introduction

This module presents a brief introduction to financial statements, focusing in on the title and presentation of the statements, and why that is important to immigration officers.

This module begins by providing some questions on job sustainability, presents an overview of the New Zealand (2010) business environment and then introduces financial statements.

Learning objectives

The objective of this module is to provide you with a brief background to the New Zealand business environment, which shows that small businesses dominate the business scene.

The module suggests a number of questions that you may consider when assessing a job offer.

It also introduces the two main financial statements that businesses should be able to provide, the Statements of Financial Performance and Position, and explains the role of Chartered Accountants and Auditors in the preparation and presentation of these statements.

Topics

The topics in this module are:

- Job Sustainability
- Business Environment
- Financial Statements' Presentation.



INTERPRETING FINANCIAL
INFORMATION FOR JOB OFFERS

Module Two

Statement of Financial Performance

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Your development at the Department

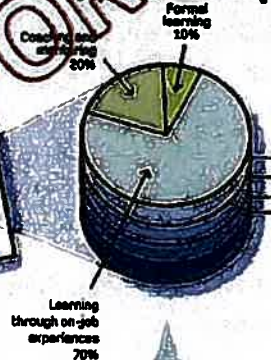
Department of Labour



IT'S YOUR DEVELOPMENT.

To achieve your objectives, and help build Departmental capability, you need certain skills, knowledge, and behaviours. Some of these you'll already have, and some you'll need to develop. It's to your benefit to take a lead in working with your manager to decide how this development will occur.

Learning and development can provide support through that process, but at the end of the day, you need to own it.



- THE LAYERS OF THE PIR**
- Departmental training that all staff need to know about working here.
 - Technical training that is specific for your role.
 - Generic skills training that can be transferred to other roles or organisations.
 - Management training on what you need to know to be a manager and leader in the Department.
- For more information, visit the Department's Intranet.

HOW WE LEARN

Your development is a bit like a job with several layers.

- 70% comes from formal learning (like this training).
- 20% comes through coaching and mentoring.
- 10% comes by doing your job. This includes working on a project, self-improvement, learning from mistakes, learning from others, and taking advantage of opportunities and new experiences on the job.

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Welcome

Instructions

In order to complete this module:

- Print this document: Module 2 Statement of Financial performance & Analysis
- Read the document all the way through
- Complete the Checkpoints (with the suggested answers at the back of the module).

About the Statement of Financial Position

The Statement of Financial Performance shows how a business has performed over a period of time (usually 12 months to Balance Day). An analysis of this statement will help you assess the sustainability of a job offer.

Module objective

This module presents an overview of the Statement of Financial Performance and introduces two main calculations that may be used to assess the profitability of the business. An understanding of these calculations will help you assess whether a business is able to offer a new job to a new employee.

The two calculations are:

- Gross profit percentage
- Net profit percentage.

Learning outcomes

After working you way through this module, you will be able to calculate, from information presented in a Statement of Financial Performance:

- Gross profit percentage
- Net profit percentage.

References/Disclaimer

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- Immigration Act 2009 and associated Regulations
- Immigration Instructions
- Staff Toolkit.

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Statement Overview

Basic equation

The Statement of Financial Performance presents a basic equation of:

$$\text{Revenue less Expenses} = \text{Profit or Loss}$$

Revenue	R
less Expenses	- E
<hr/>	<hr/>
Profit or Loss	Profit or Loss

Checkpoint

Read each statement A - E below and ✓ either True or False

True False

- A If R is greater than E, then the business will make a Loss
- B If E is greater than R, then the business will make a Loss
- C If R is greater than E, then the business will make a Profit
- D If E is greater than R, then the business will make a Profit
- E If E is the same as R, then the business will Breakeven

Note:

In a Statement of Financial Performance, Profit may be referred to as Surplus. Similarly, a Loss may be referred to as Deficit.

Revenue

Types of revenue

Different organisations call the revenue that they earn different names. These include:

- Sales
- Fees
- Rent
- Commission
- Interest
- Subscriptions.

Checkpoint

Draw a line from each term in the left column to the statement that best describes the type of revenue in the right column.

Sales

Revenue received as a % of the sale price

Fees

Revenue received from a customer for buying a good

Rent

Revenue received for lending money

Commission

Revenue received for providing a service

Interest

Revenue received for the membership of an organisation or a publication over time

Subscriptions

Revenue received for the use of premises

Statement Example

An example of a Statement of Financial Performance for Casino Replicas Limited, a business that buys and sells goods, is shown below.

Casino Replicas Limited
Statement of Financial Performance
for the year Ended 31 March 20XX

	\$	\$	\$
Sales			5,500,000
less Sales returns			<u>110,000</u>
Net Sales			5,390,000
less Cost of Goods Sold			
Opening Inventory		750,000	
add Purchases		<u>3,250,000</u>	
		4,000,000	
less Closing Inventory		<u>600,000</u>	
Cost of Goods Sold			3,400,000
Gross Profit			1,990,000
Less Expenses			
Selling and Distribution expenses			
Advertising	250,000		
Cleaning - sales	2,500		
Delivery vehicle expenses	15,000		
Salaries - sales	175,000		
Stationery - sales	4,500		
Telecom - sales	<u>12,000</u>		
			459,000
Administration expenses			
Cleaning - office	2,550		
Depreciation - buildings	23,000		
Insurance	3,500		
Postage	1,850		
Salaries - office	225,000		
Stationery - office	7,600		
Telecom - office	<u>13,500</u>		
			277,000
Financial expenses			
Bad debts	192,500		
Interest	<u>14,500</u>		
			207,000
Total Expenses			943,000
Net Profit			<u>1,047,000</u>

Gross Profit is the profit made before expenses are deducted

Operating expenses may or may not be grouped into categories

Net Profit is the profit after deducting all expenses. How does it compare to last year? Is the net profit enough to fund a new position?

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Gross Profit

About Gross Profit

Gross Profit is the difference between Net Sales and the Cost of Goods Sold. It tells us whether the business is making profit from selling goods.

Cassino Replicas Limited
Statement of Financial Performance
for the year Ended 31 March 20XX

	\$	\$	\$
Net Sales			5,390,000
less Cost of Goods Sold			<u>3,400,000</u>
Gross Profit			1,990,000

If it costs you \$1 to buy a good and you sell it for \$4, then the Gross Profit is \$3. If a business' Gross Profit is less than its operating expenses, it will make a loss. It is therefore less obvious how the business will be able to employ an additional staff member.

Comparing to previous year's results

Even if the business is making a Gross Profit, this figure is more informative if you are able to compare it to the previous year's figure, because part of your assessment is whether the employment offer is financially viable.

Checkpoint

Tick the appropriate boxes for the situations below.

Is Cassino Replica Limited likely to be performing better or worse if this year's Gross Profit was \$1,990,000 and

	Better	Worse
last year's was \$1,900,000 and the year's before was \$1,450,000?	<input type="checkbox"/>	<input type="checkbox"/>
last year's was \$2,500,000 and the year's before was \$2,450,000?	<input type="checkbox"/>	<input type="checkbox"/>

If the trend of the business' Gross Profit is downward, would you expect the business to make a higher Gross Profit next year?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

Gross profit percentage

The Gross Profit percentage examines the proportion of sales income left to cover the operating expenses, after paying for Cost of Goods Sold.

$$\text{Gross Profit \%} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 / 1$$

So if it costs you \$1 to buy a good and you sell it for \$4, then the Gross Profit percentage is 75%.

Cassino Replicas Limited
Statement of Financial Performance
for the year Ended 31 March 2010

Net Sales	5,390,000
less Cost of Goods Sold	<u>3,400,000</u>
Gross Profit	1,990,000

So the Gross Profit percentage for Cassino Replicas Limited would be:

$$\text{Gross Profit \%} = \frac{1,990,000}{5,390,000} \times 100 / 1 = 36.9\%$$

The Gross Profit percentage tells us that for every \$1 of Net Sales earned, Cassino Replicas Limited has 36.9% left to cover its operational expenses and make a profit.

Interpreting the Gross Profit percentage

The higher the Gross Profit percentage, the more the business will be able to spend on expenses including wages, and make a profit.

Exactly what is an "acceptable" Gross Profit percentage for a specific business, or industry, is hard to determine. It depends upon the how the business, industry and economy are doing, and the volume of sales that may be generated in the future.

Use the "reasonableness test": does the Gross Profit percentage, given what you know of the business, seem reasonable? Ask questions! Ask for more information: contracts and forecasts. Get them to convince you that the business can afford a new employee; that the future sales and profit will be at least similar to this year, if not better.

Checkpoint

Read the extract from the Statement of Financial Performance below.

	This year		Last year	
	\$	\$	\$	\$
Net Sales		3,900,000		5,100,000
Less Cost of Goods Sold		1,900,000		2,680,000
Gross Profit		<u>2,000,000</u>		<u>2,420,000</u>

So the Gross Profit percentage for this year would be:

$$\text{Gross Profit \%} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 / 1$$

$$\text{Gross Profit \%} = \frac{2,000,000}{3,900,000} \times 100 / 1$$

$$= 51.2\%$$

Calculate the Gross Profit percentage for last year.

	This year	Last year
Gross profit %	51.2 %	%

Gross Profit percentage trend

If the Gross Profit percentage is getting higher over time then the trend would indicate that the business is making more profit on the goods it sells.

If the business has a low Gross Profit percentage and is thinking about offering a job to an applicant as an additional employee, there may be concerns about whether the business can afford the new position as it may not be able to spend more on its operational expenses such as salary and wages. This is looked at in more detail in the Financial Sense module.

A service business example

An extract from an educational institution's financial statements is shown below. An educational institute will receive fees rather than sales as it is providing a service - not selling goods.

Similarly, Cost of Sales would be shown instead of Cost of Goods Sold.

	This year		Last year	
	\$	\$	\$	\$
Revenue				
Fees received		864,140		477,890
Cost of sales				
Student services fees	123,370		52,340	
Agent commissions	141,080		99,400	
Contractor salaries	140,340		65,140	
Total cost of sales		404,790		216,880
Gross Profit		459,350		261,010

The Gross Profit percentage (Gross Profit / Net Fees received) can still be calculated. For last year the calculation is:

$$\begin{aligned} \text{Gross Profit \%} &= \frac{261,010}{477,890} \times 100 / 1 \\ &= 54.6\% \end{aligned}$$

Checkpoint

Calculate Gross Profit % for this year and enter your answer in the shaded box below.

	This year	Last year
Gross profit percentage	%	54.6%

and is the statement below True or False?

True False

The Gross Profit % shows that despite receiving more fees, the educational institute also incurred higher Cost of Sales compared to last year.

Net Profit

Calculating net profit

Having calculated Gross Profit, you can now calculate Net Profit (or Net Surplus):

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

Look at the statement extract below. It groups the expenses rather than showing the full list.

Cassino Replicas Limited
Statement of Financial Performance
for the year Ended 31 March 2026

Net Sales	\$ 5,390,000
less Cost of Goods Sold	<u>3,400,000</u>
Gross Profit	1,990,000
Less Expenses	
Selling and Distribution expenses	459,000
Administration expenses	277,000
Financial expenses	<u>207,000</u>
Total Expenses	<u>943,000</u>
Net Profit	<u><u>1,047,000</u></u>

About Net Profit

Net Profit is what is left over after all the expenses have been paid. The higher the Net Profit, the better.

If the business has earned a good profit it will be able to reinvest back into the business. This will allow opportunities for growth and expansion. It may lead to the creation of additional jobs. What is considered a "good" profit depends on the business.

Similarly, if the business earned only a small Net Profit, how will it be able to afford to pay an additional employee?

Net Profit percentage

The Net Profit percentage represents the proportion of each sales dollar left after the cost of goods sold/sales and operating expenses have been deducted. It shows the percentage of every \$ of sales that is profit.

$$\text{Net Profit \%} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 / 1$$

Checkpoint

Calculate the Net Profit percentage for Casino Replicas

Casino Replicas Limited
Statement of Financial Performance
for the year Ended 31 March 20XX

	\$	
Net Sales		5,390,000
less Cost of Goods Sold		<u>3,400,000</u>
Gross Profit		1,990,000
Less Expenses		
Selling and Distribution expenses	459,000	
Administration expenses	277,000	
Financial expenses	<u>207,000</u>	
Total Expenses		<u>943,000</u>
Net Profit		<u><u>1,047,000</u></u>

The Net Profit percentage is _____ %

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Example – trading business

Shown below is an extract from another trading (buying and selling goods) business' Statement of Financial Performance.

	This year		Last year	
	\$	\$	\$	\$
Net Sales		3,900,000		5,100,000
Less Cost of Goods Sold		1,900,000		2,580,000
Gross Profit		<u>2,000,000</u>		<u>2,520,000</u>
Less Operating Expenses		1,350,000		1,750,000
Net Profit		<u>650,000</u>		<u>670,000</u>

Checkpoint

Calculate the Net Profit percentage for both years, given the Statement of Financial performance extract above, and write the percentages in the appropriate box below.

	This year	Last year
Net Profit percentage	%	%

and is the statement below correct? Yes No

Despite the business making less sales, it has made more profit per \$ of sales This year compared to Last year.

Note: Higher sales might also lead to higher expenses. So, an increase in sales may not result in a similar increase in profit. For example, a motel might have a credible plan to attract more customers in the next year, generating an extra \$100,000 in Net Sales. This is likely to mean the business will need to spend more on cleaning, laundry and maintenance (Expenses), which means the Net Profit cannot increase by \$100,000.

Example – service business

An extract from the educational institution financial statement is shown below. In this example we use the Fees Received instead of the Sales figure. Similarly, Cost of Sales is used instead of Cost of Goods Sold.

	This year	Last year
	\$	\$
Fees received	864,140	477,890
Cost of sales	404,790	216,880
Gross Profit	<u>459,350</u>	<u>261,010</u>
Add Interest received	18,550	5,630
	<u>477,900</u>	<u>266,640</u>
less		
Operating expenses	168,900	253,930
Net Profit	<u>17,000</u>	<u>12,710</u>

Checkpoint

Calculate Net Profit percentage for both years and write the % in the appropriate box below.

$$\frac{\text{Net Profit}}{\text{Fees Received}} \times 100 / 1$$

	This year	Last year
Net Profit percentage	%	%
	True	False

and is the statement below true or false?

The Net Profit percentage shows that the educational institute, per \$ of sales, is doing better This year than Last year.

Net Profit percentage trend

What is the trend of the Net Profit percentage over the last few years? Is it getting higher or lower? What does the trend say about what is likely to happen next year?

Even if the trend is getting higher, what is the business planning to do next year? Spend more on staffing? Buy more assets? Change what it is going to sell? Enter a new industry?

Are the owners planning to take more cash out of the business? What is left to pay staff, especially new positions?

Example – and problems with the lack of information

Look at the statement below of a business that has been in operation for only six months.

This statement has been adapted from a financial report received by Immigration New Zealand in February 2011 – with the name changed; figures rounded, etc.

IT Service Limited
Statement of Financial Performance
for the six months ended 30th September 20YY

	\$
Revenue	
Sales	27,400
Gross Surplus from Trading	27,400
Less Expenses	
Cleaning and laundry	1,800
General expenses	2,000
Insurance	800
Light, heat and power	780
Motor vehicle expenses	8,200
Printing and postage	1,000
Rent	4,000
Telephone and internet	2,300
Travel expenses	8,200
Wages and salaries	9,300
Total Expenses before Depreciation	36,100
Depreciation	360
Total Expenses after Depreciation	36,460
Net Surplus (Deficit)	(9,060)

As the business has just started up, the statement presents a number of problems:

- There are no comparable figures
- The business has not earned a profit/surplus; it is in deficit/loss.

It is probably not worth calculating either Gross Profit percentage or the Net Profit percentage.

Most businesses struggle in the early years. Running at a loss is not necessarily bad as long as the business has sufficient cash coming into the business to keep operating and paying its expenses and debts. This may be from loans, owners' contributions or, even better, from sales.

A look at the Statement of Financial Position would help.

Comment

It is interesting to note that in the financial report the nature of the business was described as 'providing computer technical support', not selling goods, but the revenue described above is "Sales", not "Fees". How reliable are the statements then? Who wrote them? Can you rely on the information?

Checkpoint

An extract from the Statement of Financial Performance of a car rental business is shown below.

Car Rental Business
Statement of Financial Performance
For the year ended 31 March 20XX

	This year	Last Year
Revenue	\$	\$
Total Income	1,186,902	827,397
Less Expenses	871,876	789,795
Net Surplus	315,906	37,602

For this business, there is no Cost of Goods Sold as the business is not selling goods.

As there is no Cost of Sales figure either it is not possible to calculate the Gross Profit %.

Calculate the Net Profit % (use the Net Surplus figures).

	This year	Last year
Net Profit Percentage	%	%

On the basis of the Net Profit % and the figures shown, comment on the profitability of the business.

Is the business, then, likely to be able to employ an additional staff member in the next financial year? Will that new position likely to be sustainable?

Next

Well done!

You have completed this module in which you have calculated the Gross Profit percentage and Net Profit percentage of a business, using figures from a Statement of Financial Performance, to help you assess its profitability and the likelihood that the business may be able offer a sustainable job to a new employee.

The key for any business, though, is whether it has sufficient cash flow (cash in and out of the business) to pay its debts and expenses, including wages and salaries.

Now, print out and complete one of the following modules (suggested order shown):

- Module 3 Statement of Financial Position and Analysis
- Module 4 Financial Sense.

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Checkpoint check

Statement Overview Checkpoint, page 2

	True	False
A If R is greater than E, then the business will make a Loss		✓
B If E is greater than R, then the business will make a Loss	✓	
C If R is greater than E, then the business will make a Profit	✓	
D If E is greater than R, then the business will make a Profit		
E If E is the same as R, then the business will Breakeven	✓	

Revenue Checkpoint, page 3

Sales	Revenue received from customer for buying a product
Fees	Revenue received for providing a service
Rent	Revenue received for the use of premises
Commission	Revenue received as a % of the sale price
Interest	Revenue received for lending money
Subscription	Revenue received for the membership of an organisation or a publication over time

Checkpoint, page

Is Casino Replica Limited likely to be performing better or worse if this year's Gross Profit was \$1,990,000 and

last year's was \$1,500,000 and the year's before was \$1,450,000?

Better

Worse

last year's was \$2,500,000 and the year's before was \$2,450,000?

If the trend of the business' Gross Profit is downward, would you expect the business to make a higher Gross Profit next year?

Yes

No

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Checkpoint, page 8

	This year	Last year
Gross profit %	51.2%	47.5%

Checkpoint, page 9

Calculate Gross Profit % for this year and enter your answer in the shaded box below.

	This year	Last year
Gross profit percentage	53.1%	54.6%

and is the statement below True or False?

True False

The Gross Profit % shows that despite receiving more fees, the educational institute also incurred higher Cost of Sales compared to last year.

Checkpoint, page 11

Calculate the Net Profit percentage for Cassin Replicas

The Net Profit percentage is 19.4% $(\$1,047,000 / \$5,390,000 \times 100 / 1)$

Checkpoint, page 12

Calculate the Net Profit percentage for both years, given the Statement of Financial performance extract above, and write the percentages in the appropriate box below.

	This year	Last year
Net Profit Percentage	16.7%	13.1%

and is the statement below correct?

Yes No

Despite the business making less sales, it has made more profit per \$ of sales This year compared to Last year. .

✓

Checkpoint, page 13

Calculate Net Profit percentage for both years and write the % in the appropriate box below.

		Net Profit	
Net Profit %	=	-----	x 100 / 1
		Fees Received	
		This year	Last year
Net Profit percentage		1.9%	2.6%

and is the statement below true or false?

The Net Profit percentage shows that the educational institute, per \$ of sales, is doing better This year than Last year.

True False

Checkpoint, page 15

Calculate the Net Profit % (use the Net Surplus figures)

	This year	Last year
Net Profit percentage	26.5%	4.5%

On the basis of the Net Profit % and the figures shown, comment on the profitability of the business.

Is the business, then, likely to be able to employ an additional staff member in the next financial year? Is that new position likely to be sustainable?

The Net Profit percentage has shown a significant increase compared to the previous year. This has come about with a 43.5% increase in revenue compared to only a 10% increase in expenses. The profit situation is positive and suggests that the business could support a new employee.

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INTERPRETING FINANCIAL
INFORMATION FOR JOB OFFERS

Module Three

Statement of Financial Position

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100-11000-1000-10



Your development at the Department

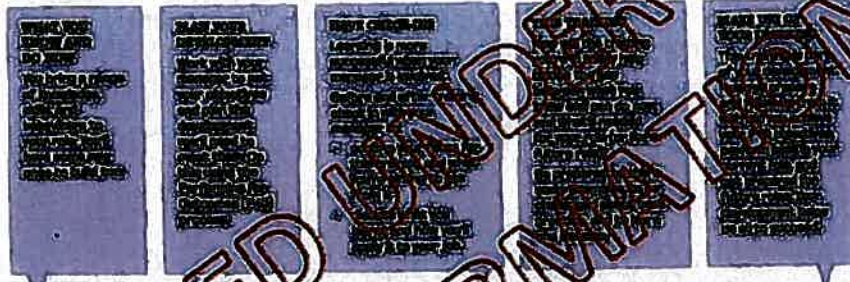
Department of Labour



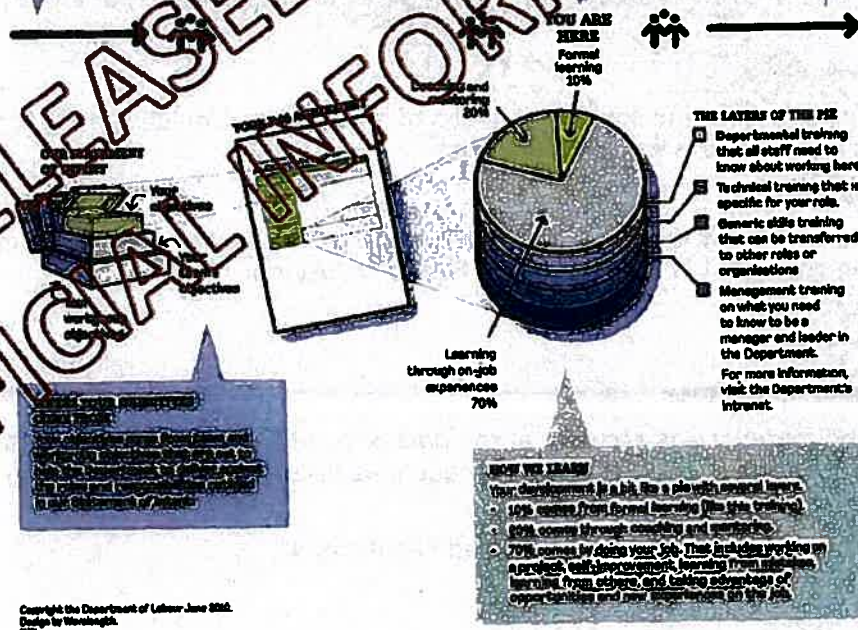
IT'S YOUR DEVELOPMENT.

To achieve your objectives, and help build Departmental capability, you need certain skills, knowledge, and behaviours. Some of these you'll already have, and some you'll need to develop. It's to your benefit to take a lead in working with your manager to decide how this development will occur.

Learning and development can provide support through that process, but at the end of the day, you need to own it.



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WELCOME

Instructions

In order to complete this module, please:

- print this document: **Module 3 Statement of Financial Position & Analysis**
- read the document all the way through
- complete the Checkpoints (with the suggested answers are at the back of the module).

Introduction

The Statement of Financial Performance shows how a business has performed over a period of time (usually 12 months to Balance Day). The measure of that performance is profit.

But even if it has made a profit, if the business doesn't have sufficient cash to pay its expenses and pay its debts (i.e. operate), including its suppliers, then it is unlikely to be able to afford a new employee.

No matter how profitable a business may seem, it is whether the business has the cash to operate that is crucial to its viability.

Cash is king!

About the Statement of Financial Position

The Statement of Financial Position shows the business' assets (what it owns), liabilities (what it owes to others) and the owners' financial interest, at a point in time.

Module objective

This module examines the liquidity situation of a business. Liquidity refers to the business's ability to turn its assets into cash.

Module outcomes

After working your way through this module, you will be able to calculate, from information presented in a Statement of Financial Position:

- Current ratio
- Liquid ratio

References / disclaimer

This training material was accurate at the time of publication. Officers should always refer to updated sources of information, as listed below, when making decisions.

- Immigration Act 2009 and associated Regulations
- Immigration Instructions
- Staff Toolkit.

Statement Overview

Basic equation

The Statement of Financial Position (also known as the Balance Sheet) presents a basic equation of Assets = Liabilities + Owners Equity.

- Assets = what the business owns
- Liabilities = what the business owes to others
- Owners Equity = the financial interest of the owners.

A =	L + OE
Assets	Liabilities + Owners Equity

Checkpoint

Read each statement A - E below and mark either True or False

A

$$A - OE = L$$

B

$$L = OE - A$$

C

$$A + L = OE$$

D

$$L + OE = A$$

E

$$L - OE = A$$

False

Assets

Type of assets

There are two main types of assets:

- Current assets = those assets that are cash or can be converted into cash within the next 12 months
- Fixed assets = those assets owned or controlled by the organisation that will be used for more than 12 months.

Checkpoint

Draw a line from current assets in the left column to the statement that describes them in the right column.

Cash

Stock on hand at the start of the financial year

Cash at Bank

Cash held on the premises

Inventory

Also known as Debtors, represents the amounts owed by others to the organisation

Prepaid expenses

Amounts held in bank accounts

Accounts Receivable

Expenses that have already been paid before the benefit has been received (e.g. rent)

Fixed assets

Assets used over a long time (more than one financial year) are known as fixed assets. These assets help the organisation undertake its business. Fixed assets include:

- Land and buildings
- Plant and equipment
- Vehicles
- Fixtures and fittings.

Liabilities

Types of liabilities

There are two main types of liabilities:

- **Current liabilities** = amounts owed by the organisation to others that are due in the current financial period
- **Long term liabilities** = amounts owed by the organisation to others that do not have to be re-paid within the current financial year; may also be known as **Non-current liabilities**.

Checkpoint

For each liability item listed below ✓ either Current Liability or Long term Liability.

Liability

Current Liability

Long term Liability

Accounts payable

Tax payable

Mortgage

Long term loan

Accrued expenses

Debenture

Bank overdraft

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Owners Equity

Owners' Equity (OE) represents the owners' financial interest in the business.

It basically shows:

	\$
Capital	1,500,000
(the financial interest of the owners' at the start of the financial year)	
add Profit	500,000
(made during the financial year)	
	2,000,000
less Drawings	750,000
(cash and assets taken by owners during the financial year - not salary paid to themselves during the year as 'employees')	
Capital	1,250,000
(the financial interest of the owners at the end of the financial year)	

Different organisations

Different organisations will present the Owners Equity section differently depending upon the type of organisation and ownership structure.

A company owned by shareholders will label this section Shareholders' Funds.

	\$
Shareholders Funds	
Paid up capital (\$15 per share)	3,000,000
Retained Earnings (profit left in the business)	300,000
	3,300,000

A business owned by two or more partners will label this section Partners' Funds.

So while the content of the Owners Equity section may appear a little different to those above they will all provide much the same information:

Capital at the start
add Profit or less Loss
Capital at the end

Module 3 Statement of Financial Position

Cassino Replicas Limited

Below is a statement of Financial Position for Cassino Replicas Limited as at 31 March 20XX: Assets = Liabilities + Owners Equity.

Cassino Replicas Limited	
Statement of Financial Position	
as at 31 March 20XX	
	\$
Current Assets	
Bank	50,000
Accounts receivable	65,000
Inventory	600,000
Prepaid expenses	15,000
	730,000
Add Fixed Assets	
Equipment	75,000
Buildings	950,000
	1,025,000
Total assets	1,755,000
Liabilities	
Current Liabilities	
Accounts payable	15,000
Tax payable	195,000
Accrued expenses	12,000
	212,000
Less Long Term Liabilities	
Mortgage	480,000
	692,000
Shareholders' Funds	
Shareholders' funds (at the start)	516,000
Retained earnings	547,000
	1,063,000
Total equity	1,755,000

The statement may also be presented: Assets - Liabilities = Owners Equity.

Working capital

Working capital is the difference between Current Assets and Current Liabilities. It refers to the cash left over after the business has repaid its immediate debts (Current Liabilities), i.e. the debts the business expects to repay within the next 12 months.

The more cash the business has after repaying its immediate debts, the more it can spend on its expenses, including wages and salaries.

The statement below shows the calculation of Working Capital for Casino Replicas Limited:

	\$	\$
Current Assets		
Bank	50,000	
Accounts receivable	65,000	
Inventory	600,000	
Prepaid expenses	<u>15,000</u>	
		730,000
Less Current Liabilities		
Accounts payable	25,000	
Tax payable	185,000	
Accrued expenses	<u>12,000</u>	
		212,000
Working capital		<u>518,000</u>

Casino Replicas Limited's Working Capital is \$518,000, i.e. after it had repaid its immediate debts (Current Liabilities) the business would still have \$518,000 of Current Assets left to continue to operate.

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Analysing the Statement of Financial Position

Introduction

The ratios that are used to assess the Statement of Financial Position of a business looks at whether it has enough cash, or can convert assets into cash, to meet its debts.

The two main ratios are:

- Current ratio
- Liquid ratio.

Current ratio

The current ratio looks at the level of current assets relative to current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The ratio will be expressed as x : 1

A Current ratio of 1.5 : 1 means that current assets equal one and a half of the value of current liabilities.

The generally accepted rule (Rule of Thumb) is that the current ratio should be about 1.5 : 1.

Greater than 2 : 1 would indicate that the business is not using its (current) assets well - they're sitting around not earning revenue. If there is a lot of inventory (goods or stock on hand) not selling, then there is also the expense of storage as well as the worry that the inventory (goods or stock on hand) cannot be sold in the future. Questions over the type of inventory the business is trying to sell would also be raised.

But it depends a lot upon the business and the industry it is in. Superior, classic car sales businesses, for instance, have a lot of inventory (cars) sitting around, waiting to be sold. Supermarkets on the other hand, are all about moving inventory (groceries) as quickly as possible, so while they may seem to have lots of inventory it is moving.

It is always necessary to compare any ratio or percentage to the previous year's (at least) to get an idea of any (upwards or downwards) trend.

A ratio or percentage on its own is meaningless.

Example

The current assets and current liabilities for Casino Replicas Limited are shown below.

	\$	\$
Current Assets		
Bank	50,000	
Accounts receivable	65,000	
Inventory	600,000	
Prepaid expenses	<u>15,000</u>	
		730,000
Less Current Liabilities		
Accounts payable	15,000	
Tax payable	185,000	
Accrued expenses	<u>12,000</u>	
		<u>212,000</u>
Working capital		518,000

The current ratio is:

$$\begin{aligned}
 \text{Current ratio} &= \frac{\text{Current assets}}{\text{Current liabilities}} \\
 &= \frac{\$730,000}{\$212,000} \\
 &= \mathbf{3.4 : 1}
 \end{aligned}$$

Casino Replicas Limited has 3.4* times more current assets than current liabilities.

It should easily be able to meet its current debts as long as it is able to get its Accounts Receivable (debtors) to pay and is able to sell its inventory easily. It also has \$50,000 in a bank account that is readily available.

* calculated to one decimal point.

Module 3 Statement of Financial Position

Checkpoint

An extract from the Statement of Financial Position of an educational institute is shown below.

	This year	Last year
Current Assets		
Bank – current	8,500	26,000
Bank – trust account (secured until March 2010)	531,470	170,900
Bank – other account	35,030	7,000
Accounts Receivable	6,100	1,850
Total Current Assets	<u>581,100</u>	<u>205,750</u>
Current Liabilities		
Accounts Payable	2,750	1,350
GST due	22,900	12,500
PAYE payable	5,050	1,700
Student fees in advance	531,470	170,900
Total Current Liabilities	<u>562,170</u>	<u>186,450</u>

Calculate the current ratio (to one decimal point) for both This year and Last year, and write the ratios in the appropriate box below

	This year	Last year
Current ratio = Current assets / current liabilities	: 1	: 1

Comment

There is a slight decrease in current ratio over the two years. Current assets are still greater than current liabilities; i.e. there are enough current assets to cover current liabilities over the year, but there may be a need to liquidate some current assets to improve the ratio.

There is also a need to consider the decrease in the bank current account. Why has it gone down so much over the year? The business received cash for the next year in advance from students (Student fees in advance). So the business has deposited the fees into an account (Trust) earning more interest than the current account.

Similarly, the business has moved other cash from the current account to another account probably earning more interest too.

Accounts Receivable (debtors) has been kept in control, as have Accounts Payable (creditors).

Liquid ratio

The liquid ratio looks at the level of liquid assets that can be turned immediately into cash to meet the immediate liabilities (due in the next 1 - 3 months).

$$\begin{aligned}
 \text{Liquid ratio} &= \frac{\text{Liquid assets}}{\text{Liquid liabilities}} \\
 &= \frac{\text{Current assets less (inventory + prepayments)}}{\text{Current liabilities less bank overdraft (secured)}}
 \end{aligned}$$

Liquid assets are current assets except inventory and prepayments. It is not always possible to sell the inventory quickly. Credit sales will increase accounts receivable (debtors) rather than provide actual cash, and it may not always be able to collect the cash easily.

It is not possible to get a refund of (pre)paid expenses (prepayments).

Similarly, any secured bank overdrafts are deducted from Current Liabilities, as it is assumed that the bank will not enforce repayment of loans secured against an asset in the short term.

The Liquid Ratio should be higher than 1 : 1, so that cash received can cover Current Liabilities that must be paid immediately.

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Module 3 Statement of Financial Position

Checkpoint

The current assets and current liabilities for Casino Replicas Limited are shown below.

	\$	\$	\$
Current Assets			
Bank	50,000		
Accounts receivable	65,000		
Inventory	600,000		
Prepaid expenses	15,000		
		730,000	
Less Current Liabilities			
Accounts payable	15,000		
Tax payable	185,000		
Accrued expenses	12,000		
		212,000	
Working capital			518,000

Calculate the Liquid ratio (to one decimal point) below.

$$\begin{aligned}
 & \text{Liquid ratio} = \frac{\text{Current assets less (Inventory + prepayments)}}{\text{Current liabilities less bank overdraft (secured)}} \\
 & = \frac{730,000 - (600,000 + 15,000)}{212,000} \\
 & = \quad \quad \quad : 1
 \end{aligned}$$

Comment

The liquidity ratio for Casino Replicas Limited does not look good. On further examination though, as long as the business can pay its tax liability the situation will improve markedly. The key to this is the selling of inventory.

Checkpoint

An extract from the Statement of Financial Position for an educational institute is shown below.

This shows the liquid assets: assets that can be turned (liquidated) into cash immediately.

	This year	Last year
Liquid Assets		
Bank - current	8,500	26,000
Bank - other account	35,030	7,000
	<u>43,530</u>	<u>33,000</u>
Liquid Liabilities		
Accounts Payable	2,750	1,350
GST due	22,900	12,500
PAYE payable	5,050	1,700
	<u>29,700</u>	<u>15,550</u>

Note: Bank - trust account (secured until March 2010) is not included in the Liquid Assets as the cash is not able to be accessed until March 2010. Similarly, Student fees in advance is not included in the Current Liability figure for the calculation of this ratio as it represents cash received that belongs to the next financial year.

Calculate the liquid ratio (to one decimal point) for both This year and Last year from the extract above and write the ratios in the appropriate box below.

	This year	Last year
Liquid ratio = Liquid assets / Liquid liabilities	: 1	: 1

Comment

Although liquidity has fallen, indicating a possible cash decline over time, it still indicates that there are sufficient assets to cover immediate liabilities. There is no immediate concern.

It would be good to look at the liquidity trend and student numbers over a number of years.

Cassino Replicas Limited Analysis

Summary

Below is a summary of the analysis conducted on the financial statements of Cassino Replicas Limited over the last couple of modules. The figures for Last year are provided below.

	This year
Gross profit percentage	36.9%
Net profit percentage	19.4%
Current ratio	2.2 : 1
Liquid ratio	0.5 : 1

Comment on sustainability

It is hard to assess how well Cassino Replicas Limited is really doing as we do not have comparable figures for the previous year. There are no identifiable trends. The assessment is limited by the absence of these figures.

On the basis of this year's figures only, it seems that the business is in a positive situation, with the exception of the liquid ratio. It seems to have a healthy profitability situation.

You may wish to ask the business further questions about its liquidity situation and how it plans to sell its inventory in the next 12 months. If the business can convince you that it has reasonable expectations about this, this will help in assessing whether it can afford a new or additional employee.

Educational Institute Analysis

Summary

Below is a summary of the analysis conducted on the financial statements of the educational institute used in the Checkpoints in the last couple of modules.

	This year	Last year
Gross profit percentage	53 %	54.6 %
Net profit percentage	2 %	2.7 %
Current ratio	1.0 : 1	1.1 : 1
Liquid ratio	1.5 : 1	2.1 : 1

Comment on sustainability

While the business is not doing as well compared to last year, it is clear that the business is sustainable into the new financial year.

Liquidity has got worse although it is not a critical situation. Liabilities are under control while accounts receivables are low. The business has considerable cash to cover its liabilities and will be able to continue to operate into the new financial year.

Although Gross Profit and the Net Profit percentages are not as good as the previous year, net profit is still positive at \$17,000 compared to last year's \$12,170.

It is not clear whether the business can support a new person though. This would probably be determined by student numbers in the next year. But such a business would employ many of its staff on a contractor basis so that if student numbers decline, the number of contractors would decline too.

Further information required

If you are still not convinced, you could ask to see the business' statement of future cash forecasts as this would indicate future student numbers and future fees received.

An understanding of the international educational market may be useful – where does the business expect to get students from? How many? When?

Remember, it is up to the business to convince you that the job offer is genuine and sustainable.

Next

Well done!

You have completed this module in which you have calculated the Working Capital Ratio and the Liquid Ratio of a business, using figures from a Statement of Financial Position, to help you assess the liquidity of the business. If a business does not have cash, how can it pay its employees, particularly a new employee?

Now, print out and complete the last module in the course: Module 4 Financial Sense.

In this module you will find information on GST and how a Cash Flow statement may help you. You will also find some interview questions and tips.

Checkpoint Check

Checkpoint, page 3

- A A - OE = L True
- B A - OE = L False
- C A - OE = L False
- D L - OE = A True
- E L - OE = A False

Checkpoint, page 5

Accounts payable	Current liability - amounts owing to suppliers
Tax payable	Current liability - amount owed to IRD
Mortgage	Long term liability
Long term loan	Long term liability
Accrued expenses	Current liability - amounts owed for operating expenses such as electricity and wages
Debenture	Long term liability - a form of loan received
Bank overdraft	Current liability

Checkpoint, page 11

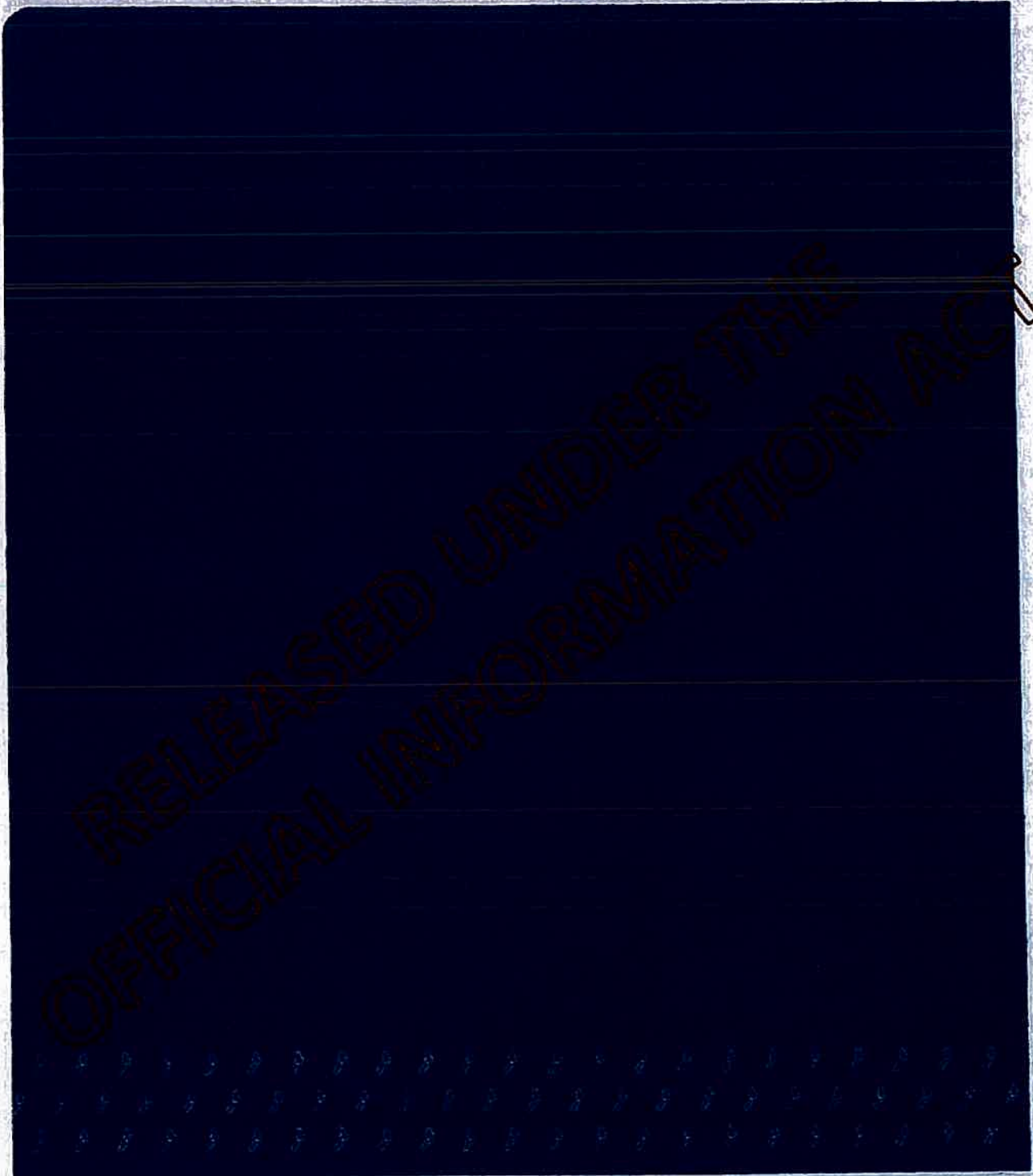
Current ratio is 1.1 : 1 This year , and 1.1 : 1 Last year.

Checkpoint, page 13

Liquid ratio is 0.5 : 1.

Checkpoint, page 14

Liquid ratio is 1.5 : 1 This Year, and 2.1 : 1 Last year.



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WELCOME

Introduction

When making the decision about whether a job offer is genuine, on-going and sustainable, there are some key questions to be considered:

- Is the employee replacing someone, or is this an additional employee?
- What value would the new employee add to the business?
- Can the business afford it?

While an analysis of the financial statements (Statements of Financial Performance and Financial Position) may shed some light on the profitability of the business and its ability to pay its debts, further examination of the business may be necessary. This may involve examining other business information and, perhaps, interviewing the business owner.

Module objective

The objective of this module is to suggest other business information that could help you assess whether the business could afford a new employee. It also suggests questions to ask and interview tips.

References/disclaimer

This training material was accurate at the time of publication. Officers should always refer to updated sources of information, as listed below, when making decisions.

- Immigration Act 2009 and associated Regulations
 - Immigration Instructions
 - Staff Toolkit.
-

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Job Sustainability

Introduction

When considering whether a job offer is genuine, on-going and sustainable, the key questions are:

- Is the employee replacing someone or is this an additional employee?
- What value would the new employee add to the business?
- Can the business afford it?

Filling an existing position

If the job offer is for an existing position where the applicant is replacing someone, there should be sufficient business documentation about the position to allow an assessment to be made of whether the applicant has sufficient skills, qualifications and experience to do the job. Existing job descriptions, (similar) job adverts and employment contracts should be easily accessible.

In the case of a new position, over and above the existing staff levels, then the types of questions asked and documents sought will be different.

Value of the new employee

Whether the job offer is for an existing or new position, the value of the new employee should be assessed.

Checkpoint

List below the reasons why a business may take on an extra employee.

See Checkpoint Check for suggested answers at the back of this module.

Affordability

There could be many reasons for taking on another employee. But whether the business can afford to take on an employee is another issue. One thing to look at is what the owners have earned from the business previously and how seriously that will be impacted by taking on another staff member.

For example, imagine you are a business owner. Before deciding to take on another staff member you might want to think through the following:

Annual living expenses? \$30,000

Gross income required? @33% tax \$45,000

How much money invested in business? \$50,000

What rate of return should you receive on investment 15%

(Note: 15% is just an example figure based on figuring most people would want substantially more than they could earn in bank interest given the amount of work they will need to do to generate the return)

How much return should you receive ($\$50,000 \times 15\%$) \$7,500

What profit do you require ($\$45,000 + \$7,500$) \$52,500

Average profit percentage for type of business 10%

What level of sales is required ($\$52,500 / 10\%$) \$525,000

So to pay a full time (40 hour a week) employee minimum wage at \$500 a week ($\12.50×40 hours), over the course of the year the business is going to need to make at least the amount of the wages over the year (an extra \$26,000) in profit, for taking on that employee to be 'fiscally neutral', that is, to have no negative impact on the current profits available to the owner. This means sales will need to increase by \$260,000 to generate the \$26,000 to pay the new employee.

Cash is king

Because wages are a current and ongoing expense (and have to be paid in the short term), considering the cash flow of the business is important in checking if the business can afford to take on another employee.

If the cash flow doesn't appear to be sufficient that would certainly prompt some questions but you might want to consider that they are intending to increase cash flow.

For example, in a restaurant scenario:

- maybe they are intending to increase sales by opening for breakfast as well and having two dinner servings, not just one
- increasing the gross profit percentage on each meal by putting prices up or decreasing the cost of ingredients

Maybe the business has some other plans to increase cash flow:

- Debtors = ensuring that debtors (accounts receivable) pay on time may well provide the business with additional cash funds
- Creditors = If a business can arrange to pay its creditors (suppliers or accounts payable) at a slower rate than it is paid by its debtors there may be cash available, or even arrange to pay by regular instalments rather than a lump sum at a particular time.
- Deposits = If a business has large expenses coming up for supplying a product or service then obtaining a deposit for the expenses will help cash flow. For example if our restaurant owner has a catering sideline and is catering for a corporate end of year function the deposit paid will cover initial expenses and improve cash flow until the balance is paid.
- Stock management = Ordering just as much stock as the business needs ('just in time' stock management) to avoid having to pay for stock sitting on the shelves not earning sales and tying up cash.
- Leasing rather than buying fixed assets = For example, leasing a photocopier rather than buying it may mean that the business will only have to pay a regular fee for the lease rather than a lump sum.
- The new employee may bring skills that reduce expenses, such as the ability to repair equipment rather than paying a higher rate to someone outside the business.

The new employee may be used to free up another employee to do work which will bring additional benefit to the business, for example freeing up the business owner to focus more on marketing the business rather than operating the business.

Financial analysis

Job sustainability can vary between businesses and types of businesses.

An analysis of the business' financial statements may be helpful. This may include:

- Working capital ratio: an indication of whether the business is able to pay its regular short term expenses including paying wages
- Net profit percentage: does the business make a net profit and how is this distributed? Is it all paid out to the owners/shareholders or is some retained for future growth of the business?

The sales per employee ratio are also a useful calculation.

$$\text{Sales per employee} = \frac{\text{Total Sales}}{\text{Number of employees}}$$

This ratio can give an indication of the increase in sales which is required in order to afford an extra employee.

Similarly, how much the owners have invested in the business is also important. Are profits retained in the business or withdrawn by the owners? Is there sufficient cash to pay expenses and accounts payable/creditors?

If the business does not have sufficient cash, the business will not be able to operate.

GST and Cash Flow

Introduction

Cash is the life blood of a business. With cash coming into a business, it can pay staff, expenses and Accounts Payable (creditors), and, thus, continue to operate. The Statement of Cash Flow itemises cash into the business and cash flows out. Such statements, though, present a flow of cash into and out of the business. A cash flow forecast would be more useful

Unfortunately, businesses do not always provide Cash Flow statements or forecasts.

What may be used to examine the business' cash flow are their GST Returns.

GST

GST is a goods and services tax on just about everything sold. The rate, in October 2010, increased from 12.5% to 15%.

So, if a set of folders were set to be sold for \$10, an extra 15% is added to the price: $\$10 + 15\%$. The consumer will buy the set of folders for \$11.50. The business will collect, on behalf of the Inland Revenue Department (IRD), the \$1.50 GST.

GST Returns

Businesses which earn \$60,000 or more have to complete a GST return every month, two months or six months. This return is sent to the IRD.

If the business has earned more GST than it paid, then the business would make a payment to the IRD. If the business paid more GST for goods and services than it collected through selling goods or providing a service, the IRD will pay the business the difference (a refund).

This GST return represents financial information that may be used to assess the cash flow (cash in and out) of a business.

Module 4 Financial Sense

Example

Below is the GST return for the six months April to September 2008 (inclusive) of the educational institute that has been presented in the other modules. The GST rate in September 2008 was 12.5%.

This is the only document that related to cash flow that was presented by educational institute to Immigration New Zealand.

Inland Revenue Te Tari Taake

Goods and Services Tax Act 1985
Goods and services tax return
 You can use the GST guide (IR 379) to help you complete this return, which you'll find at www.ird.govt.nz or call us on 0800 077 176.

GST 101A
 July 2007

Period covered by the return: **01/04/2008** to **30/09/2008**

This return and any payments are due: **28 October 2008**

If your correct postal address for GST is not shown above, put it in Box 2.

Payments made

Box 1: Total sales and services for the period (including GST and any discounts)	434 780.01
Box 2: Total supplies included in Box 1 (including GST)	434 780.01
Box 3: Total GST included in Box 2	48 308.89
Box 4: Total GST included in Box 3	48 308.89

Goods and services tax on your purchases

Box 5: Total GST included in Box 4	27 967.51
Box 6: Total GST included in Box 5	27 967.51
Box 7: Total GST included in Box 6	2 024.28

Signature: *[Signature]* 15/10/2008

Payment slip

This return and any payment are due: **28 OCT 2008**

Amount of payment: \$ **2,024.28**

Use the envelope provided to send your return, payment slip and any cheque payment.

Copy your IR379 onto Box 15 and enter it here. Include any late payment penalties for this period only.

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Checkpoint

Calculate the net surplus or deficit from the above 2009 GST return.

	GST Form Box	
Total sales & income	7	
Less GST	8	
Sales & income GST exclusive (without GST)	A	_____
Total purchases & expenses	1	
Less GST	2	
Purchases & expenses GST exclusive	B	_____
Net cash surplus/deficit for the six months	B	_____ _____

See Checkpoint Check for suggested answers at the back of this module.

The above net cash surplus/deficit gives you an idea of the cash position of the business in September 2008 (as the return relates to the period April to September 2008). You would expect that the net cash surplus/deficit situation would not be too different over the next six months unless the business was seasonal. Expected student numbers would be helpful.

Some questions that you could consider:

- How reliable is the figure? How reliable is the business?
- How does the cash surplus/deficit figure compare to the previous GST period(s)?
- What documents are there to support the return?
- What other information would be needed?

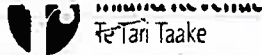
So, can the business support another employee?

Module 4 Financial Sense

Change in rate to 15%

In 2010 the GST rate increased to 15%. The form is much the same.

The IRD is encouraging businesses to complete the return online. A completed return is shown below.



Goods and Services Tax Act 1985

Goods and services tax return

For help in completing this return go to www.ird.govt.nz (Keyword: GST75)

Registration no.
 Period covered by the return: TWO MONTHLY
 from 01/07/2011 to 31/07/2011

This return and any payment are due 28 August 2011

If your correct postal address for GST is not shown above, print it in Box 3.

Invoice Base

If your correct daytime phone number is not shown here print it in Box 4.

Total returned income (all included including GST and any zero-rated supplies)

963 149.07

Goods and services tax on your sales and income

Include any zero-rated supplies included in Box 5

Multiply the amount in Box 6 by three (3) and enter it in Box 7

8

\$ 125 628.14

OFFICE

Adjustments from Box 9, 10, 11 and 12

9

\$

Add Box 8 and Box 9. This is your total GST credit for sales and income

10

\$ 125 628.14

Goods and services tax on your purchases and expenses

Include any zero-rated supplies (including GST) for which the input tax credit requirements have been met, including any imported goods

11

\$ 722 865.47

Multiply the amount in Box 11 by three (3) and then divide by twenty-three (23)

12

\$ 94 286.80

Declaration

Credit adjustments from your calculation sheet

13

\$ 17 389.75

Add Box 12 and Box 13. This is your total GST credit for purchases and expenses

14

\$ 111 676.55

Print the difference between Box 10 and Box 14 here

15

\$ 13 951.59

If Box 14 is larger than Box 10 the difference is your GST refund (Tick one)
 If Box 10 is larger than Box 14 the difference is GST to pay
 Has payment been made electronically? Yes No GST to pay



Payment slip

Registration number
 Return for the period ending 31/07/2011

This return and any payment are due 28 AUG 2011

Amount of payment \$ 13 951.59

Use the envelope provided to post your return, payment slip and any cheque payment.

Copy your total from Box 15 and enter it here. Include any late payment penalties for this period only.

Cash flow forecast

Introduction

The name of this forecast pretty much sums up what the document does: It forecasts flow of cash in (receipts) and out (payments) of the business over time.

The basic equation is: Opening cash flow + Receipts - Payments = Closing cash flow

where:

- Receipts = cash into the business
- Payments = cash out of the business.

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6
Opening balance						
Add Receipts						
Less Payments						
Closing balance						

Importance of the forecast

A cash flow forecast helps predict future cash shortfalls so the owner can make any necessary financial arrangements in advance. A forecast also allows the owner to manage, adjust and take steps to strengthen the flow of cash in the business over time.

Imagine how cash flow works on a personal level. You might be paid monthly and know that you will be receiving your salary of NZ \$3000 on the first day of the next month. You might also have equity in a house of NZ\$40,000 and a car worth NZ\$7000.

However, if you have gone into overdraft on your current account, and maximised your credit card, the fact that you have equity (non liquid assets) and money coming next month will not help you to pay your electricity bill if it arrives the week before your salary is due. This is because your personal cash flow equation of receipts and payments is not balanced.

Cash flow can vary significantly from month to month. A cash flow forecast broken down by month will be of more use than an annual forecast.

For example, a trout fishing lodge will likely attract most of its clientele (and income) during the time the trout fishing season has its peak. They will have some increased costs then too. But they will likely schedule any maintenance when there are no guests. This might mean that overall they have more outgoings during the off-peak time when they have little income.

A business owner will estimate their likely sales for the year ahead and will normally break this down to a monthly (or even weekly figure) and work out what percentage of the sales will be cash sales (meaning the money is available immediately) and what percentage are credit sales (as this money will not be received until later).

Forecast expenses will be based on the estimated amount needed to pay bills. The figures should be close, with a bit of adjustment, to those in the Statement of Financial Performance.

It should be noted that cash flow, and particularly having cash available in the bank, is not the same as profit. A business can appear to be profitable but if it runs out of cash to meet the bills it will not be able to continue to operate.

According to the Bank of New Zealand (BNZ) Management Toolbox:

"In the short term a business needs liquidity, which means having enough cash flow to pay the bills as they fall due. It is important to anticipate and plan the cash flow for your business for the following reasons:

- *When the cash flowing into your business exceeds the cash flowing out, you can continue to operate.*
- *If the cash flowing out of your business exceeds the cash flowing in, it will eventually run out and creditors may seek to have the business liquidated in order to recover their losses."*

The BNZ also advise their business clients that

"A cashflow forecast is the single most important document the bank or other lending institutions want to see when a small business applies for a loan. This is because it reveals whether a business can meet any loan and interest commitments."

<http://www.bnzadvice.co.nz/training/module.aspx?mki=1502&cid=1>

Employer Interviews

Introduction

In the event that there is insufficient information and/or a lack of documentation, it may be necessary to interview the employer.

Before you start:

Ask yourself the question: Do you really need to interview?

There may well be enough information in AMS, provided with the application, and/or publicly available (for example through the internet) to show that the company is genuine and in a position to make a job offer that is genuine and sustainable.

An interview is considered level 3 verification and should only be undertaken if the checks at levels 1 & 2 have been completed and are inconclusive. Check Z5.5 of the Operational Manual for more information about the levels of verification.

Things to consider

Once you have made the decision that an interview is necessary there are some things to consider about the likely response from the employer.

- An interview is an intrusion on the time of the employer.
- Employers may find the interview intimidating and fear that if they don't give you the answers you want they may not be able to employ someone who could be important to the success of their business.
- If the job offer has been made to assist someone in obtaining residence under one of the family categories they may have a personal as well as a business interest in making sure it succeeds.

Setting the scene

Try and put the employer at ease and explain that you would like to ask a few questions and that you may ask to make copies of some documents (if the interview is being done as a site visit).

You cannot make an employer provide you with documents (these could be commercially sensitive and after all, the employer has not made an application for a visa). If an employer refuses explain why you have asked for the documents and that it would be helpful to see them but that it's their right to refuse. Explain politely that you will review the application and confirm with them in writing if you will still need the documents to make your decision.

Interview Tips

Try and ask open rather than closed questions

Do not ask questions that can be answered yes or no or with a one word answer (unless these are to check specific facts).

The difference between "How long have you known the applicant?" (closed) and "Can you tell me about how you first came to know about this applicant?" (open), is the difference between asking open and closed questions.

A question like this (Can you tell me about how you first came to know about this applicant?) could be followed up with specific questions about date, place, who else was present, when the decision was made to offer them a job, etc.

Prompt to clarify but don't assume the answer

Prompt if you need to clarify what a question means, or follow up with a similar question, but don't suggest answers to applicants.

For example the difference between:

- "Please tell me what skills and experience you are looking for in an employee in this role?" (asking)
- and
- "So, will you want another computer programmer and helpdesk trouble shooter?" (suggesting the answer & closed - the employer could answer this just by saying "yes").

Listen and follow up

Listen to what the employer says and follow up with more questions if required. It is fine to depart from the list of questions you have prepared - just remember to write down the new ones as you go!

Interview structure

First you will want to establish basic bio data, confirm name of the business, total number of employees, what sort of business they do, if there is more than one location etc. This should confirm information you have already researched but asking these questions will help put the employer at ease.

Then move on to more specific questions about the decision to employ another person and why this particular person, etc.

Interview questions

TYPE OF QUESTIONS

QUESTIONS

PRE-INTERVIEW PREPARATION

Basic questions

Note that you should have this information from your research so this is just confirmation and to put the employer at ease.

- Can you please confirm the registered name of the business and whether there is any other trading name?
- How many staff are employed currently?
- Is the applicant replacing a former or current employee or is this a new position?
- What type of business does the company do?
- Is this the only location?
- Do any of the employees work from home or are they all on site?
- What are the days and hours of operation?
- Do the hours people work depend on their role in the company/business?

Most of this information will be available in the job offer or online.

All you are looking to do by asking these questions is confirm your understanding, gain a few basic additional details, and put the employer at ease.

Role

- Please can you describe the role the applicant will have?
 - What would a normal day in the job look like (for example what are the tasks they would do, what time would they start and finish etc)?
 - What skills and experience does someone need to do this job?
- How would you be able to tell if someone was doing a good job in this role?

Look at the job description and any information about the job in the job offer.

Check ANZSCO to find out what experience and skills are recorded as normal for the type of job.

You may find it useful to check:

- the Kiwiquals website (www.kiwiquals.govt.nz) to verify qualifications (or ask the relevant issuing educational institution)
- the Careers website (www.careers.govt.nz) to establish what experience is required for the role.

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Module 4 Financial Sense

New role

- How long have you been considering taking on another employee?
- Why now?
- Is this your decision alone or did you consult (who with)?
- What made you decide you needed another employee?
- Why in this role and not another role in the company?
- What came first – knowing about the applicant's availability or identifying you needed another staff member?
- What skills, experience and attributes were you looking for in a person for this role?
- What sort of training do you expect will be necessary?
- How did you determine the hourly rate the person will be paid?

Replacing someone

- What happened to the person who is being replaced – did they leave or have they got a new role in the company?
 - If promoted – what is their new role?
 - If left – do you have contact details for them?
- How long did they work for you?
- Did they start with the skills for the role or did you have to train them?
- Are you looking for someone with the same or a different skill set?
- How long is it since you had someone in the role?
- How have you been managing with that vacancy (that is, who has been doing the work?)
- Do you anticipate the new person doing the same role or will it be different?
- Would you be able to tell me the hourly rate for the previous person in the role?
- Would you be paying the new person more or less and can you explain the reasons to me?
- Could you show me the employment records for the person who left?

If able to check the details of the previous employee in the role check hourly rate, hours, and any details of job description if it is recorded.

Selection of applicant for role

- How did you first come to know about the applicant (did they approach you or did you approach them?).
- How did you select the applicant for the role?
- Did you advertise?
- Did you do the whole process yourself or use others (in the company or an external provider like a recruitment company?)
- How many people did you consider for the role?
- If you interviewed people for the role can you tell us how many people you interviewed?
- Why did you choose this particular applicant?
- Did you do any reference checks?
- How long would you expect the person to stay in the role?
- Are they likely to advance within the business over time?

Ability to afford another employee or an additional position

- How is this position being funded?
- Are you expecting employing this person to increase your sales or productivity?
- Are you expecting to make any savings as a result of employing this person?
- Are any changes you expect as a result of employing this person reflected in any financial forecasting you have done?

Checking financial statements (balance sheet and profit and loss) to see if it makes financial sense for the business to be taking on someone else. What are the long term trends (are sales increasing or decreasing? Is owner currently making a profit and/or taking drawings from the business?)

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Checkpoint Check

Checkpoint, page 3

List below the reasons why a business may take on an extra employee.

- Specialist skills and knowledge
- Help grow and develop the business
- Relieve pressure on the current employees or owner
- Allow owner to focus on other areas, e.g. external sales; new markets; finance
- Greater coverage of hours of work
- Trust??
- Language specialist
- New area for the business

Checkpoint, page 8

Calculate the net surplus or deficit from the above 2009 GST return.

	GST Form Box	
Total sales & income	7	43,700
Less GST	8	48,308
Sales & income GST exclusive	A	386,472
Total purchases & expenses	11	251,707
Less GST	12	27,967
Purchases & expenses GST exclusive	B	223,740
Net cash surplus/deficit for the six months	A - B	162,732

Useful resources

Topic	Source
Franchise Information	http://www.franchise.co.nz/ and Franchise New Zealand magazine.
Plain English guide to small business.	The New Zealanders' Guide to Small Business. Sari Hodgson. Available via DOL library and in bookshops.
Tools, templates and resources for business owners.	http://www.business.govt.nz/
Government Business Information website	
Employers and Manufacturers Associations	Employers' & Manufacturers' Association (Northern) - Auckland, Waikato and the Bay of Plenty, representing organisations north of Taupo. EMA Central - Wellington, Hawkes Bay, Poverty Bay, Nelson, Manawatu/Wanganui and Taranaki CECC - Canterbury Employers Chamber of Commerce OSEA - Otago/Southernland Employers Association EMABusiness - magazine
"A key role in supporting its member organisations in growing and developing their business"	
Business New Zealand	http://www.businessnz.org.nz/
"Advocacy group for enterprises"	
New Zealand Institute of Management	http://www.nzim.co.nz/
"Management education, training and development in New Zealand"	
Ministry of Economic Development - small business advisory group	REPORTS SUCH AS: SMALL AND MEDIUM BUSINESSES IN NEW ZEALAND: REPORT OF THE SMALL BUSINESS ADVISORY GROUP 2008 http://www.med.govt.nz/templates/MultiPageDocumentTOC_34490.aspx
Chambers of Commerce	http://www.aucklandchamber.co.nz/contentlink.asp?section=home&page=home.htm
"Opportunities, products and services to improve the success and vitality of business and to positively influence the environment in which it operates."	
New Zealand Trade & Enterprise	http://www.nzte.govt.nz/develop-knowledge-expertise/Business-Training-Services/Pages/Business-training-services.aspx
Business Training Services - online and business workshops	

Next

Well done

You have completed this module, Financial Sense, and the course in Interpreting Financial Information for Job Offers.

Now, you need to complete the online Quiz to check your understanding of the material covered - and, by doing so, record in the LMS that you have completed the course.

[Go to the LMS and to do](#)

Feedback

So, what did you think of the course? Will it help you in your job?

We would love to get your thoughts and ideas about this course. Please email Technical Training (Technical.Training@dof.govt.nz) with your feedback and ideas to help us continually improve the material.

Below are some questions that may help you to develop feedback:

- Was the information on the New Zealand environment helpful?
- Did you realise that most businesses in New Zealand are quite small, and employ few staff (up to 20)?
- Do you feel confident now that you can calculate the gross profit percentage of a business if you had its financial statements?
- What about its net profit percentage? Capital ratio and liquid ratio?
- Can you explain what these calculations tell you about the business? Will they help you create an overall picture of the profitability of a business?
- Does the material help you gain a better idea of whether the job is sustainable into the future?
- What do you struggle with?
- How long did it take you to do each module?

Let us know!

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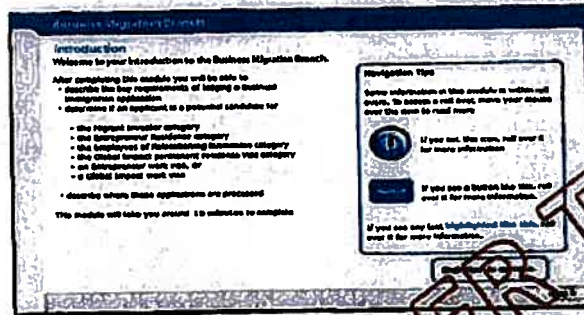
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Business Migration Branch

Overview

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Slide 2 - Text - Single Column

Text Captions: Business Migration Branch

Introduction

Welcome to your introduction to the Business Migration Branch.

Click Next to continue.

Navigation Tips

Some information in this module is within roll overs. To access a roll over, move your mouse over the item to read more.

If you see this icon, roll over it for more information.

If you see a button like this, roll over it for more information.

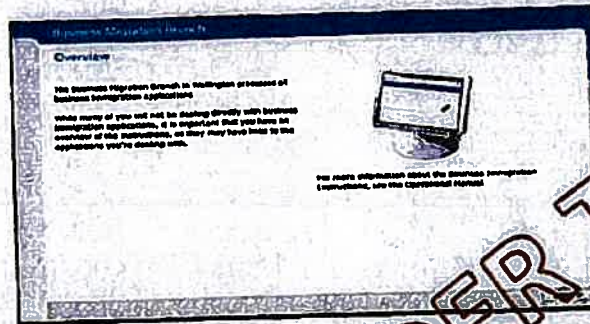
If you see any text highlighted like this, roll over it for more information.

Button

After completing this module you will be able to:

describe the key requirements of lodging a business immigration application

determine if an applicant is a potential candidate for:



Slide 3 - Text - Double Column

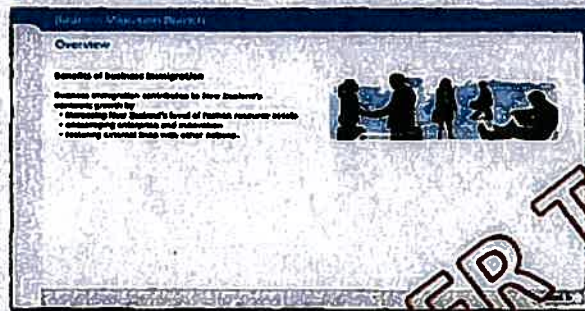
Text Captions: Business Migration Branch

Overview

The Business Migration Branch in Wellington processes all business immigration applications.

While many of you will not be dealing directly with business immigration applications, it is important that you have an overview of the instructions, as they may have links to the applications you're dealing with.

For more information about the Business Immigration Instructions, see the Operational Manual.



Slide 4 - Text - Double Column

Text Captions: Business Migration Branch

Overview

Benefits of business immigration

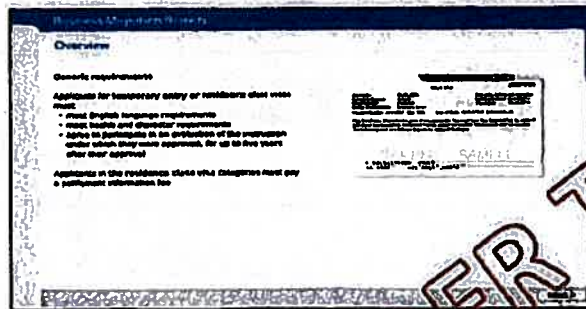
Business immigration contributes to New Zealand's economic growth by.

Increasing New Zealand's level of human resource assets

encouraging enterprise and innovation

fostering external links with other nations.

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Slide 5 - Text - Double Column

Text Captions: Business Migration Branch

Overview

Generic requirements

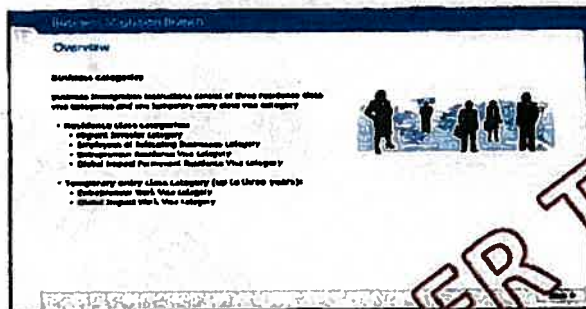
Applicants for temporary entry or residence class visas must:

- meet English language requirements
- meet health and character requirements

agree to participate in an evaluation of the instruction under which they were approved, for up to five years after their approval.

Applicants in the residence class visa categories must pay a settlement information fee.

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Slide 6 - Text - Double Column

Text Captions: Business Migration Branch

Overview

Business categories

Business Immigration instructions consist of three residence class visa categories and one temporary entry class visa category:^L

Residence class categories:

Migrant Investor category

Employees of Relocating Businesses category

Entrepreneur Residence Visa category

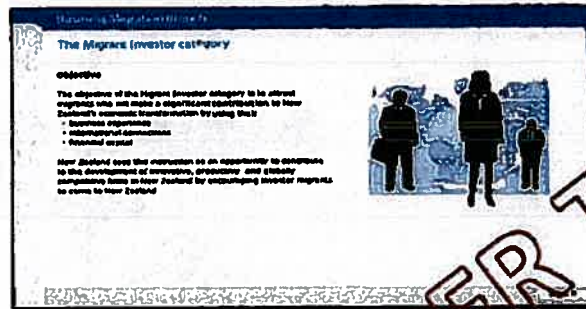
Global Impact Permanent Residence Visa category

Temporary entry class category (up to three years):

Entrepreneur Work Visa category

Global Impact Work Visa category

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Slide 7 - Text - Double Column

Text Captions: Business Migration Branch

The Migrant Investor category

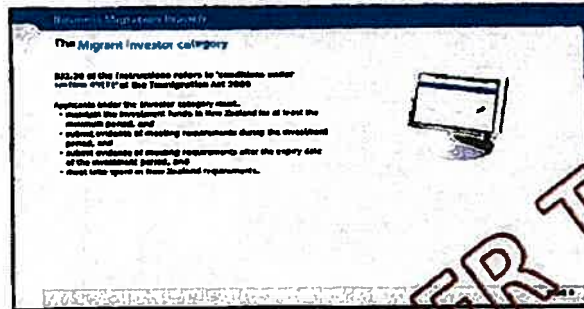
Objective

The objective of the Migrant Investor category is to attract migrants who will make a significant contribution to New Zealand's economic transformation by using their:

- business experience
- international connections
- financial capital

New Zealand sees this instruction as an opportunity to contribute to the development of innovative, productive, and globally competitive firms in New Zealand by encouraging investor migrants to come to New Zealand.

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Slide 8 - Text - Double Column

Text Captions: Business Migration Branch

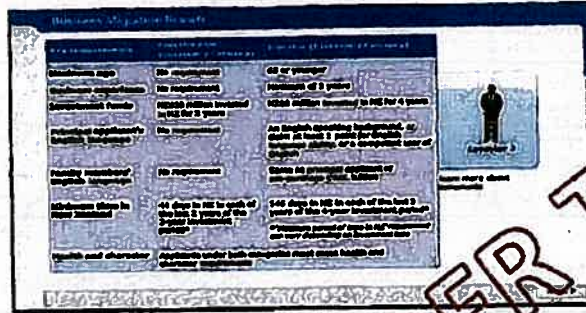
The Migrant Investor category

BJ2.20 of the instructions refers to 'conditions under section 49(1)' of the Immigration Act 2009

Applicants under the investor category must:

- maintain the investment funds in New Zealand for at least the minimum period; and
- submit evidence of meeting requirements during the investment period; and
- submit evidence of meeting requirements after the expiry date of the investment period; and
- meet time spent in New Zealand requirements.

This section says 'every visa other than a permanent resident visa is subject to such conditions (if any) as may be'



Slide 9 - Text - Double Column
Text Captions: Business Migration Branch

The Migrant Investor category

Instructions

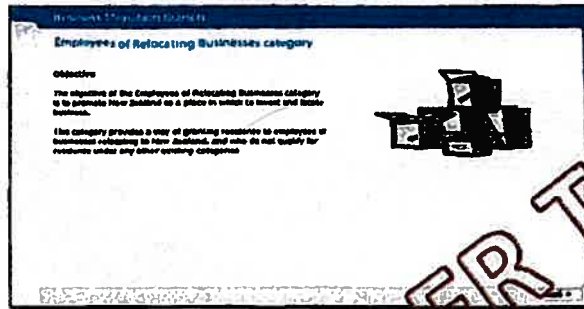
The Migrant investment instructions are tailored to different segments of the investor migrant market. Two subcategories of investors have been identified according to their level of risk and their potential contribution.

These are:
Investor 1
Investor 2

Investor 1

Investor 2

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Text Captions: Business Migration Branch

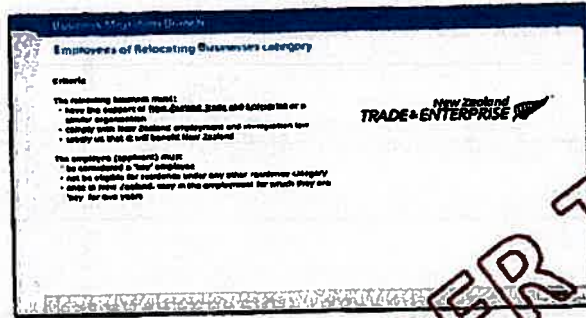
Employees of Relocating Businesses category

Objective

The objective of the Employees of Relocating Businesses category is to promote New Zealand as a place in which to invest and locate business.

This category provides a way of granting residence to employees of businesses relocating to New Zealand, and who do not qualify for residence under any other existing categories.

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Text Captions: Business Migration Branch

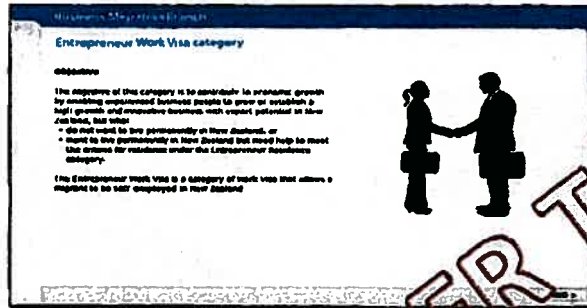
Employees of Relocating Businesses category

Criteria

The relocating business must:
have the support of New Zealand Trade and Enterprise or a similar organisation
comply with New Zealand employment and immigration law
satisfy us that it will benefit New Zealand.

The employee (applicant) must:
be considered a 'key' employee
not be eligible for residence under any other residence category
once in New Zealand, stay in the employment for which they are 'key' for two years.

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Text Captions: Business Migration Branch

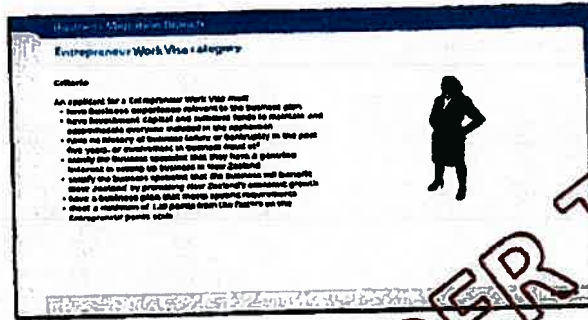
Entrepreneur Work Visa category

Objective

The objective of this category is to contribute to economic growth by enabling experienced business people to grow or establish a high growth and innovative business with export potential in New Zealand, but who do not want to live permanently in New Zealand, or want to live permanently in New Zealand but need help to meet the criteria for residence under the Entrepreneur Residence category.

The Entrepreneur Work visa is a category of work visa that allows a migrant to be self-employed in New Zealand.

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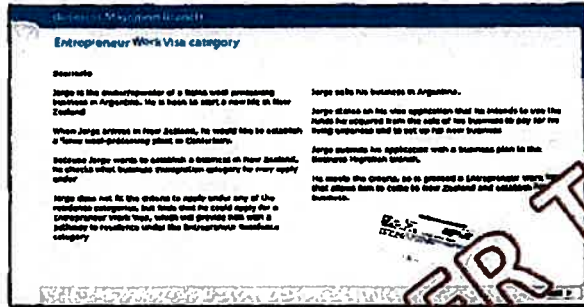
Slide 13 - Text - Double Column
Text Captions: Business Migration Branch

Entrepreneur Work Visa category

Criteria

An applicant for a Entrepreneur Work visa must:
have business experience relevant to the business plan
have investment capital and sufficient funds to maintain and accommodate everyone included in the application
have no history of business failure or bankruptcies in the past five years, or involvement in business fraud etc
satisfy the business specialist that they have a genuine interest in setting up business in New Zealand
satisfy the business specialist that the business will benefit New Zealand by promoting New Zealand's economic growth
have a business plan that meets specific requirements
meet a minimum of 120 points from the factors on the Entrepreneur points scale.

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Slide 14 - Text - Double Column
 Text Captions: Business Migration Branch

Entrepreneur Work Visa category

Scenario

Jorge is the owner/operator of a llama wool-processing business in Argentina. He is keen to start a new life in New Zealand.

When Jorge arrives in New Zealand, he would like to establish a llama wool-processing plant in Canterbury.

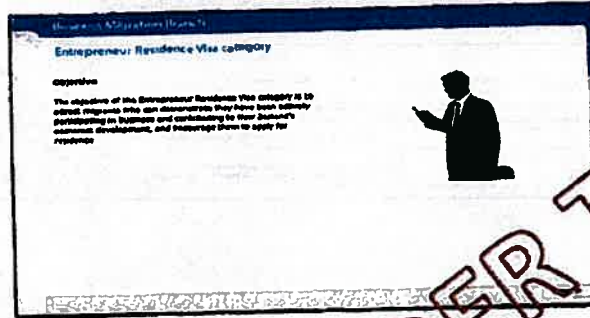
Because Jorge wants to establish a business in New Zealand, he checks what business immigration category he may apply under.

Jorge does not fit the criteria to apply under any of the residence categories, but finds that he could apply for a Entrepreneur Work Visa, which will provide him with a pathway to residence under the Entrepreneur Residence category.

Jorge sells his business in Argentina.

Jorge states on his visa application that he intends to use the funds he acquired from the sale of his business to pay for

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Slide 15 - Text - Double Column

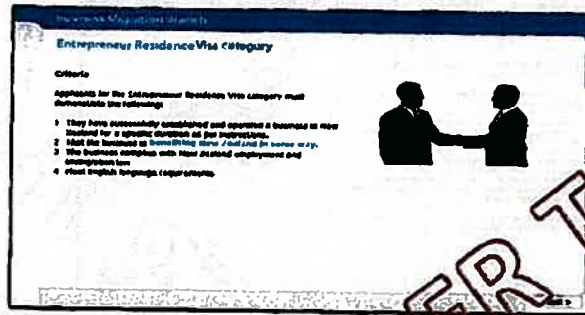
Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Objective

The objective of the Entrepreneur Residence Visa category is to attract migrants who can demonstrate they have been actively participating in business and contributing to New Zealand's economic development, and encourage them to apply for residence.

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Slide 16 - Text - Double Column

Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Criteria

Applicants for the Entrepreneur Residence Visa category must demonstrate the following:

They have successfully established and operated a business in New Zealand for a specific duration as per instructions.

That the business is benefiting New Zealand in some way.

The business complies with New Zealand employment and immigration law.

Meet English language requirements.

A business will benefit New Zealand if it is promoting New Zealand's economic growth by:

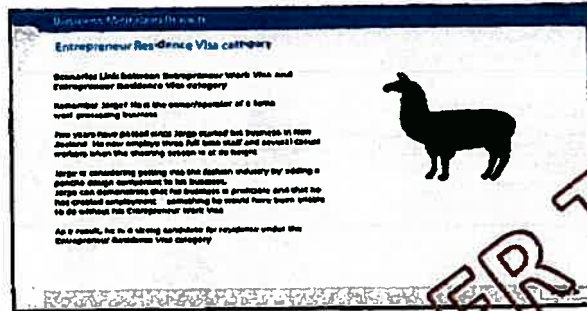
introducing new, or enhancing existing technology, management, or technical skills

introducing new, or enhancing existing products or services

creating new, or expanding existing export markets

creating employment (other than for the principal applicant)

revitalising an existing New Zealand business



Slide 17 - Text - Double Column
 Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Scenario: Link between Entrepreneur Work Visa and Entrepreneur Residence Visa category

Remember Jorge? He is the owner/operator of a llama wool-processing business.

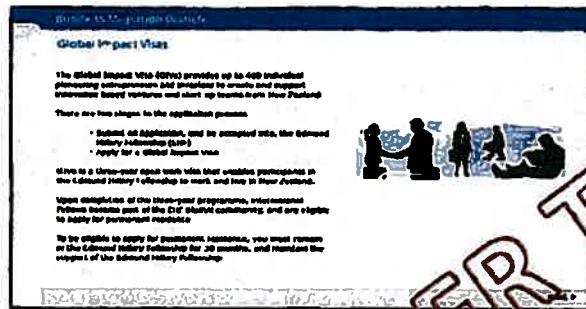
Two years have passed since Jorge started his business in New Zealand. He now employs three full-time staff and several casual workers when the shearing season is at its height.

Jorge is considering getting into the fashion industry by adding a poncho design component to his business.

Jorge can demonstrate that his business is profitable and that he has created employment – something he would have been unable to do without his Entrepreneur Work Visa.

As a result, he is a strong candidate for residence under the Entrepreneur Residence Visa category.

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Slide 18 - Text - Double Column

Text Captions: Business Migration Branch

Global Impact Visas

The Global Impact Visa (GIVs) provides up to 400 individual pioneering entrepreneurs and investors to create and support innovation-based ventures and start-up teams from New Zealand.

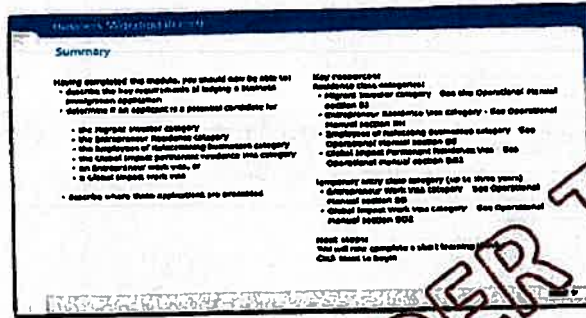
There are two stages to the application process:

- Submit an application, and be accepted into the Edmund Hillary Fellowship (EHF)
- Apply for a Global Impact Visa.

GIVs is a three-year open work visa that enables participants in the Edmund Hillary Fellowship to work and live in New Zealand.

Upon completion of the three-year programme, international Fellows become part of the EHF alumni community, and are eligible to apply for permanent residence.

To be eligible to apply for permanent residence, you must remain in the Edmund Hillary Fellowship for 30 months, and maintain the support of the Edmund Hillary Fellowship.



Slide 19 - Summary

Text Captions: Business Migration Branch

Summary

Having completed this module, you should now be able to:
 describe the key requirements of lodging a business immigration application
 determine if an applicant is a potential candidate for:

- the Migrant Investor category
- the Entrepreneur Residence Visa category
- the Employees of Relocating businesses category
- the Global Impact permanent residence visa category
- an Entrepreneur work visa, or
- a Global Impact work visa

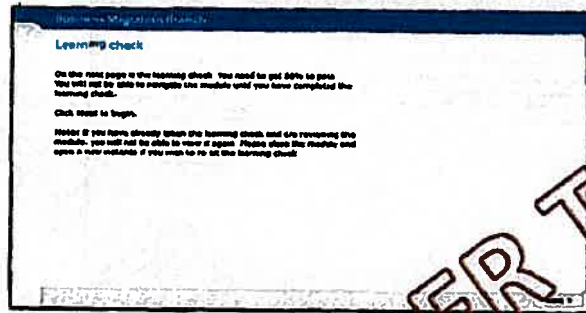
describe where these applications are processed.

Key resources:

Residence class categories:

- Migrant Investor category - See the Operational Manual section BJ
- Entrepreneur Residence Visa category - See Operational Manual section BH
- Employees of Relocating Businesses category - See Operational Manual section BE
- Global Impact Permanent Residence Visa - See Operational Manual section BG3

Temporary entry class category (up to three years):



Slide 20 - Text - Single Column

Text Captions: Business Migration Branch

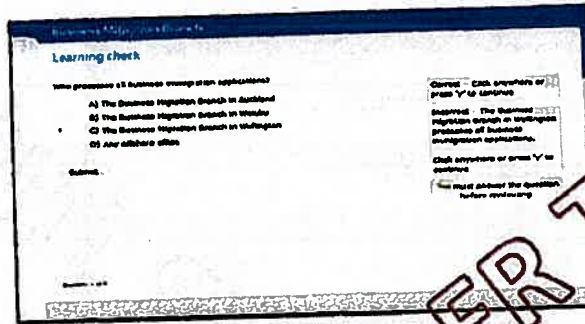
Learning check

On the next page is the learning check. You need to get 80% to pass. You will not be able to navigate the module until you have completed the learning check.

Click Next to begin.

Note: If you have already taken the learning check and are reviewing the module, you will not be able to view it again. Please close the module and open a new instance if you wish to re-sit the learning check.

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Slide 21 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Who processes all business immigration applications?

You must answer the question before continuing.

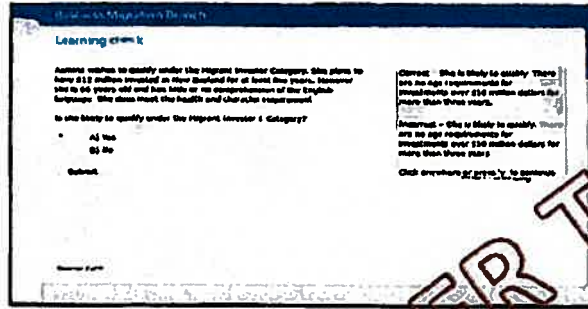
Question 1 of 5

Correct - Click anywhere or press 'y' to continue.

Incorrect - The Business Migration Branch in Wellington processes all business immigration applications.

Click anywhere or press 'y' to continue.

- A) The Business Migration Branch in Auckland
- B) The Business Migration Branch in Waiuku
- C) The Business Migration Branch in Wellington
- D) Any offshore office



Slide 22 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Aamina wishes to qualify under the Migrant Investor Category. She plans to have \$12 million invested in New Zealand for at least five years. However she is 66 years old and has little or no comprehension of the English language. She does meet the health and character requirement.

Is she likely to qualify under the Migrant Investor 1 Category?

You must answer the question before continuing.

Question 2 of 5

Correct - She is likely to qualify. There are no age requirements for investments over \$10 million dollars for more than three years.

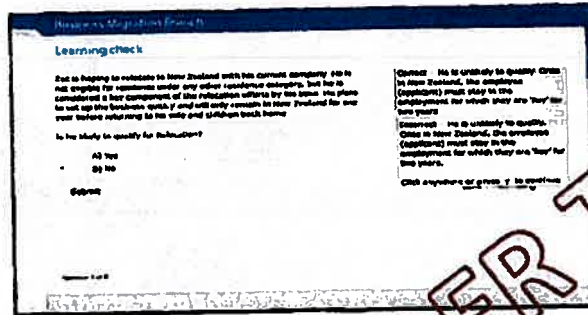
Click anywhere or press 'y' to continue.

Incorrect - She is likely to qualify. There are no age requirements for investments over \$10 million dollars for more than three years.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 23 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Zac is hoping to relocate to New Zealand with his current company. He is not eligible for residence under any other residence category, but he is considered a key component of the relocation efforts by his boss. He plans to set up the business quickly and will only remain in New Zealand for one year before returning to his wife and children back home.

Is he likely to qualify for Relocation?

You must answer the question before continuing.

Question 3 of 5

Correct - He is unlikely to qualify. Once in New Zealand, the employee (applicant) must stay in the employment for which they are 'key' for two years.

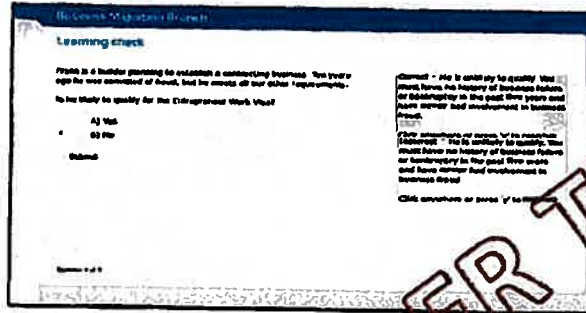
Click anywhere or press 'y' to continue.

Incorrect - He is unlikely to qualify. Once in New Zealand, the employee (applicant) must stay in the employment for which they are 'key' for two years.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 24 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Frank is a builder planning to establish a contracting business. Ten years ago he was convicted of fraud, but he meets all our other requirements.

Is he likely to qualify for the Entrepreneur Work Visa?

You must answer the question before continuing.

Question 4 of 5

Correct - He is unlikely to qualify. You must have no history of business failure or bankruptcy in the past five years and have never had involvement in business fraud.

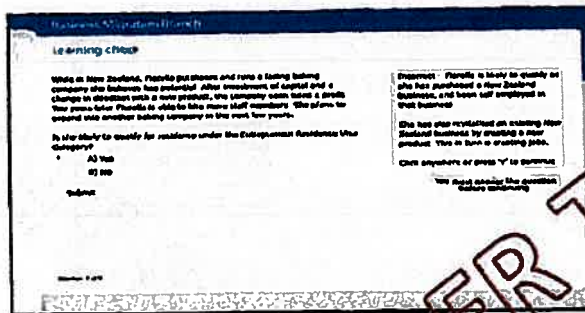
Click anywhere or press 'y' to continue.

Incorrect - He is unlikely to qualify. You must have no history of business failure or bankruptcy in the past five years and have never had involvement in business fraud.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 25 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

While in New Zealand, Fiorella purchases and runs a failing baking company she believes has potential. After investment of capital and a change in direction with a new product, the company soon turns a profit. Two years later Fiorella is able to hire more staff members. She plans to expand into another baking company in the next few years.

Is she likely to qualify for residence under the Entrepreneur Residence Visa Category?

You must answer the question before continuing.

Question 2 of 5

Correct - Fiorella is likely to qualify as she has purchased a New Zealand business, and been self-employed in that business.

She has also revitalised an existing New Zealand business by creating a new product. This in turn is creating jobs.

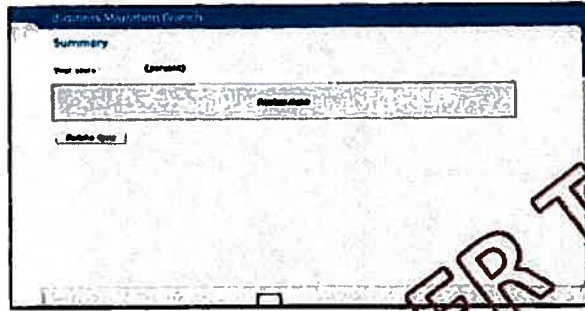
Click anywhere or press 'y' to continue.

Incorrect - Fiorella is likely to qualify as she has purchased a New Zealand business, and been self-employed in that business.

She has also revitalised an existing New Zealand business by creating a new product. This in turn is creating jobs.

Click anywhere or press 'y' to continue.

A) Yes



Slide 26

Text Captions: Business Migration Branch

Summary

Your score:

(percent)

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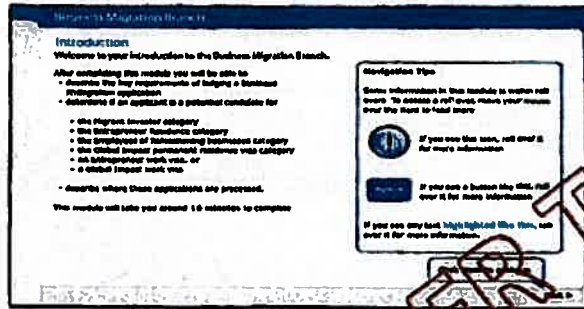
Slide 1 - Splash Page

Text Captions: Page $\$ \$ c p I n f o C u r r e n t S l i d e \$ \$$ of $\$ \$ r d I n f o S l i d e C o u n t \$ \$$

Business Migration Branch

Overview

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Slide 2 - Text - Single Column

Text Captions: Business Migration Branch

Introduction

Welcome to your introduction to the Business Migration Branch.

Click Next to continue.

Navigation Tips

Some information in this module is within roll overs. To access a roll over, move your mouse over the item to read more.

If you see this icon, roll over it for more information.

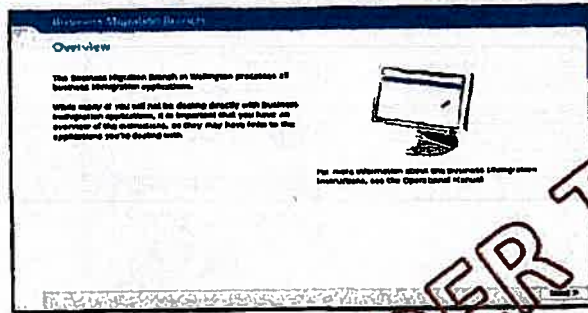
If you see a button like this, roll over it for more information.

If you see any text highlighted like this, roll over it for more information.

Button

After completing this module you will be able to:

- describe the key requirements of lodging a business Immigration application
- determine if an applicant is a potential candidate for:



Slide 3 - Text - Double Column

Text Captions: Business Migration Branch

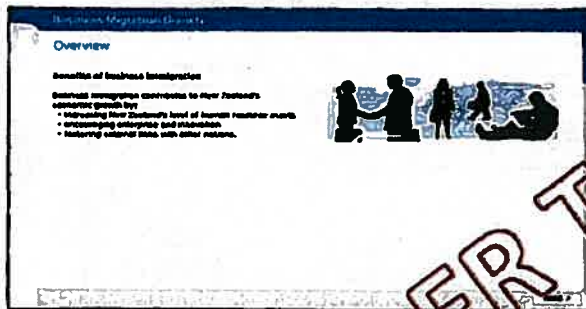
Overview

The Business Migration Branch in Wellington processes all business immigration applications.

While many of you will not be dealing directly with business immigration applications, it is important that you have an overview of the instructions, as they may have links to the applications you're dealing with.

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For more information about the Business Immigration Instructions, see the Operational Manual.



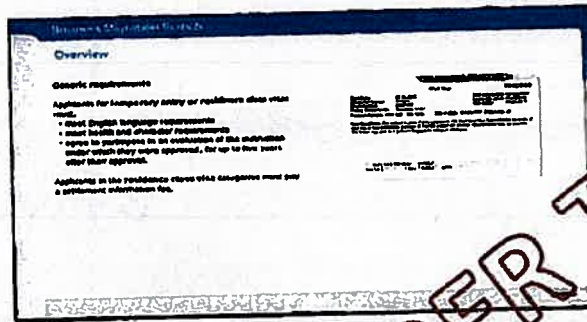
Slide 4 - Text - Double Column

Text Captions: Business Migration Branch

Overview

Benefits of business immigration

Business immigration contributes to New Zealand's economic growth by:
increasing New Zealand's level of human resource assets
encouraging enterprise and innovation
fostering external links with other nations.



Slide 5 - Text - Double Column
Text Captions: Business Migration Branch

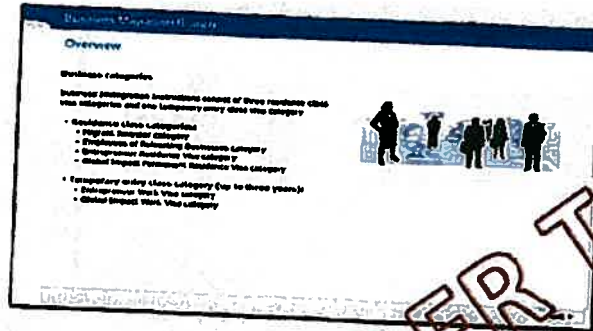
Overview

Generic requirements

Applicants for temporary entry or residence class visas must meet English language requirements, meet health and character requirements, agree to participate in an evaluation of the instruction under which they were approved, for up to five years after their approval.

Applicants in the residence class visa categories must pay a settlement information fee.

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Slide 6 - Text - Double Column

Text Captions: Business Migration Branch

Overview

Business categories

Business Immigration Instructions consist of three residence class visa categories and one temporary entry class visa category:¹

Residence class categories:

Migrant Investor category

Employees of Relocating Businesses category

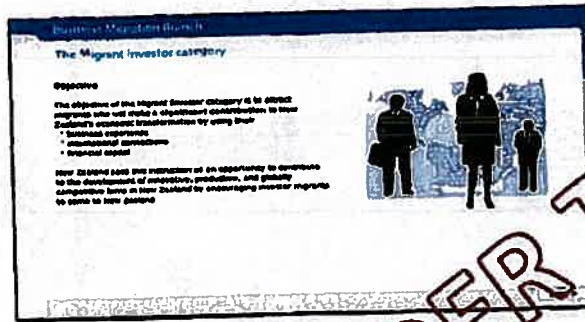
Entrepreneur Residence Visa category

Global Impact Permanent Residence Visa category

Temporary entry class category (up to three years):

Entrepreneur Work Visa category

Global Impact Work Visa category



Slide 7 - Text - Double Column

Text Captions: Business Migration Branch

The Migrant Investor category

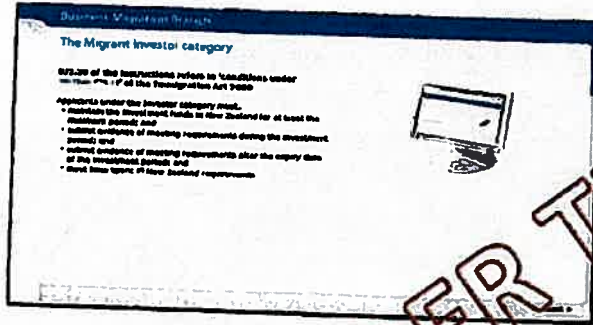
Objective

The objective of the Migrant Investor category is to attract migrants who will make a significant contribution to New Zealand's economic transformation by using their:

- business experience
- international connections
- financial capital

New Zealand sees this instruction as an opportunity to contribute to the development of innovative, productive, and globally competitive firms in New Zealand by encouraging investor migrants to come to New Zealand.

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Slide 8 - Text - Double Column

Text Captions: Business Migration Branch

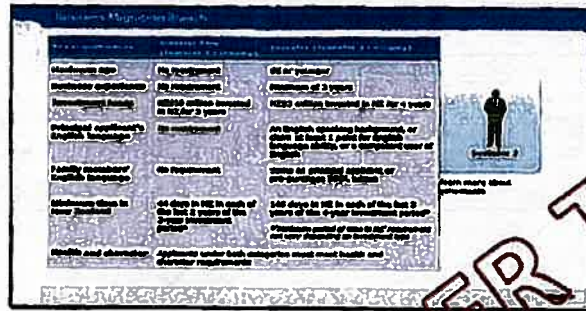
The Migrant Investor category

BJ2.20 of the instructions refers to 'conditions under section 49(1)' of the Immigration Act 2009

Applicants under the Investor category must:

- maintain the investment funds in New Zealand for at least the minimum period; and
- submit evidence of meeting requirements during the investment period; and
- submit evidence of meeting requirements after the expiry date of the investment period; and
- meet time spent in New Zealand requirements.

This section says 'every visa other than a permanent resident visa is subject to such conditions (if any) as may be'



Slide 9 - Text - Double Column
 Text Captions: Business Migration Branch

The Migrant Investor category

Instructions

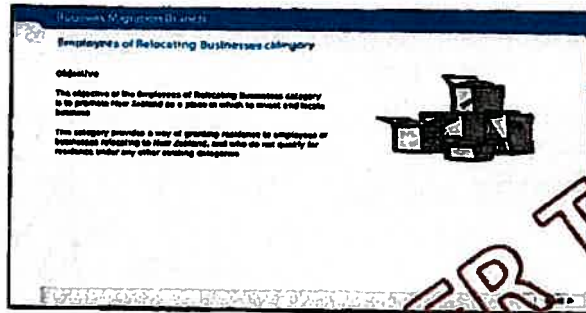
The Migrant Investment Instructions are tailored to different segments of the investor migrant market. Two subcategories of investors have been identified according to their level of risk and their potential contribution.

These are:

- Investor 1
- Investor 2

Investor 1

Investor 2



Slide 10 - Text - Double Column
Text Captions: Business Migration Branch

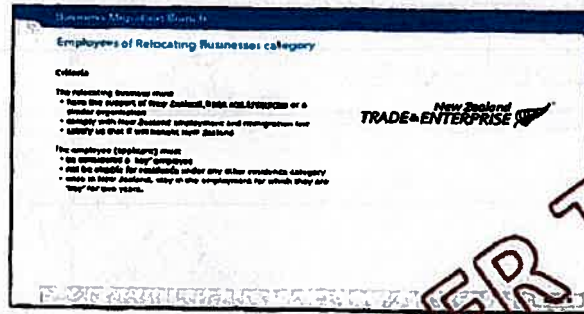
Employees of Relocating Businesses category

Objective

The objective of the Employees of Relocating Businesses category is to promote New Zealand as a place in which to invest and locate business.

This category provides a way of granting residence to employees of businesses relocating to New Zealand, and who do not qualify for residence under any other existing categories.

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Slide 11 - Text - Double Column
 Text Captions: Business Migration Branch

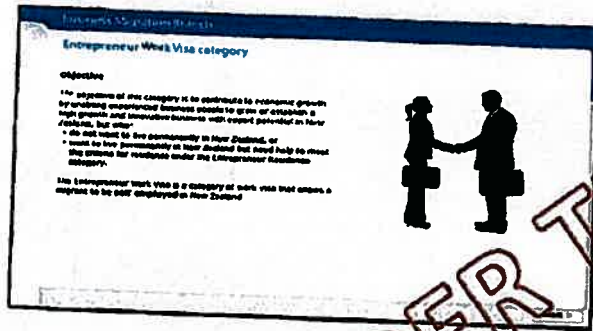
Employees of Relocating Businesses category

Criteria

The relocating business must have the support of New Zealand Trade and Enterprise or a similar organisation comply with New Zealand employment and immigration law satisfy us that it will benefit New Zealand.

The employee (applicant) must be considered a 'key' employee not be eligible for residence under any other residence category once in New Zealand, stay in the employment for which they are 'key' for two years.

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Slide 12 - Text - Double Column

Text Captions: Business Migration Branch

Entrepreneur Work Visa category

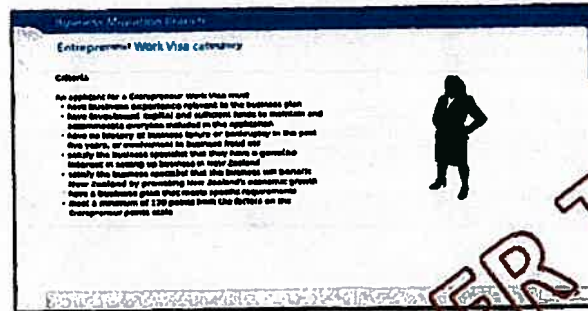
Objective

The objective of this category is to contribute to economic growth by enabling experienced business people to grow or establish a high growth and innovative business with export potential in New Zealand, but who:

- do not want to live permanently in New Zealand, or
- want to live permanently in New Zealand but need help to meet the criteria for residence under the Entrepreneur Residence category.

The Entrepreneur Work Visa is a category of work visa that allows a migrant to be self-employed in New Zealand.

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Slide 13 - Text - Double Column

Text Captions: Business Migration Branch

Entrepreneur Work Visa category

Criteria

An applicant for a Entrepreneur Work Visa must:

- have business experience relevant to the business plan
- have investment capital and sufficient funds to maintain and accommodate everyone included in the application
- have no history of business failure or bankruptcy in the past five years, or involvement in business fraud etc
- satisfy the business specialist that they have a genuine interest in setting up business in New Zealand
- satisfy the business specialist that the business will benefit New Zealand by promoting New Zealand's economic growth
- have a business plan that meets specific requirements
- meet a minimum of 120 points from the factors on the Entrepreneur points scale.



Slide 14 - Text - Double Column
 Text Captions: Business Migration Branch

Entrepreneur Work Visa category

Scenario

Jorge is the owner/operator of a llama wool-processing business in Argentina. He is keen to start a new life in New Zealand.

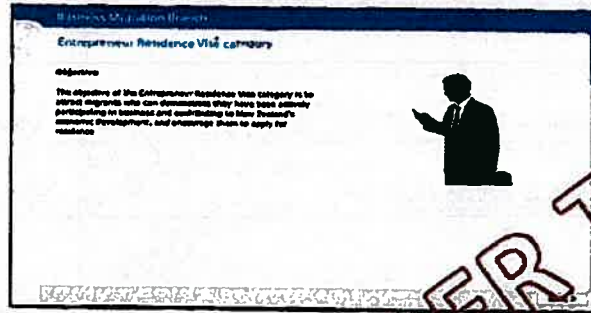
When Jorge arrives in New Zealand, he would like to establish a llama wool-processing plant in Canterbury.

Because Jorge wants to establish a business in New Zealand, he checks what business immigration category he may apply under.

Jorge does not fit the criteria to apply under any of the residence categories, but finds that he could apply for a Entrepreneur Work Visa, which will provide him with a pathway to residence under the Entrepreneur Residence category.

Jorge sells his business in Argentina.

Jorge states on his visa application that he intends to use the funds he acquired from the sale of his business to pay for



Slide 15 - Text - Double Column

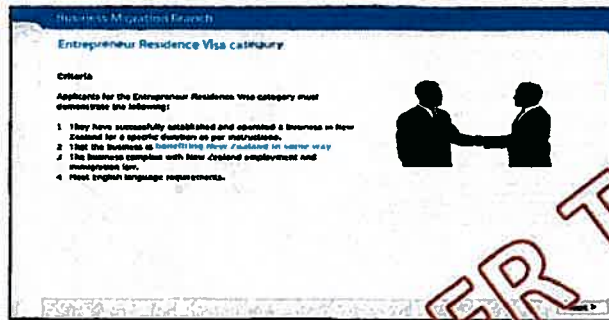
Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Objective

The objective of the Entrepreneur Residence Visa category is to attract migrants who can demonstrate they have been actively participating in business and contributing to New Zealand's economic development, and encourage them to apply for residence.

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Slide 16 - Text - Double Column

Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Criteria

Applicants for the Entrepreneur Residence Visa category must demonstrate the following:

They have successfully established and operated a business in New Zealand for a specific duration as per instructions.

That the business is benefiting New Zealand in some way.

The business complies with New Zealand employment and immigration law.

Meet English language requirements.

A business will benefit New Zealand if it is promoting New Zealand's economic growth by:

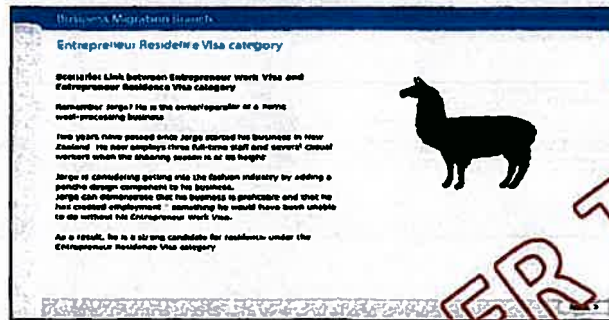
introducing new, or enhancing existing technology, management, or technical skills

introducing new, or enhancing existing products or services

creating new, or expanding existing export markets

creating employment (other than for the principal applicant)

revitalising an existing New Zealand business



Slide 17 - Text - Double Column

Text Captions: Business Migration Branch

Entrepreneur Residence Visa category

Scenario: Link between Entrepreneur Work Visa and Entrepreneur Residence Visa category

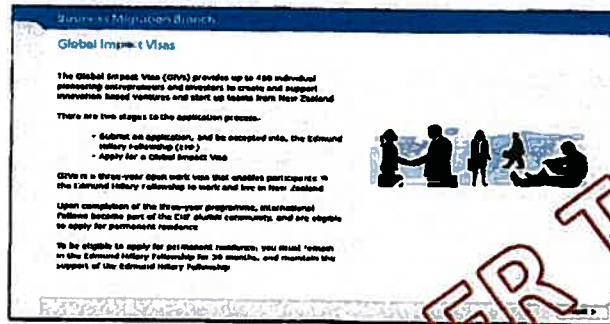
Remember Jorge? He is the owner/operator of a llama wool-processing business.

Two years have passed since Jorge started his business in New Zealand. He now employs three full-time staff and several casual workers when the shearing season is at its height.

Jorge is considering getting into the fashion industry by adding a poncho design component to his business.

Jorge can demonstrate that his business is profitable and that he has created employment – something he would have been unable to do without his Entrepreneur Work Visa.

As a result, he is a strong candidate for residence under the Entrepreneur Residence Visa category.



Slide 18 - Text - Double Column

Text Captions: Business Migration Branch

Global Impact Visas

The Global Impact Visa (GIVs) provides up to 400 individual pioneering entrepreneurs and investors to create and support innovation-based ventures and start-up teams from New Zealand.

There are two stages to the application process:

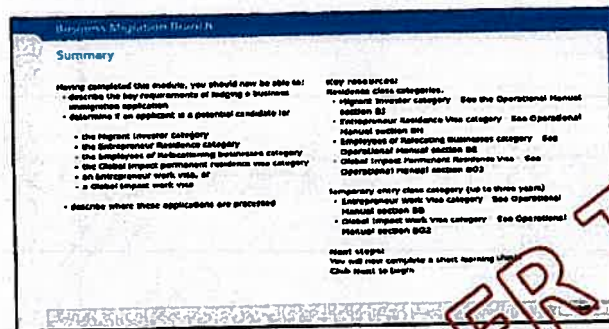
Submit an application, and be accepted into the Edmund Hillary Fellowship (EHF)

Apply for a Global Impact Visa

GIVs is a three-year open work visa that enables participants in the Edmund Hillary Fellowship to work and live in New Zealand.

Upon completion of the three-year programme, international Fellows become part of the EHF alumni community, and are eligible to apply for permanent residence.

To be eligible to apply for permanent residence, you must remain in the Edmund Hillary Fellowship for 30 months, and maintain the support of the Edmund Hillary Fellowship.



Slide 19 - Summary

Text Captions: Business Migration Branch

Summary

Having completed this module, you should now be able to:
 describe the key requirements of lodging a business immigration application
 determine if an applicant is a potential candidate for:

the Migrant Investor category
 the Entrepreneur Residence category
 the Employees of Relocating businesses category
 the Global Impact permanent residence visa category
 an Entrepreneur work visa, or
 a Global Impact work visa

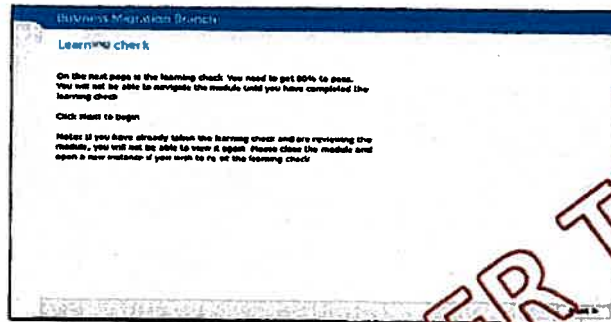
describe where these applications are processed.

Key resources:

Residence class categories:

Migrant Investor category - See the Operational Manual section BJ
 Entrepreneur Residence Visa category - See Operational Manual section BH
 Employees of Relocating Businesses category - See Operational Manual section BE
 Global Impact Permanent Residence Visa - See Operational Manual section BG3

Temporary entry class category (up to three years):



Slide 20 - Text - Single Column

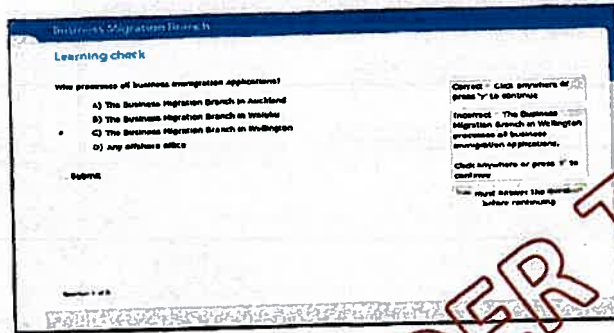
Text Captions: Business Migration Branch

Learning check

On the next page is the learning check. You need to get 80% to pass. You will not be able to navigate the module until you have completed the learning check.

Click Next to begin.

Note: If you have already taken the learning check and are reviewing the module, you will not be able to view it again. Please close the module and open a new instance if you wish to re-sit the learning check.



Slide 21 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Who processes all business immigration applications?

You must answer the question before continuing.

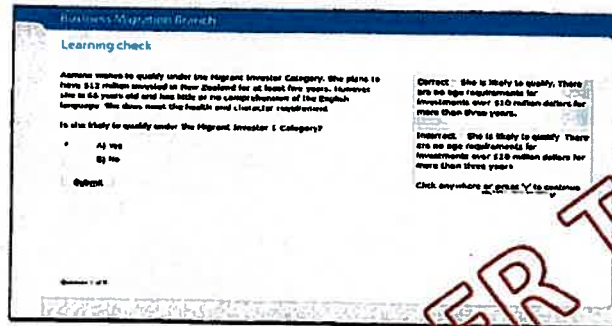
Question 1 of 5

Correct - Click anywhere or press 'y' to continue.

Incorrect - The Business Migration Branch in Wellington processes all business immigration applications.

Click anywhere or press 'y' to continue.

- A) The Business Migration Branch in Auckland
- B) The Business Migration Branch in Waiuku
- C) The Business Migration Branch in Wellington
- D) Any offshore office



Slide 22 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Aamina wishes to qualify under the Migrant Investor Category. She plans to have \$12 million invested in New Zealand for at least five years. However she is 66 years old and has little or no comprehension of the English language. She does meet the health and character requirements.

Is she likely to qualify under the Migrant Investor 1 Category?

You must answer the question before continuing.

Question 2 of 5

Correct - She is likely to qualify. There are no age requirements for investments over \$10 million dollars for more than three years.

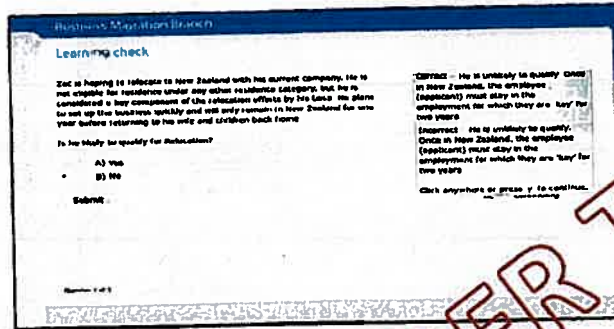
Click anywhere or press 'y' to continue.

Incorrect - She is likely to qualify. There are no age requirements for investments over \$10 million dollars for more than three years.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 23 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Zac is hoping to relocate to New Zealand with his current company. He is not eligible for residence under any other residence category, but he is considered a key component of the relocation efforts by his boss. He plans to set up the business quickly and will only remain in New Zealand for one year before returning to his wife and children back home.

Is he likely to qualify for Relocation?

You must answer the question before continuing.

Question 3 of 5

Correct - He is unlikely to qualify. Once in New Zealand, the employee (applicant) must stay in the employment for which they are 'key' for two years.

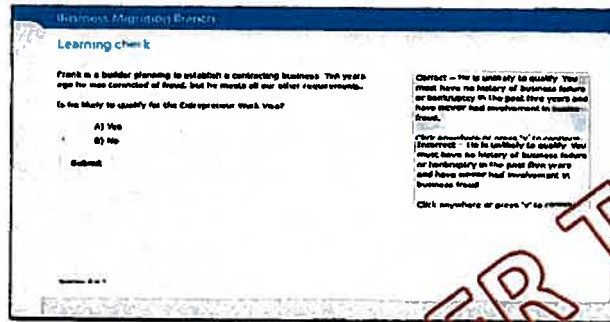
Click anywhere or press 'y' to continue.

Incorrect - He is unlikely to qualify. Once in New Zealand, the employee (applicant) must stay in the employment for which they are 'key' for two years.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 24 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

Frank is a builder planning to establish a contracting business. Ten years ago he was convicted of fraud, but he meets all our other requirements.

Is he likely to qualify for the Entrepreneur Work Visa?

You must answer the question before continuing.

Question 4 of 5

Correct - He is unlikely to qualify. You must have no history of business failure or bankruptcy in the past five years and have never had involvement in business fraud.

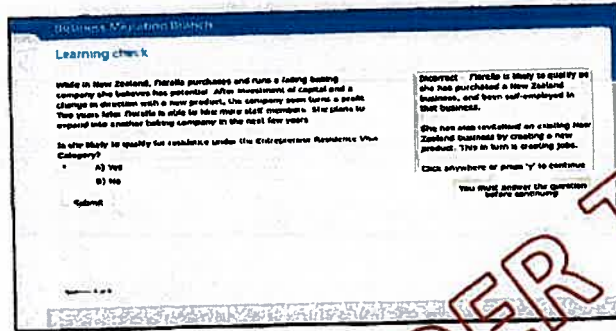
Click anywhere or press 'y' to continue.

Incorrect - He is unlikely to qualify. You must have no history of business failure or bankruptcy in the past five years and have never had involvement in business fraud.

Click anywhere or press 'y' to continue.

A) Yes

B) No



Slide 25 - Multiple Choice

Text Captions: Business Migration Branch

Learning check

While in New Zealand, Fiorella purchases and runs a failing baking company she believes has potential. After investment of capital and a change in direction with a new product, the company soon turns a profit. Two years later Fiorella is able to hire more staff members. She plans to expand into another baking company in the next few years.

Is she likely to qualify for residence under the Entrepreneur Residence Visa Category?

You must answer the question before continuing.

Question 6 of 5

Correct – Fiorella is likely to qualify as she has purchased a New Zealand business, and been self-employed in that business.

She has also revitalised an existing New Zealand business by creating a new product. This in turn is creating jobs.

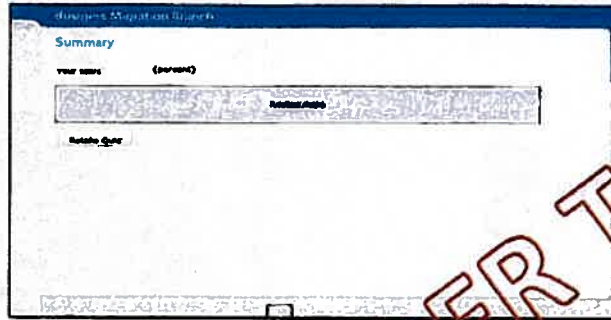
Click anywhere or press 'y' to continue.

Incorrect – Fiorella is likely to qualify as she has purchased a New Zealand business, and been self-employed in that business.

She has also revitalised an existing New Zealand business by creating a new product. This in turn is creating jobs.

Click anywhere or press 'y' to continue.

A) Yes



Slide 26

Text Captions: Business Migration Branch

Summary

Your score:

{percent}

RELEASED UNDER THE
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MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HIKINA WHAKATUTUHI

Assessing Business / Job Sustainability

Fil Ranga / BMB 10 Oct 2017



RELEASED UNDER THE OFFICIAL INFORMATION ACT

RELEASSED UNDER THE
OFFICIAL INFORMATION ACT

The Induction Learning Pathway and Employee Welcome Booklet support your induction to the Ministry of Business, Innovation and Employment. Use this pathway to help manage your role specific induction activities into Immigration New Zealand (INZ). The order and timing of these activities is a guide only, but it is important that you attempt to complete them within the suggested time frames.

Induction Pathway

Immigration Officers

Week one

In week one, you will learn how we do things at Immigration, get familiar with our systems, and find out where to find policy and procedure information. Your Buddy or Manager will talk to you about Designation Training, which you will complete over the next month.

Find out from your Manager or Buddy how INZ & your office operate

- Targets
- How workflow is managed
- Quality measures and processes
- The Visa Services Operating Model
- The roles of different staff across your office

Learn about the INZkit, how to access it and what you will find in it

- INZ Processes
- IGMS
- Verification Toolkit
- Operational Manual
- Application Management System – AMS (under Resources tab)

Plan your Designation Training with your buddy

- Meet to discuss what you need to do when
- Plan your coach-led learning or workshop attendance
- Start online learning modules

Week two

During week two, you will continue to learn the technical aspects of your role and complete your Online Designation Training. You will also start to build your skills and experience by observing other team members.

Online training

- Configure online Designation Training (Some offices may start coach-led learning)
- Complete online test and verification training

Discuss with your buddy

- AMS
- Associated applications
- Paperless applications
- Template system
- Template letters
- Template assessment notes
- Labels
- Label Management
- Security
- Formatting

Observation and application processing

- Observe experienced team members doing their jobs
- Start to pick up processing and apply your learnings, with support

Week three

In week three, you will start the coach-led part of your Designation Training. The rest of your time will be spent observing experienced team members and applying your learning.

Designation Training continued

- Coach-led learning
- Depending on your role and office: Temporary Entry and/or Residence Class Visa applications

Observation and application processing

- Observe experienced team members doing their jobs
- Continue to pick up processing and apply your learnings, with support

Week four

By the end of week four, you should be ready to complete your Designation Training assessment. You may also go solo in some areas of your role. Your buddy will still support you as you build skills and experience.

Complete your Designation Training Assessment online

- Assessment (combined, temporary, or residence, depending on your role)

Observation and application processing

- Observe experienced team members doing their job
- Continue to pick up processing and apply your learnings, with support

Weeks five to eight

Quality Decision Making Programme

- Meet with your Coach/Buddy to plan and begin:
 - Coach-led learning
 - Online learning

Key

-  eLearning
-  Meeting
-  Explore and find



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First Day:

DATE: 11 December

9.00am Porirua Building
Branch Overview, Meet & Greet, House-Keeping, Introduction to the week ahead,

10:30am Safety and Wellbeing (by Theo or Tiffany–Safety Representative)

12.00pm Lunch

1:30pm Entrepreneur Category training (c/- Fil Ranga/Steffan/Mathew, TA)

- Overview of the Entrepreneur Category
- Two categories explained/differentiated
- Process Flow for an Entrepreneur application
- Requirements under each category type

3:00 pm Spent time with Buddy

- Looking at actual case files
- Feedback from IPT & Q3
- Legal opinions

There may be some changes in the schedule stated below but should things change, Lautalie will be informed accordingly.

Second day:

9.00 am – 11 am Looking into Chinese documents

- Understanding the China market
- Familiarisation with China documents
- Common issues involved
- Mitigating the risk (verification)

*Actual application to be shown

Third day–

9:00 – 11 noon – BMB Verification

- Background – The what, why, when and how?
- Current status / Findings
- Plan moving forward
- Templates and information required

1:30 – 2:30 Quality System (2pc checklist etc.)