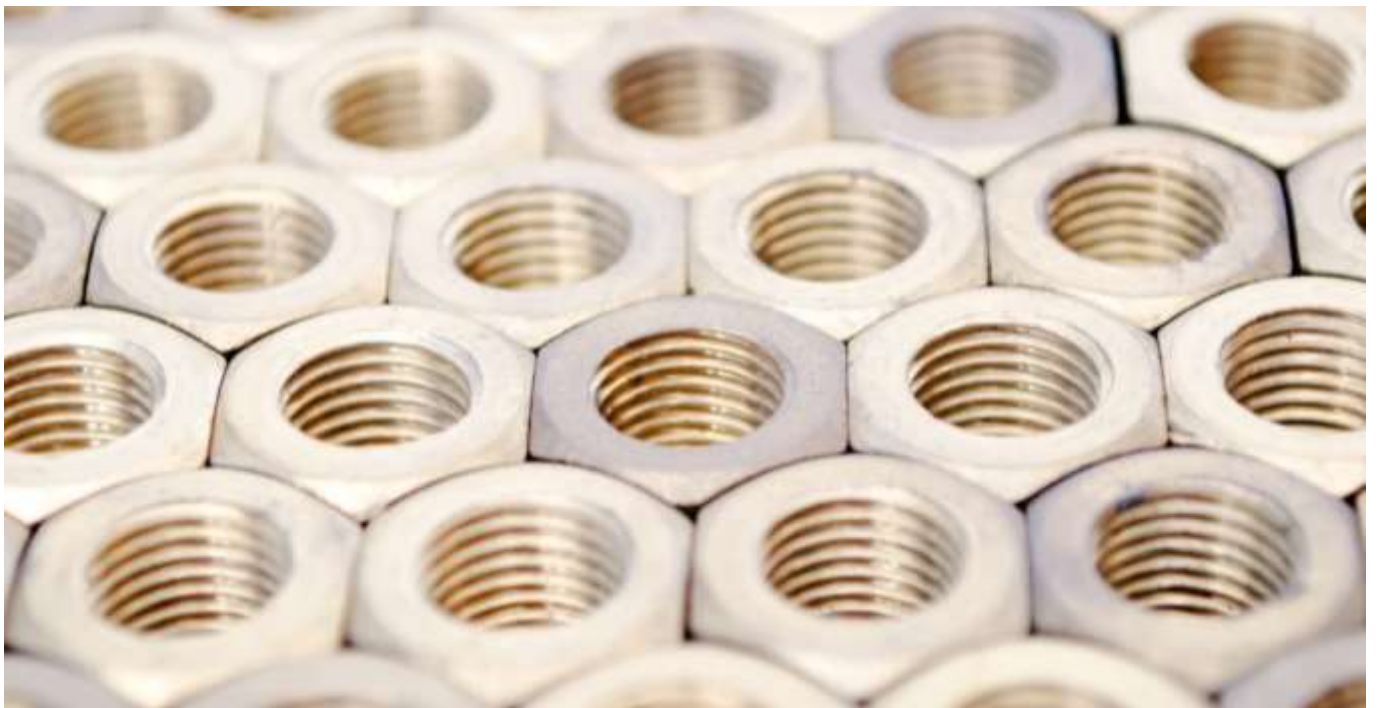


Manufacturers



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Industry Background

Over the last twenty five years or so there has been an overall decline in UK manufacturing, exacerbated by the recessions of the early 1980s and 1990s, during which very many long established large manufacturing businesses failed, factories were closed and employees made redundant.

During the 1970s, employment in manufacturing stood at over 7 million, in the 1990s became 4 million and is now just 2.2 million. At the same time manufacturing contribution to GDP fell from 30% to 13%. However, the overall decline in the size of the manufacturing sector has not affected all industry sectors in the same way and has seen more dramatic changes in traditionally heavy industry regions such as the North of England. North Devon continues to reflect more than its fair share of manufacturers.

According to government figures, nationally there are approximately 147,000 VAT and/or PAYE registered manufacturing enterprises in the UK. Nearly 15% of these have an annual turnover under £50,000 and around 87% employed fewer than 20 employees.

In terms of numbers of enterprises, the metals and metal products sector is the largest, with nearly 29,000 enterprises. However, in terms of value of output, the food and drink industry dominates, with total output of nearly £73,000m.

To improve financial performance manufacturers might consider:

- Investing where possible in new machinery, technology, training and innovation, in order to improve productivity, capacity and quality as well as improving market share and reaching new markets.
- Concentrating on producing added-value products which are bought because of their quality or design features rather than solely on price.
- Reviewing working practices with a view to achieving best practice across the whole spectrum of operations.
- Strengthening relationships with customers by establishing their requirements and checking that the company complies with these.
- Establishing closer links with preferred suppliers.
- Improving relationships with employees.
- Making as much use of technology as possible, to source supplies, reach new customers and generally improve efficiency.

Some Industry specific areas of advice from our experience

VAT: Is the Cash Accounting Scheme of advantage or disadvantage?

There can be annual tax/NI savings to be had by operating the trade from within a limited company but with the premises being owned personally.

Is the ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

Are sales or productivity bonus schemes achieving the desired outcomes?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Wills: are they tax efficient particularly as regards the business?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Is a 'Use of home as office' charge justifiable and claimed?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?



Some Industry specific areas of advice from our experience (cont'd)

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven by CO2 emissions. It can now even make sense for a company to provide low emission cars to non-employee family members such as children!



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Operating Practices

The manufacturing sector encompasses a huge range of different industries, different sizes of enterprise and different operating practices. Many firms are owner managed, working out of industrial units or workshops.

Some concerns manufacture finished goods, others work closely with larger firms and produce parts, components or accessories. Some hold stock and produce goods on a more or less continuous basis, others hold stock but do not begin the manufacturing process until an order has been received and still others only buy in stock when about to process an order. Many firms will have stocks of raw materials, work in progress and finished goods.

The manufacturing processes may be automated or labour intensive. Some firms have introduced computerised systems to control and monitor many of the processes.

A standard range may be produced or goods may be produced to order to the customer's specification. In many cases the manufacturer will participate in the design process.

Production methods may be the traditional assembly line or modern working methods may have been introduced; for example, some firms have introduced cellular manufacturing, whereby a small team of operatives takes the assembly of an item through from start to finish. The Lean Manufacturing model has become increasingly widespread – this focuses on activities that add value while eliminating waste. Waste includes any activity that does not add something to a product's value.



Production may take place five days a week, or the factory may have introduced seven day, round-the-clock working, often as a result of automating or computerising some of the processes.

Most manufacturers employ both operatives and administrative staff. Employees may be offered overtime in order to meet production targets. Productivity bonuses may be paid. Conversely, short-time working may be introduced when demand falls off. Some firms use outworkers and in some cases temporary staff may be taken on to cope with seasonal peaks in demand. Annualised hours contracts are also sometimes used.

Key Performance Indicators

Performance in this sector will generally be expressed in terms of the gross profit percentage rate achieved.

A manufacturers' gross profit rate will be affected by the type and mix of products produced and the relative costs of the inputs including materials, direct labour and other direct production costs such as power etc.

It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your gross profit percentage compares with the norm for your type of manufacturing activity?

Beyond the gross profit margin some useful key driver analysis information can relate to the number of customers, average spend and reorder periods as well as the ratio of wages to sales.

Ask about our own award winning "tax tools" software including "business analyst" based on key driver information. "business profitability analyst" based on key information.



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Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including manufacturers. Additionally, Tax HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.