

One + One = Three!

Regular readers of *The RAAS Report* will be well aware that your scribe seldom sets out to be controversial. He likes to comment on the industry and its foibles, and generally rolls with the flow. Sometimes however, things happen that cannot be ignored, and a robust response is required.

As any good Resident Manager knows, there is nothing more frustrating than getting to the end of the month and finding that your figures don't add up i.e. your trust account doesn't balance.

You are wrong, because there is something much more frustrating than that!

How about, after having hired a recognized Management Rights accountant to do a pre-sale verification on your business, you are told that the same accounting firm's post-sale verification (on behalf of your buyer), has come in at less than the profit figure you have just paid good money to have them calculate --- and unless you drop your price, your contract will fall over!

How about being told by the verifying accountant that, notwithstanding the fact you have receipts from your own accountant for \$1100 for Audit & Accounting, the figure that is being put in the verification report for your sale is \$2,500! This will mean that, all other things being equal, your profit will be \$1400 short! Multiply that \$1400 by 4.5 to 5

times and suddenly this little exercise has cost you the equivalent of two return airfares to London with a long stopover and duty free shopping in Dubai. In other words, the holiday you were planning after settlement has been hijacked!

Most experienced Management Rights brokers are reporting these anomalies frequently, and I don't think any of us have yet heard an adequate explanation from the accounting profession.

The accountant's task under the terms of the standard Management Rights contract is very clear. It is nothing like a jockey getting his riding instructions from the trainer of the favourite in the Melbourne Cup. In the heat of the moment, the jockey can ignore the trainer's instructions and make decisions based on the way the race is run. Clause 12 of the Standard Conditions says "nett operating profit shall be calculated by deducting from the gross income of the business for the relevant period the ACTUAL (scribe's emphasis) expenses of operating the business for that period". There does not seem to be a lot of ambiguity in that clause.

We all know that the really important side of a MR Profit & Loss statement is the Income side. One of the wonderful things about our industry, and the thing the banks love, is that it is almost impossible to "fudge" the

income, because it is mainly Body Corporate salary and income channelled through an audited trust account.

Some categories of expenses, however, have to be estimated because many of us have expense items in our invoices that have nothing to do with the ACTUAL running of our MR business. Examples of this include telephone accounts when you have two teenage daughters; or your partner runs a separate home-based business. This is where most management rights accountants may use a formula to arrive at a reasonable estimate of expenses for telephone. This will invariably be a lesser figure than that shown on the invoices.

Audit & Accounting is a different matter! If your own accountant has charged you \$1,100 to do the 3 statutory audits and prepare a tax return, why should you lie down and accept a theoretical figure of \$2,500 from the accountant doing the verification? Such a substitution of figures makes a mockery of Clause 12, and if it happens to you, you should be discussing your response with your lawyer!

If you would like to comment on anything you have read in the RAAS Report, please send an email to mike@raas.com.au or write to The RAAS Report, PO Box 1325 Sunnybank Hills Q 4109.



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