

IN CASH AND KIND

RUNNING A HOSPITALITY BUSINESS ON A CASH IN HAND BASIS COULD COME BACK TO BITE THE HAND THAT FEEDS IT, AS JONATHAN KAPLAN EXPLAINS.

I am frequently asked how I became involved in mediation work. When I mention that I previously owned hospitality businesses, the first observation is usually, "it must have been great being in a cash business". On enquiring why they think that, I usually get a knowing smirk and a wink. I began wondering what it is that gives a person the impression that being in a hospitality business the owner is entitled to dip his hand in the cash register, remove bundles of cash and fill his pockets instead of declaring those sales.


It all began to make sense when I walked into a cafe a few days ago for my

usual caffeine jolt. I happily handed over my \$3.30 to the owner, who was operating the cash register. He promptly tossed the coins into a cardboard tray, which by this stage was almost overflowing with a significant pile of brass and silver. I have no idea of the ultimate destination of those coins but I think it's fair to say that it was unlikely that they would ever find their way into the owner's bank account. Or perhaps I'm just too much of a cynic. I assume that it's this kind of activity that would have partly created the impression expressed to me above.

In a somewhat different vein a further example arose in a situation



where I was representing a hospitality client who had been asked to provide details of his annual profit. The client coyly produced an exercise book with handwritten sales figures. I requested

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his Business Activity Statement, which he gave to me but which clearly did not reconcile. When I asked for his explanation, he mentioned that he only "declares" his credit card sales and not his cash sales. I nearly fell off my chair. In another case I was acting for a vendor preparing a contract for the sale of his business. I needed to know how many employees of the business there were so that I could detail their entitlements in the contract, in the event that the purchaser wanted to re-employ those employees. The answer given was that there were three employees of whom only one was "on the book", the others being paid "cash in hand". Clearly this created significant problems of not only disclosure but dealing with the other two employees when it came to termination of their services. These

are only a few examples but reinforce the view of the public that hospitality is great because it's a "cash business". Not only is this the view of the general public, but this has also attracted new operators to the industry who are happy to engage in these activities.

Only recently I became aware of a situation where the new purchaser of an excellent business had "removed" a significant amount of cash from the sales of the business, resulting in an inability to fully pay suppliers, rent and staff entitlements, which the former owner had always paid on time. As a result, payment periods were extended with arrears building up to the point where GST and statutory superannuation entitlements were not paid for several months, or in some instances not at all. The ATO became aware of this,

made investigations and as a consequence penalised the owner, not only for breach of payment of statutory entitlements but also for under-declaring the total sales. The outcome was a fine of many hundreds of thousands of dollars and the ultimate demise of the business.

With significant competition in the hospitality industry today it's hard enough dragging customers through the door, giving them a quality product at a reasonable price and keeping them happy with good service in a nice environment – and paying business debts, in addition to the considerable administrative obligations of the owner. By participating in the practices I've described above, I often wonder how operators are able to keep track of key performance indicators and also hide

their activities from staff, given the risk that an altercation with a staff member could result in that information being reported to authorities to "rectify a wrong".

I've always understood that the benefit of being in a mostly cash business is that debtors are kept to an absolute minimum, and more often than not non-existent, enabling the business to pay its creditors promptly without threat of legal action. It seems to me that some others have a different perspective to the advantages of such a business, unless I've missed something along the way. ■■■

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