

INTRODUCTION

The industry benchmarks, in the form of financial ratios and activity statement ratios, help tax advisers identify averages for groups of activities, and businesses that vary significantly from those averages. Tax advisers can use this information to determine the reasons for any variation and identify action that should be taken to correct problems and improve business practices – in particular, those related to record keeping.

For each industry division, group or class, two sets of ratios are produced. The first set includes all entities, providing a benchmark figure for an entire business activity/industry division, group or class. The second set excludes businesses that return a loss, providing an industry average for 'profitable' businesses only.

Industry divisions, groups and classes are listed in the ATO publication *Business industry codes 2011*. These codes are based on the ANZSIC 2006 industry structure. Financial ratio tables are divided into three parts:

- Part A broad industry divisions
- Part B fine industry groups
- Part C fine industry classes

Activity statement ratios tables are divided into industry groups and classes.

Some tables are also divided by business status – that is, commenced business (businesses that just started) and established business.

The business community and business owners generally use benchmarks to compare the performance of their business with industry averages.

FINANCIAL RATIOS

The financial ratios tables contain gross profit ratios, net profit ratios, and wages-to-turnover ratios for business activity or industry. The tables contain financial ratio benchmark data for each entity type and most business activities.

BOX 18.1: Financial ratios calculated¹

Gross profit ratio: total business income minus cost of sales, divided by total business income.

Net profit ratio: total business income minus total expenses, divided by total business income.

Wages to turnover ratio: salary and wages paid, divided by total business income.

¹ Calculated from income tax return labels.

ACTIVITY STATEMENT RATIOS

The activity statement ratios tables contain expenses to sales ratios, wages to sales ratios, and net GST paid to sales ratios for business activity/industry. The tables contain activity statement ratio benchmark data for each entity type and most business activities.

BOX 18.2: Activity statement ratios calculated^{1,2}

Wages to sales ratio: Total salary, wages and other payments (W1), divided by total sales (G1).

Expenses to sales ratio: Non-capital purchases (G11) plus total salary, wages and other payments (W1), divided by total sales (G1).

Net GST to sales ratio: GST on sales or GST instalments (1A) minus GST on purchases (1B), divided by total sales (G1).

¹ Calculated from *business activity statement* (BAS) labels.

² Items in brackets refer to Activity statement labels.

EXCLUSIONS AND CONSIDERATIONS

When analysing a large population, including some types of cases can produce misleading results – for example, if income tax return labels used in the calculations have not been completed or have not been completed correctly, or the ratios for an individual entity are exceptional, these factors may distort the calculation of a true industry average.

In an attempt to improve the quality of industry benchmarks, we apply certain exclusion criteria – a list and explanation of these exclusion criteria is included in the industry benchmark table instructions.

Despite applying these exclusion criteria, it is still important to recognise that the benchmarks developed are not definitive and should not be used in isolation – for example, there are a range of legitimate reasons why businesses vary from industry averages and, conversely, why businesses with ratios close to the industry average may have compliance problems or other difficulties. Also, an average ratio calculated using a large population is generally more reliable than one calculated from a small population.

Benchmarks are most useful as a guide when considered over a period of time or in conjunction with other information.

SOURCE OF INDUSTRY BENCHMARKS

The data used to calculate the financial ratios was sourced from the 2010–11 individual, company, partnership and trust income tax returns processed by 31 October 2012.

The data used for calculating activity statement ratios was sourced from activity statements, annual GST returns and annual GST information reports.

LIST OF FINANCIAL RATIOS DETAILED TABLES

Table IN1: Individual industry financial ratios, by business status, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all individuals, classified by business status.

Table IN2: Individual industry financial ratios, by total business income, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all individuals, broken down by total business income groupings.

Table CO1: Company industry financial ratios, by business status, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all companies, classified by business status.

Table CO2: Company industry financial ratios, by total income, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all companies, broken down by total income groupings.

Table PA1: Partnership industry financial ratios, by business status, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all partnerships, classified by business status.

Table PA2: Partnership industry financial ratios, by total business income, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all partnerships, broken down by total business income groupings.

Table TR1: Trust industry financial ratios, by business status, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all trusts, classified by business status.

Table TR2: Trust industry financial ratios, by total business income, 2010–11 income year

This table shows gross profit, net profit and wages to turnover ratios for profitable and all trusts, broken down by total business income groupings.

LIST OF ACTIVITY STATEMENT RATIO DETAILED TABLES

Table INAS1: Individual industry activity statement ratios, by business status, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all individuals, classified by business status.

Table INAS2: Individual industry activity statement ratios, by level of sales and profitability, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all individuals, broken down by total sales income groupings.

Table COAS1: Company industry activity statement ratios, by business status, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all companies, classified by business status.

Table COAS2: Company industry activity statement ratios, by level of sales and profitability, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all companies, broken down by total sales income groupings.

Table PAAS1: Partnership industry activity statement ratios, by business status, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all partnerships, classified by business status.

Table PAAS2: Partnership industry activity statement ratios, by level of sales and profitability, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all partnerships, broken down by total sales income groupings.

Table TRAS1: Trust industry activity statement ratios, by business status, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all trusts, classified by business status.

Table TRAS2: Trust industry activity statement ratios, by level of sales and profitability, 2010–11 income year

This table shows expenses to sales, wages to sales and net GST paid to sales ratios for profitable and all trusts, broken down by total sales income groupings.



Ratios may not be available for all entities because there is insufficient data to calculate the ratios, there are data quality problems or the data cannot be shown for confidentiality reasons.