MFR GUIDING STATEMENT 5
WHAT ARE MINIMUM FINANCIAL REQUIREMENTS?

EFFECTIVE OCTOBER 2023

What are the Minimum Financial Requirements?

The "**Minimum Financial Requirements**" or "**MFR**" is a term used in the *Queensland Building and Construction Commission Act 1991* and the MFR Regulation 2018, and refers to the broad financial obligations that building and construction licensees in Queensland must meet as part of holding a QBCC licence.

The intent behind these requirements is to ensure that licensees performing building work are financially viable to undertake building work and pay subcontractors and suppliers when invoices fall due.

The legislation that governs MFR uses some technical terms that this guideline will simplify.

The Minimum Financial Requirements include having and maintaining the required:

- Current ratio (not less than 1:1);
- Net Tangible Assets (at least $0);
- Maximum Revenue

As a QBCC licensee, you have a legislative obligation to meet the financial requirements at all times, which include the current ratio requirement, net tangible asset requirement, and maximum revenue limit.

Current Ratio is your current assets less your current liabilities.

What are current assets?

Assets that a licensee has or is expecting to receive within the next 12 months. Current assets include:

- Cash;
- Works you have completed but not yet invoiced (ie cost of materials, and labour you have undertaken but haven't billed the client for yet);
- Invoice amounts to clients who are yet to pay (which are not disputed or older than 12 months from invoice date).

What are current liabilities?

Debts or bills that a licensee has to pay within the next 12 months. Current liabilities include:

- Trade creditors (subcontractors, suppliers);
- Taxation liabilities;
- Credit card debts;
- The portion of loans, finance leases etc to be paid within the next 12 months.

What is a current ratio?

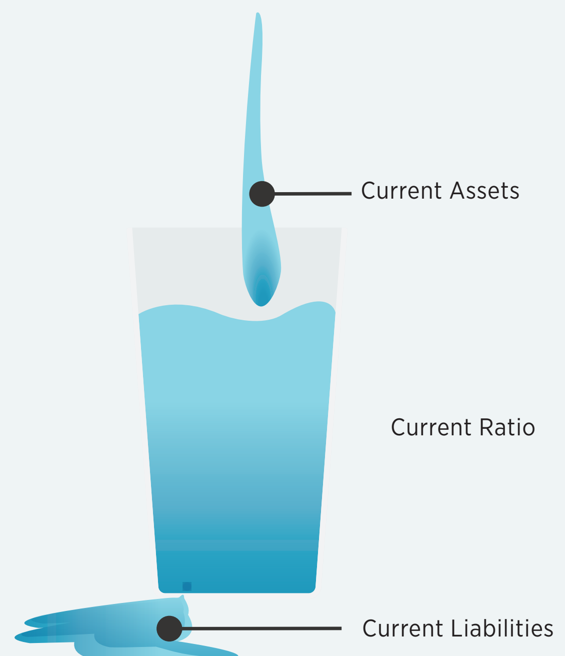
For every $1 in current liabilities, you need to have at least $1 in current assets. This would be the minimum expected for a healthy business.

If you have $52,000 in cash at bank, and $30,000 in bills, you divide 52,000 / 30,000 = 1.73:1.

The current ratio requirement is important as it shows your ability (current assets) to pay off short term debts (current liabilities). It reflects whether you can generate enough cash assets to meet short term obligations.

It might help to think of the **Current Ratio** like a leaking cup — to keep the cup from being empty, the water needs to be going in at least at the same rate that it is leaking out.

1 cup of water in ~ 1 cup of water out.



Net Tangible Assets are your total assets, less any intangibles or disallowed assets, and less total liabilities.

Allowable assets include:

- Cash;
- Work in progress;
- Registered motor vehicles;
- Tools of trade;
- Real estate;
- Stock on hand (inventory);
- Retention money you are entitled to;
- Plant and equipment;
- Money owing to you from clients (if not disputed, and not older than 6 or 12 months).

What assets are disallowed or are intangible?

Assets that are specifically disallowed are things like:

- Cryptocurrency;
- Racehorses;
- Furniture used for personal purposes;
- Superannuation benefits if you are not able to access super yet (if you are not retired);
- 50% of debtor amounts if they are between 180-365 days from invoice date;
- 100% of debtor amounts if they are older than 365 days from invoice date;
- Money owing to you if it is disputed or subject to legal or court proceedings;
- Goodwill (the value or reputation of a business);
- Formation expenses (expenses you pay to set up business);
- Franchise fees;
- Borrowing costs (interest and costs that a business incurs in connection with borrowing money);
- Deferred Tax Assets (an item that reduces the business' taxable income in the future, usually when a business overpays its' taxes and will eventually be returned to the business in the form of tax relief).

The **Net Tangible Asset calculation** shows what assets (money) you would have once all of your liabilities (bills/debts) are paid.

Basically, if the licensee has to close the business, sell all of its' things and pay out all of its' bills, what is the amount left over?

The net tangible asset requirement is important as it shows the working capital you need to run your business.

Maximum Revenue is the maximum amount you can turn over in a financial year, and is not an amount that you must meet.

You need to have enough net tangible assets to cover the ceiling or maximum you can turn over.

Think of the relationship between your net tangible assets as your muscles, and the maximum revenue amount as the highest number of contracts you can carry in a year.

A contractor needs a certain amount of muscles to safely carry out a maximum amount of contracts. For example, an SC2 contractor can carry up to $800,000 worth of income in a year, but needs to have at least $46,000 of "muscles" (or assets) to do this.