

COMMERCIAL EDGE

Week 2 case study

The following case studies are presented as a learning tool only.

Swampy fishing store

You are meeting with an existing residential home loan client, Shaun Jones, to re-finance his current home loan.

He mentions that he and his sister are looking to purchase the property they run their business from and asks if you could recommend someone to help. Although they have been with their current lender for the past 5 years they are not happy with the service and find it hard to contact their Bank Manager when they need to.

Now commercially confident, with the support of the AFG Business Platform and the Business & Scenario team, you can provide Mr Jones and his sister with a full broking service offering and help with their commercial needs.

You assure Mr Jones that you will help get the best commercial deal, that suits their needs because you have access to over 30 lenders, an Australian-first technology platform and a team of commercial experts to support you.

Thrilled that he can deal with someone he knows and trusts, Mr Jones explains that they have been renting a retail shop at 100 Havelock Street, West Perth 6005 for the last 4 years at \$4,000 per month. Their landlord has told him that she is retiring and has put the property on the market.

Shaun and his sister Michelle are both directors of SOS Rhino Pty Ltd for the S and M Family Trust trading as Swampy Fishing Store. They are excited at the prospect of owning another retail space instead of renting and adding to their business's capital assets.

They purchased their first shop at 13 Market Street, Fremantle WA 6160, a few years back and the property is unencumbered. The Fremantle shop is also the business head office and will remain so after the West Perth property purchase. With the West Perth property on the market for \$1,400,000, Mr Jones and his sister are confident the Swampy Fishing Store business can afford to purchase the property, using it as security as well as a \$640,000 available to use as a deposit.

Their business has been very successful since they first began trading back on 1st July 2013 as one of the first sporting goods retailers in Fremantle. With the success of their second shop in West Perth, he is confident that they won't be going anywhere for a while. They are looking for a 25-year term to minimize the cash-flow impact to the business and allow them to continue investing in stock and growth.

You remember that Mr Jones has previously spoken about his accountant when you have been discussing his residential mortgage, so you ask if he has spoken to his accountant about buying the property. Mr Jones confirms that Allan, their business accountant, has indicated all their statutory (they have been GST registered since they first started trading) and superannuation payments are up to date. Allan also confirmed both Shaun and Michelle have clear credit histories and none of the parties to the loan, have ever been declared bankrupt before.

Swampy fishing store continued...

As Managing Director, Shaun has stated that he will be the main contact and he has a 50% stake in the business; his sister Michelle is in full agreement and she holds the remaining share. Their five employees are very loyal, and he and Michelle would like to make the announcement at their next staff meeting in two months.

You advise Shaun that most commercial deals take 2-4 weeks for approval depending on how long the valuation takes. Having got most of the details you need for the Fact Find, you ask Shaun what financial documents he will be providing to support the loan. Shaun gives you a copy of both his and Michelle's Financial Position along with the business profit and loss statement and balance sheet for the last financial year.

Shaun confirms the business has an unsecured overdraft with a \$20,000 limit with Bank XYZ and the current interest rate is 12%. The business also has a credit card with Bank XYZ at 20% interest rate and a \$10,000 limit. Shaun also confirms the personal details you have on file for him and his wife Emily, are still current and Michelle provides her personal details. You sight Michelle's driver license to confirm identity and they advise you that both have lived at their current residential addresses for 3 years. You also ask for their accountant's contact details and the conveyancer who will be handling the sale.

Shaun Jones

Managing Director
1 Nelson Cres
East Perth WA 6004
DOB 14/11/1971
0445 345 345
sos34s@gmail.com

Emily Jones

Accountant at ABC Accounting
(8 years)
Salary \$96,000
DOB 15/10/1978
DL D32479099

Michelle Jones

Manager
26 Swanbourne St
Fremantle WA 6160
DOB 12/12/1978
DL D32479099
0445 345 348
sos34s@gmail.com

Accountant

Capatain Grumpy Accounting
Allan Border
0456 789 556
grumpy@accounting.com

Conveyancer

Pup Settlements
Michael Clarke
0459 846 545
pup@settlements.com

You book a follow up appointment with Shaun and Michelle and advise them that you will work up the application based on the information they have provided. At the next appointment you will go through the different options that will enable Swampy Fishing Store to secure the commercial property.

Swampy fishing store continued...

Statement of Financial Position for Shaun Jones

Assets	Value	Liabilities	Owing
House	\$2,100,000		
Car Hyundai I30	\$24,000	Credit Card (Shaun)	\$5,000
Boat Caribbean	\$68,000	House Loan	\$500,000
Home Contents	\$65,000		
Total Assets	\$2,257,000	Total Liabilities	\$505,000
NET ASSETS	\$1,752,000		

Income	Per month	Expenses	Per month
Salary (Shaun)	\$10,000	Rates	\$100
		Phone/Internet	\$60
		Groceries	\$600
		Entertainment	\$360
		Medical	\$248
		Transport	\$400
		Insurance	\$248
Total Income	\$10,000	Total Expenses	\$2,016
		NET MONTHLY SURPLUS	\$7,984

Statement of Financial Position for Michelle Jones

Assets	Value	Liabilities	Owing
House	\$2,100,000		
Car Hyundai I30	\$24,000	Credit Card (Shaun)	\$5,000
Boat Caribbean	\$68,000	House Loan	\$500,000
Home Contents	\$65,000		
Total Assets	\$2,257,000	Total Liabilities	\$505,000
NET ASSETS	\$1,752,000		

Income	Per month	Expenses	Per month
Salary (Shaun)	\$10,000	Rates	\$300
		Phone/Internet	\$60
		Groceries	\$600
		Entertainment	\$360
		Medical	\$248
		Transport	\$400
		Insurance	\$248
Total Income	\$10,000	Total Expenses	\$2,216
		NET MONTHLY SURPLUS	\$7,784

Swampy fishing store continued...

SOS Rhino Pty Ltd trading as Swampy Fishing Stores

ABN 11 579 856 878

ACN 579 856 878

Balance Sheet as at 30 June 2019

	2019	2018
ASSETS		
Current assets		
Cash	\$640,000	\$480,000
Accounts receivable	\$515,000	\$465,000
Inventory	\$150,000	\$132,000
Total current assets	\$1,305,000	\$1,077,000
Non-current assets		
Plant and equipment	\$400,000	\$370,000
Motor vehicles	\$370,000	\$332,000
Total current assets	\$770,000	\$702,000
TOTAL ASSETS	\$2,075,000	\$1,779,000
LIABILITIES		
Current liabilities		
Accounts payable	\$525,000	\$501,300
Bank overdraft	\$10,000	\$7,000
Credit card debt	\$5,000	\$2,000
Tax liability	\$30,000	\$26,000
Total current liabilities	\$570,000	\$536,300
Non-current liabilities		
Nil		
Total non-current liabilities	\$ -	\$ -
TOTAL LIABILITIES	\$570,000	\$536,300
NET ASSETS	\$1,505,000	\$1,242,000
OWNERS EQUITY	\$1,505,000	\$1,242,000

Swampy fishing store continued...

SOS Rhino Pty Ltd trading as Swampy Fishing Stores

ABN 11 579 856 878

ACN 579 856 878

Profit & Loss Statement for the year ended 30 June 2019

	2019	2018
Sales/Total revenue	\$1,352,500	\$975,200
Opening stock	\$132,000	\$115,000
Plus purchases	\$444,200	\$243,200
	<hr/> \$576,200	<hr/> \$358,200
Less closing stock	\$150,000	\$132,000
Cost of goods sold	<hr/> \$426,200	<hr/> \$226,200
Gross profit	\$926,300	\$749,000
Expenses		
Accounting and legal fees	\$11,700	\$9,800
Advertising	\$15,000	\$13,000
Depreciation	\$38,000	\$43,000
Electricity	\$2,700	\$3,100
Insurance	\$15,200	\$13,800
Interest	\$14,200	\$12,600
Postage	\$1,500	\$1,200
Printing and stationery	\$8,700	\$4,900
Professional membership	\$1,800	\$1,800
Rent for premises	\$74,300	\$62,300
Repairs and maintenance	\$21,100	\$17,400
Training	\$6,900	\$8,500
Vehicle operating costs	\$33,100	\$29,700
Wages and salaries	\$423,500	\$363,500
Workers compensation	\$6,500	\$5,400
All other expenses	\$14,100	\$9,300
Total expenses	\$688,300	\$599,300
Net profit before tax	<hr/> \$238,000	<hr/> \$149,700