

COMMERCIAL EDGE

Week 4 case studies

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

Case Study 4 – Working capital

Your Client, Shaun Jones, called to say he was struggling to meet day to day running costs. Shaun and his sister have run a Mining supply company, Swampy Mining Provisions, since July 2009.

Their clients were taking longer to pay and what was previously being paid within a month has now stretched out two to three months, despite their best efforts in following up payments. Whilst this is impacting their cash flow, they rely on these long-term contracts with strong reputable clients such as BHP and Rio Tinto.

Shaun believes that access to \$100,000 finance will ease their cash flow issues and his Accountant has substantiated this.

They approached their current lender directly for working capital funding however they were unable to assist because they did not have enough landed security to meet their lending criteria.

Understanding that Shaun and his sister were unable to use their houses for security because of previous deals you have done for him, you confirm if they are happy to use the business to support the proposal.

Shaun confirms that would be ideal and you suggest that an unsecured business loan would suit their needs and you will be able to find the most appropriate deal because you have access to a variety of lenders on the AFG Business platform.

Shaun advises the deal will be under Swampy Mining Provisions and confirms the information you need to get the application raised in the AFG Business Platform.

Case Study 4 continued...

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 Deloitte
(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

SOS Rhino Pty Ltd

T/A Swampy Mining Provision

ACN 579 856 878
ABN 11 579 856 878
GST registered since
1 July 2009
Trading address –
100 Havelock St West Perth
6005
Postal address – as above

Shaun also confirms that they are up to date on all statutory and superannuation payments and have clear credit history with neither being bankrupt in the past. They also currently have a business overdraft and credit card with their current Lender, Bank XYZ and provides you with the financial statements.

Business Overdraft Limit \$20k Unsecured 12% Interest Rate

Business Credit Card Limit \$10k 20% Interest Rate

Case Study 4 continued...

Statement of Financial Position for Shaun Jones and Emily Smith

Assets	Value	Liabilities	Owing
House 1 Nelson Crescent, East Perth	\$600,000		
Car Hyundai I30	\$24,000	Credit Card (Joint)	\$5,000
Boat Caribbean	\$68,000	House Loan 4%	\$500,000
Home Contents	\$65,000		
Total Assets	\$757,000	Total Liabilities	\$505,000
NET ASSETS	\$252,000		

Income	Per month	Expenses	Per month
Salary Net per month	\$10,000	Rates	\$300
Salary Net per month (Emily)	\$8,000	Mortgage	\$2,500
		Phone/Internet	\$60
		Groceries	\$600
		Entertainment	\$360
		Medical	\$248
		Transport	\$400
		Insurance	\$248
Total Income	\$18,000	Total Expenses	\$4,716
		NET MONTHLY SURPLUS	\$13,484

Statement of Financial Position for Michelle Jones

Assets	Value	Liabilities	Owing
House 26 Swanbourne St Fremantle	\$600,000		
Car Hyundai I30	\$24,000	Credit Card	\$5,000
Boat Caribbean 2	\$68,000	House Loan 4%	\$500,000
Home Contents	\$65,000		
Total Assets	\$757,000	Total Liabilities	\$505,000
NET ASSETS	\$252,000		

Income	Per month	Expenses	Per month
Salary Net per month	\$10,000	Rates	\$300
		Mortgage	\$2,500
		Phone/Internet	\$60
		Groceries	\$600
		Entertainment	\$360
		Medical	\$248
		Transport	\$400
		Insurance	\$248
Total Income	\$18,000	Total Expenses	\$4,716
		NET MONTHLY SURPLUS	\$5,284

Case Study 4 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

Case Study 4 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

Case Study 5 – Business purchase

You get your regular morning coffee at the local café The Pantry and on one particular morning the Café Manager, Silas Jones, knowing that you are a residential mortgage broker, asks if you could recommend a business broker to help him buy the café business.

You tell Silas that you also do business finance lending and would be happy to help him find the right deal. You make an appointment to return to the café at a less busy time to discuss with Silas and his partner Nicole what they are looking for. Later that day you sit down with Silas and Nicole to go through their requirements.

Silas explains that he has been managing the business for the past 7 years. The owner is looking to sell the business for \$315,000 and Silas and Nicole have \$160,000 to put towards the purchase. The business has been doing well since opening and Silas has reviewed the financials with his Accountant.

Silas and Nicole confirm he will be the main contact and they have setup a new company, Red Castro Pty Ltd for the purpose of buying the business.

They want to borrow \$155,000 over 10 years and will provide the full financials which include the business assets to support the proposal; they don't wish to use their house as security.

You confirm some further details with Silas and Nicole and then advise them that you will work through the deal and come back to them tomorrow with some Lender options.

Silas Jones

Manager (7 years)

1 Nelson Cres
East Perth WA 6004
DOB 14/11/1971
0445 345 345
silas34s@gmail.com

Nicole Smith

Accountant at Deloitte
(8 years)

Salary \$96,000
DOB 15/10/1978
DL D32479099

Red Castro Pty Ltd

ATF Red Castro Trust

Manager

ACN 579 856 878
ABN 11 579 856 878
Café Restaurant since
1 July 2018
GST registered since
1 July 2018
Trading address – 100
Havelock St West Perth 6005
Postal address – as above

Accountant

Capatain Grumy Accounting

Allan Border
0456 789 556
grumpy@accounting.com

You gather the financials and take these back to the office where you contact the AFG Business Scenario and Platform team to help you workshop the deal.

Case Study 5 continued...

Trading account

For the year ended 30 June 2017

	2017	2016
	\$	\$
TRADING INCOME		
Sales	\$767,273.32	\$750,127
Total current income	<u>\$767,273.32</u>	<u>\$750,127</u>
COST OF SALES		
Add:		
Opening finished goods	\$4,250	\$2,800
Purchases - GST	\$33,217.75	\$9,200
Purchases - GST free	\$190,986.73	\$329,495.48
	<u>\$228,454.48</u>	<u>\$341,495.48</u>
Less:		
Closing finished goods	\$7,500	\$4,250
	<u>\$7,500</u>	<u>\$4,250</u>
Cost of sales	\$220,954.48	\$337,245.48
Gross profit from trading	<u>\$546,318.84</u>	<u>\$412,881.52</u>

Case Study 5 continued...

Detailed profit and loss statement

For the year ended 30 June 2017

	2017	2016
	\$	\$
INCOME		
Trading profit	\$546,318.84	\$412,881.52
Interest received	\$604.76	
Total income	<u>\$546,923.60</u>	<u>\$412,881.52</u>
EXPENSES		
Accountancy	\$6,220	\$3,800
Advertising and promotion	\$5,113.03	
Bank fees and charges	\$124.42	\$540
Bank merchant fees	\$5,924.60	\$6,324.25
Cleaning & rubbish removal	\$6,157.83	\$3,711.97
Depreciation	\$6,681	\$6,815
Electricity	\$16,530.01	\$17,768.06
Fees & charges	\$576.39	\$331.25
Filing fees	\$325	\$246
Fuel & oil		\$1,812.52
Gas	\$2,105.10	\$2,345.67
Insurance	\$3,661.29	\$1,521.28
Interest	\$11,777.03	\$12,839.06
Licences		\$1,308
M/V car - expenses	\$8,724.87	\$1,871.39
Printing & stationery	\$3,799.45	\$2,047.78
Rates & land taxes	\$1,430.21	\$1,301.20
Rent on land & buildings	\$24,766.36	\$23,740.58
Repairs & maintenance	\$12,460.83	\$6,644.59
Replacements (tools, etc)	\$4,302.11	\$3,194.90
Set up costs		\$362
Staff training	\$240	
Subscriptions	\$425	\$50
Superannuation	\$33,769.43	\$21,592.78
Telephone	\$6,814.19	\$2,013.69
Wages	\$253,444.81	\$230,411.52
Waste removal		\$946
Water rates	\$1,722.79	\$2,567.58
Workcover	\$8,180.16	\$6,816.81
Net Profit from Ordinary Activities before income tax	<u>\$121,636.69</u>	<u>\$49,957.64</u>