

# Good or Business

## Accountants & Business Advisors

Good for Clarity

Stewart Kearney – Partner



Good for Business



42 is the Answer.

But what is the question



CHARTERED ACCOUNTANTS

Good for Business



# Cause & Effect

## Identify the symptoms

Poor Gross Margin, Modest ( or No Profit) & Weak Cash Position

## Work back to identify

Poor Utilisation  
Low Daily rate  
High Finance Costs  
High operating Costs  
Bad decisions.

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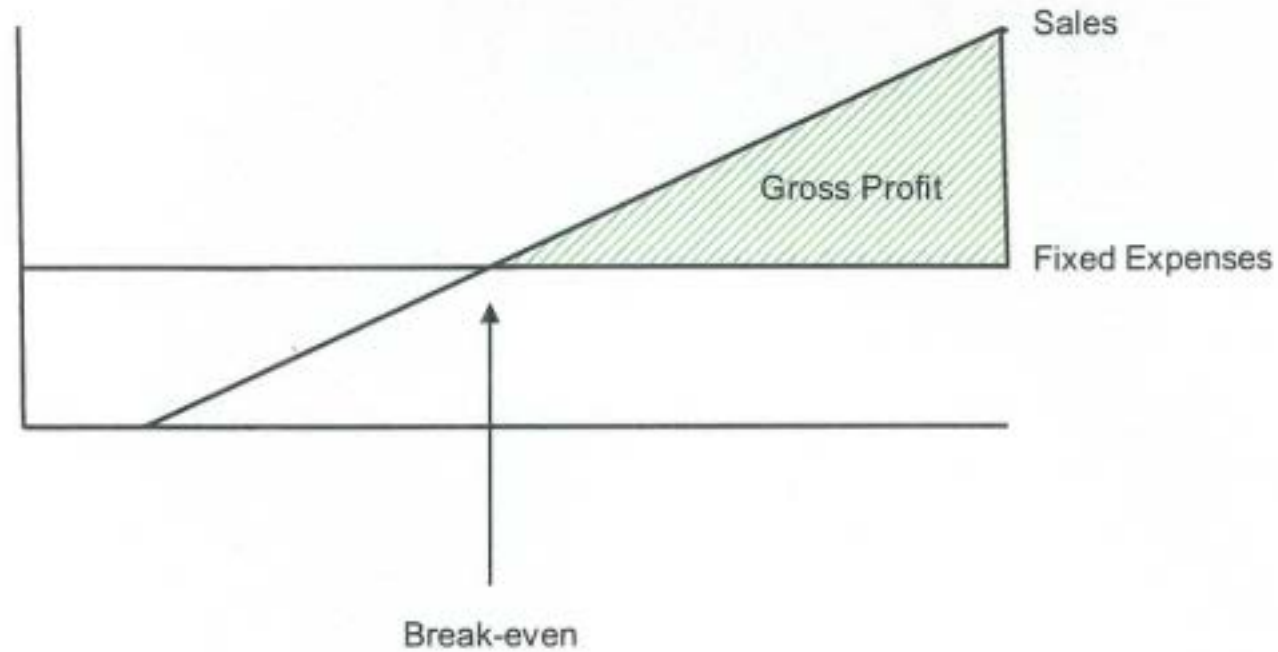
CHARTERED ACCOUNTANTS



## CALCULATING BREAK-EVEN

Breakeven is impacted by:

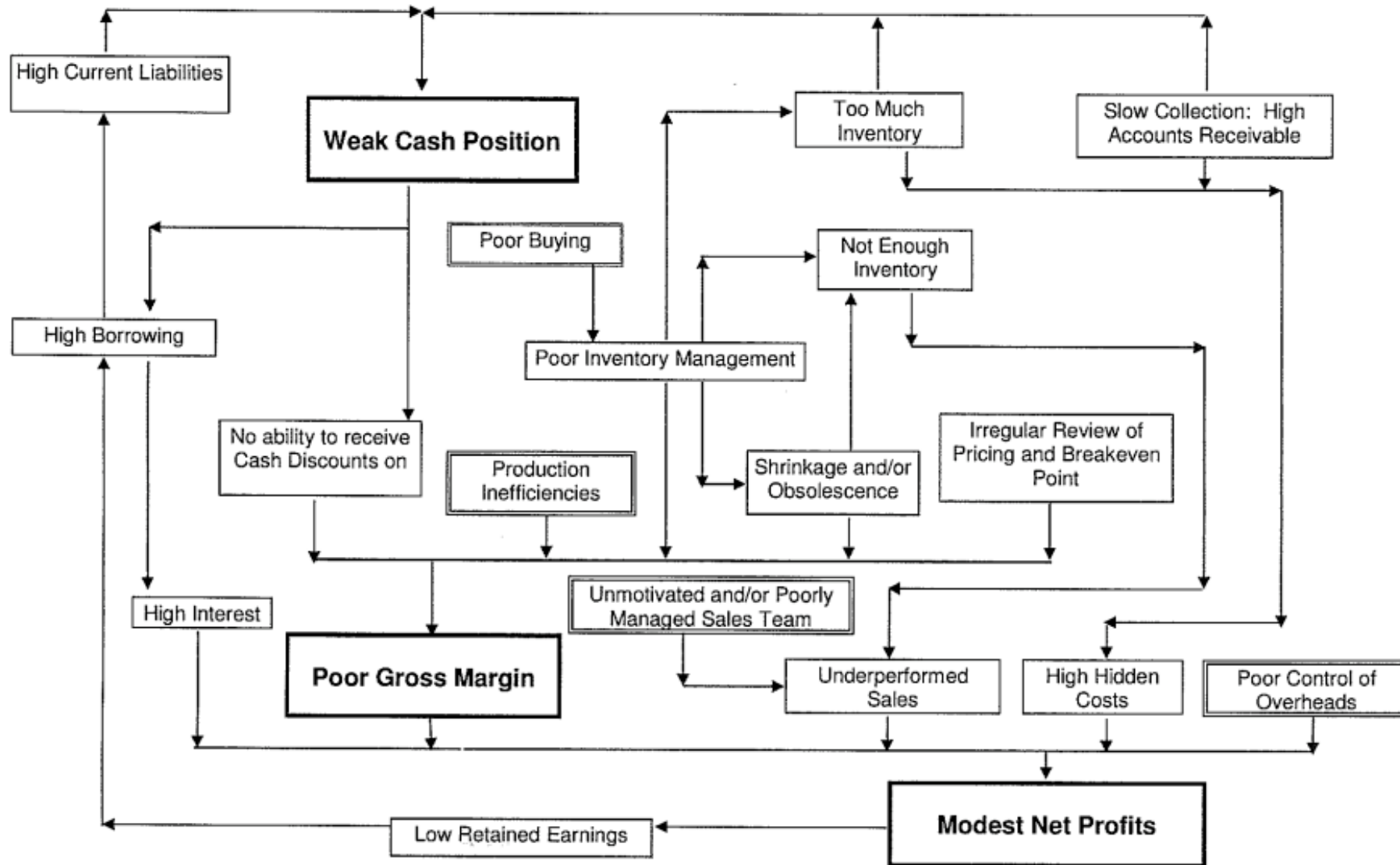
- Gross margin
- Expenses – distinguished between fixed and variable



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# 'Cause and Effect' Navigator



With the arrow = Causes  
Against the arrow = Is Caused by



# Calculating Charge Out Rates

Utilisation  
Cost of Capital  
What a work week is  
Depreciation  
Repairs & Maintenance  
Direct S&W  
Overheads.  
Profit

# Early Payment Discount

Question : You have an invoice to pay for \$10,000, which is due in 30 days. You can get a early payment discount of 2% if you pay in 10 days

So if we pay the cash 20 days early for a 2% benefit = \$200.

Normal Payment 30 days, less new payment terms is 10 days = 20 Days disct period

Divide 365 days / 20 days = 18.25 Times

So the effective interest rate is 18.25 times \* 2% or 36.5%!

TAKE THE DISCOUNT. 2% for a full year is \$200, they are giving you a 2% discount for 20 days!

Unless your bank is charging you 36.5% interest it is a good deal.

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# What are your criteria for investing in new equipment?

ROI

Payback Period

Cash Flow

Opportunistic – Good Deal

Market knowledge

What I have always done

If I Have Money in the Bank.....



To understand  
ROI, Payback & Cash Flow  
we need to understand  
about your  
Balance Sheet.

# Balance Sheet Demystified

ASSETS — “Things” I use to create Income.

LIABILITY — “Other Peoples” money.

EQUITY — MY money!

# ASSETS

What is an Asset?

Access to Customers - *Franchise*

Portal to Deliver - *Netflix*

Right to use an Asset – *HIANZ*

Sales of Physical Asset – *Wholesale /Retailer*

# LIABILITITES

What is a Liability?

**Short Term** - Working Capital – Due in 12 months

**Long Term** - Debt – Bank Loans – Finance

- Secured or Unsecured.

- Cash Flow Funding

# EQUITY

What is Equity?

Shareholder Capital

Shareholder Current Accounts

Retained Earnings

# Accounting Ratio's

Debt / Equity ( 60% Debt – 40% Equity)

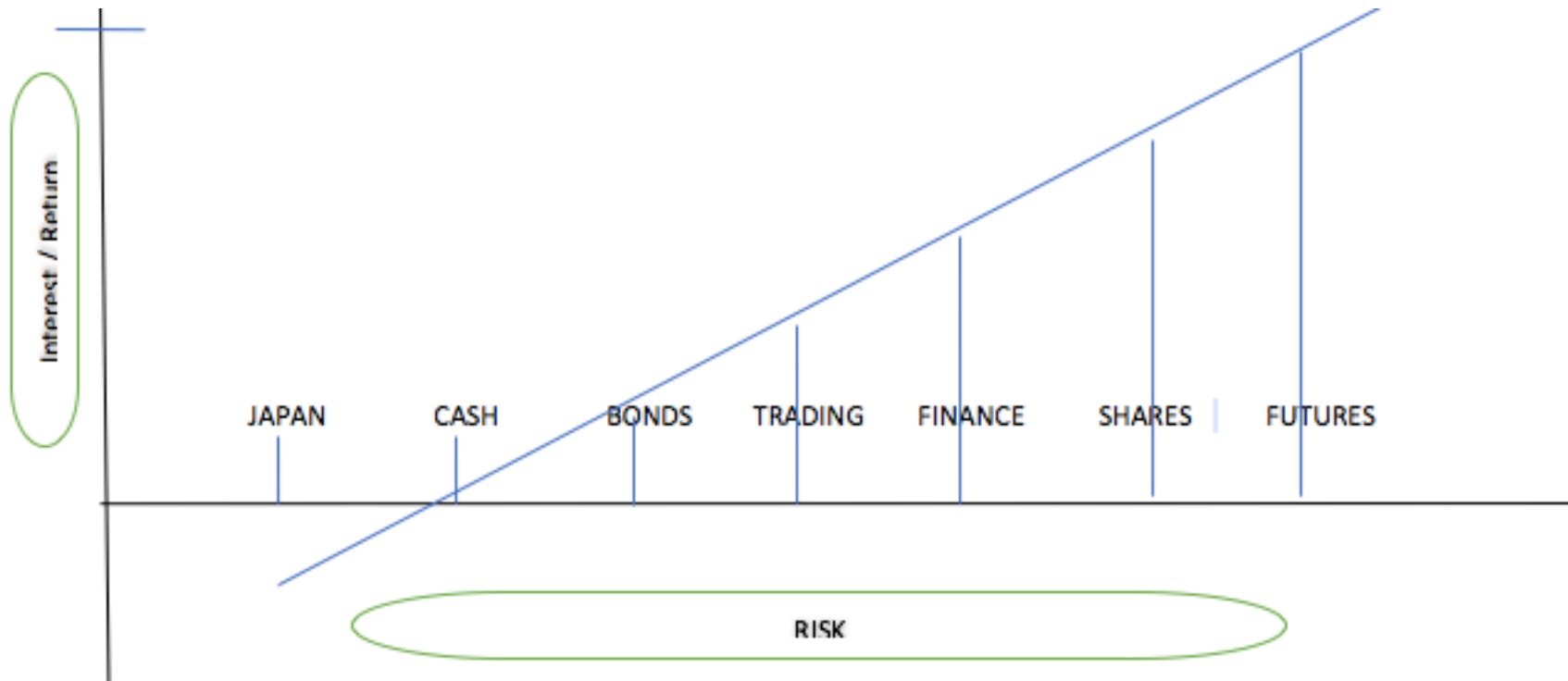
Interest Cover ( 3X EBIT - Finance Ratio )

Working Capital ( >1 - Liquidity Ratio )

Return on Investment ( Profitability Ratio)

# EQUITY(40%) & DEBT (60%)

## Drivers – RISK



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Hire Industry Association of New Zealand (Inc.)

To collectively represent the Hire & Rental Industry,  
by using the strength and diversity of our membership.  
To be advocates of fairplay and sustainable business  
growth through education, training and development.



## **Big Digger 2 Return on Investment Output**

<b>Asset Utilisation %</b>	<b>50%</b>
<b>Return on Investment over 4 years</b>	<b>175%</b>
<b>Payback Period in Months</b>	<b>22</b>
<b>Total Cash Back from Asset</b>	<b>\$32,914</b>

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# UTILISATION

Rental Days

Total Rental Days

# AVERAGE DAILY RATE

Monthly Rental Income

Actual Rental Days in Month

# UTILISATION

$$\frac{\text{Rental Days}}{\text{Total Rental Days}}$$

# AVERAGE DAILY RATE

$$\frac{\text{Monthly Rental Income}}{\text{Actual Rental Days in Month}}$$

Derek Halpern  
SOCIAL TRIGGERS

[https://www.youtube.com/watch?v=tXcEqP  
UXJQo](https://www.youtube.com/watch?v=tXcEqP<br/>UXJQo)

Return on investment or R.O.I  
is a  
profitability ratio

$$\frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

It calculates the profits from an investment as a % of the original cost.

Limitations of ROI is that it is that it does not measure Time Value Of Money.

# Time Value of Money

- Present Value, Discounted Cash Flow, Future Value of Money.....
- QUESTION - When is a Dollar not worth a Dollar?
- ANSWER – When you are paid tomorrow, or next week or next year.
- At Best the FUTURE value of money is discounted by your cost of equity, every businesses Present Value is different as it is dependent on their cost of capital ( Equity or Debt) & Risk.
- \$100 in your bank to day is worth \$100.017 tomorrow ( 6.5% int)
- Present value of \$100 owed to you is worth \$99.983 ( lost 6.5% int)
- This is why many businesses offer early payment terms.

# PAY BACK PERIOD

is a

Risk & Cash Flow ratio

$$\frac{\text{Initial Investment}}{\text{Monthly Cash Flow}}$$

Simple to calculate & a good indicator of Risk.

Payback period analysis favors quick return of capital and is very relevant to the Hire Industry.

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# TOTAL CASH BACK

is a

Cash Flow Measure

Cash Received (Operating Cash plus Asset Sale)

*Less*

Cash spent ( Capital Cost plus Operating Exp.)

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## Big Digger 2 Return on Investment Input

### Asset Description

Big Digger 2

	Incl. GST	GST	Excl. GST	Residual
Cost of Purchase	\$55,001	\$7,174	\$47,827	\$4,000

Indicate life of asset (max 5 years) by adding or deleting values under each year column.

	Year 1	Year 2	Year 3	Year 4	Year 5
Repairs & Operating Cost (% of Cost of Purchase)	20%	20%	40%	40%	
Rental Days per Month	15.5	15.0	15.0	15.0	
Rental Rate per Day (excl GST)	\$200	\$200	\$200	\$200	
Funding Option	Bank				
Term of Loan - months	36				
Cost Of Capital - Equity	5.0%				
Cost of Capital - Bank	15.5%				



ROI calculator available in  
members area of website.