

Improving Your Small Business Skills

Published by DJC Accounting Pty Ltd (ABN: 67 149 046 104)

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Information to Increase both the Wealth and Lifestyle of Your Family
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Where Your Profits have been Spent!

The "Fund Statement" does this. It is a summary of the entire financial activities of your firm over, say, a year. It shows all the sources of "additional" finance obtained by your business and how those funds were used in your business activities. The Statement is derived by the Business Net Profit and by changes in the Balance Sheet from last year to this year. "Non-Fund" items in the Profit & Loss Statement and the Balance Sheet such as *Depreciation*, and *Provision for Doubtful Debts* are not included in the Fund Statement.

Example:

Joe Bangles has a Retail Jewellery Business. No credit is given for sales.

Balance Sheet as at 30 June 2016

	<u>2016</u> \$	<u>2015</u> \$
<u>Current Assets</u>		
Inventory	30,000	30,000
<u>Non Current Assets</u>		
Plant & Equipment	75,000	60,000
Less: Accumulated Depreciation	(36,000)	(24,000)
TOTAL ASSETS	<u>69,000</u>	<u>66,000</u>
<u>Current Liabilities</u>		
Trade Creditors	9,000	16,000
Income Tax	7,000	0
Hire Purchase Liability	15,000	15,000
Bank Overdraft	5,000	17,000
<u>Non Current Liabilities</u>		
Hire Purchase Liabilities	10,000	15,000
Shareholders' Loan	18,000	8,000
TOTAL LIABILITIES	<u>64,000</u>	<u>71,000</u>
NET ASSETS	<u>5,000</u>	<u>(5,000)</u>

<u>Reconciling Net Profit to Fund from Operations</u>	<u>2016</u> \$
Net Profit (before Tax)	24,000
Add: Non Fund Items - Depreciation for Year	<u>12,000</u>
FUNDS FROM OPERATIONS	<u>36,000</u>

Joe Bangles "Jewellery"

Fund Statement for Year Ended 30 June 2016

	\$
<i>During the year additional funds were obtained from:</i>	
<u>Operations</u>	
Funds from Operations (<i>Refer Above</i>)	36,000
<u>Non Current Liability</u>	
Shareholder Loan	<u>10,000</u>
TOTAL ADDITIONAL FUNDS OBTAINED	<u>46,000</u>
<i>These additional funds were used for:</i>	
<u>Payments from Profits</u>	
Company Tax Paid	7,000
<u>Investment in Non-Current Assets</u>	
Plant & Equipment	15,000
<u>Repayment of Short-Term Loans</u>	
Trade Creditors	7,000
Bank Overdraft	12,000
<u>Repayment of Long-Term Loans</u>	
Hire Purchase Liability	<u>5,000</u>
TOTAL FUNDS USED	<u>46,000</u>

Joe Bangles has been able to spend \$46,000 on various financing activities without taking out any "External Loans". Funds from Operations has financed the majority of financial expenditure.

In an established profitable business, funds from operations comprise the most important source of new finance. This source provides less risk and greater flexibility in how these monies are used. Joe had to replace "Old" Plant and Equipment during the year and he increased his Shareholder Loan by \$10,000 to partly finance this expenditure. Joe used the majority of the Business Profits to repay some of his Short Term and Long Term Liabilities. This is prudent financial management as he has paid back:-

- *\$19,000 of Short Term Loans; and*
- *\$5,000 of Long Term Loans.*