

Assessors Guide



Financial and Business Performance Advice Report

Prepared by:	
Prepared for:	
Date:	

Section 1: Financial and organisational analysis

1.1 Client's needs, objectives and expectations:

1. The clients one [1] primary objective to achieve with the business	Wealth accumulation
2. The clients one [1] primary need to earn a salary from the business, specify the value of the salary needed	need to earn a salary of \$80 000 + superannuation from the business each year
3. Two [2] client expectations relating to the financial and business performance of the Toll's Toys over the next 12 months	<ol style="list-style-type: none"> Increase net income to \$100 000 from existing retail store in Sydney, NSW Expand business operations and open a new store in Brisbane, Queensland
4. The business's legal structure [e.g. sole trader, partnership, company, or trust]	Company

1.2 Tolls Toy's specific legal and financial requirements when establishing, structuring, and financing its new retail store in Brisbane, Queensland.

	Legal Requirements	Financial Requirements
Establishing a business:	Check legal requirements for licenses, permits and insurance in Queensland.	The business must have enough capital.
Structuring a business:	As it is a company, ensure that they continue to comply with all obligations under the Corporations Act 2001.	As they are structured as a company, individuals who control the business cannot take money out of the business.
Financing a business:	Conduct your new business operations under the same ABN.	When seeking funding, especially from banks, a

	The business must have an ABN and an ACN.	business must offer security in the form of property, cars, equipment, etc.
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1.3 Financial ratio analysis

Ratio	Calculation
Net Profit Ratio	Net profit before tax x 100 / sales \$85 336 / 276 173 = 30.9%
Gross Profit Ratio	Gross profit x 100/Sales \$179 323 / 276 173 = 64.9 %
Operating Cashflow Ratio	Cashflow from operations/sales \$54 019 / \$278 086 = 0.194%
Current Ratio	Current assets / current liabilities \$57 334 [current assets excluding PPE] / \$16 500 [current liabilities] = 3.47

1.4 Financial Evaluation of Toll's Toys

Key indicators	Evaluation																																							
How much net profit is the business making per one dollar [\$1] of sales	\$85 336 / 276 173 = 30.9% or for every one dollar the business makes in sales it makes 31 cents profit																																							
How efficiently the business can pay its short-term obligations	\$57 334 [current assets excluding PPE] / \$16 500 [current liabilities] = 3.47 A good current ratio is typically considered to be anywhere between 1.5 and 3. So this indicates that it can very efficiently pass off its short-term obligations.																																							
The extent to which debt funds are used in the business	No debt is currently being used to fund the business.																																							
Whether the financial position of the business has improved since the previous financial year	The financial position of the business has improved significantly from FY21 to FY22 as seen in the balance sheet retained earnings FY 21 = \$16 120 FY 22 = \$46 834 <table border="1" data-bbox="810 1733 1310 1993"> <thead> <tr> <th colspan="3">Tolls Toys Balance sheet</th> </tr> <tr> <th></th> <th>as at 30th June 2021</th> <th>as at 1st July 2022</th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td></td> <td></td> </tr> <tr> <td>Cash</td> <td>\$ 25,000</td> <td>\$ 54,019</td> </tr> <tr> <td>Accounts receivable</td> <td>\$ 3,500</td> <td>\$ 1,587</td> </tr> <tr> <td>Inventory</td> <td>\$ 120</td> <td>\$ 1,728</td> </tr> <tr> <td>Property, Plant & Equipment</td> <td>\$ 5,000</td> <td>\$ 5,000</td> </tr> <tr> <td>Less Accumulated Depreciation</td> <td>\$ 500</td> <td>\$ 1,000</td> </tr> <tr> <td>Total Assets</td> <td>\$ 34,120</td> <td>\$ 63,334</td> </tr> <tr> <td>Liabilities and Stockholders' equity</td> <td></td> <td></td> </tr> <tr> <td>Accounts payable</td> <td>\$ 18,000</td> <td>\$ 16,500</td> </tr> <tr> <td>Retained earnings</td> <td>\$ 16,120</td> <td>\$ 46,834</td> </tr> <tr> <td>Total Liabilities and Stockholders' equity</td> <td>\$ 34,120</td> <td>\$ 63,334</td> </tr> </tbody> </table>	Tolls Toys Balance sheet				as at 30th June 2021	as at 1st July 2022	Assets			Cash	\$ 25,000	\$ 54,019	Accounts receivable	\$ 3,500	\$ 1,587	Inventory	\$ 120	\$ 1,728	Property, Plant & Equipment	\$ 5,000	\$ 5,000	Less Accumulated Depreciation	\$ 500	\$ 1,000	Total Assets	\$ 34,120	\$ 63,334	Liabilities and Stockholders' equity			Accounts payable	\$ 18,000	\$ 16,500	Retained earnings	\$ 16,120	\$ 46,834	Total Liabilities and Stockholders' equity	\$ 34,120	\$ 63,334
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The financial potential of Toll's toys indicated by its cash balance growth from 30th June 2021 to 30th June 2022

Cash balance 30th June 2021 = \$25 000
Cash balance 30th June 2022 = \$54 019
The cash balance in the business has grown by \$29 019 in one year.

Section 2: Financial options and key considerations

2.1 Financial options to fund the business expansion

Financial options	Description
i. Asset Liquidation	<p>Liquidate means converting property or assets into cash or cash equivalents by selling them on the open market. If you have assets in the business that are gathering dust, sell them and raise some cash. You could also look at selling personal items such as a car or other high value assets.</p> <p style="text-align: right;"><i>Source:</i> https://www.investopedia.com/terms/l/liquidate.asp</p>
ii. Business overdraft	<p>A business overdraft is a line of credit that becomes available when you make any withdrawal for an amount greater than the balance in your business debit account. This means you can continue making withdrawals even if the account is empty, giving you flexibility in your cash flow.</p> <p>This may be helpful for clients with seasonal workers or whose goals are related to ensuring employees are always paid on time even when clients do not pay them on time.</p> <p style="text-align: right;"><i>[Source: https://www.canstar.com.au/business-overdrafts/what-is-a-business-overdraft/]</i></p>

2.2 Recommended financial processes to implement within the next 12 months to help achieve the expectations, goals and objectives:

Expectation/Goal/Objective	Financial process to implement to help achieve this goal	Description
Increase profit in Sydney store by carrying no bad debts	Debt collection process	Ensuring your business has good cash flow and minimal exposure to debt is good financial practice. To manage your credit effectively it is

		<p>advisable to create policies and procedures relating to:</p> <ul style="list-style-type: none"> • terms and conditions for providing goods and/or services • invoicing and payments. <p>This will benefit Toll's Toys by improving cash flow.</p>
To plan and monitor the financial performance of the Brisbane retail store.	<p>i.</p> <p>Budgeting process</p>	<p>A budget allows you to understand your current situation and make projections. Compare forecasts to actual financial results to determine if you are over-spending or have created additional income.</p>

2.3 Taxation issues that will affect Toll's Toys as it expands its business to Queensland

Tax issue	Explanation
State or Territory payroll tax obligations	<p>Expanding business operations to Queensland means that business needs to understand its state government payroll tax implications</p> <p>https://www.business.qld.gov.au/running-business/employing/payroll-tax</p>
GST registration and Business Activity statement (BAS) reporting requirements	<p>The financial statements reflect no GST collected or GST paid accounts and the businesses current GST turnover is greater than \$75 000, they must register for GST and ensure that they are meeting the BAS reporting requirements.</p> <p>https://www.ato.gov.au/Business/GST/Registering-for-GST/</p>

Section 3: Recommendations

1. Use the equity in the business to obtain an overdraft facility to fund the start-up of the new retail store in Queensland
2. Promote and sell more products with the greatest profit margin (Activity Cube, 1000-piece colourful domino set and Wooden marble building blocks)
3. Reduce the current GST compliance risk by registering for GST and implement new accounting policies and procedures to ensure ongoing reporting requirements are met.