

The Right Finance Product for the Right Purpose

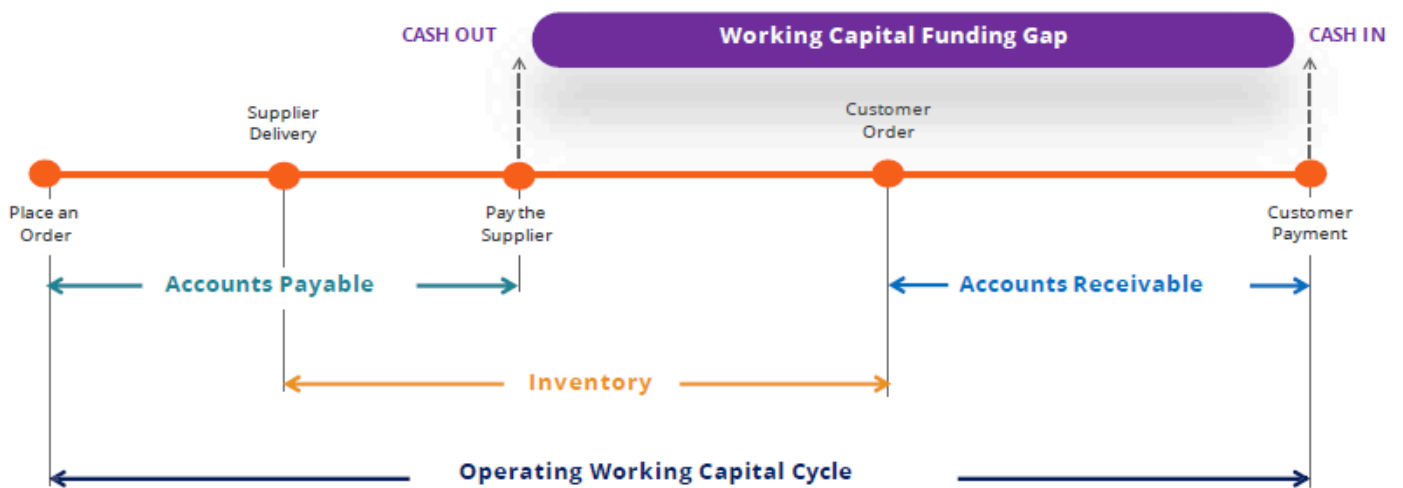
: Business Worksheet



Working Capital

"82% of small business failures are due to poor cash flow management. Understanding and aligning the right financial products with your business needs can secure your long-term success."

Calculating Your Working Capital Gap



Knowing your working capital funding gap helps you select the appropriate funding product for your business. The following steps can help you calculate your working capital gap.

Step 1: Enter the metrics for your business for the last financial year:

(a) Sales :	\$
(b) Cost of Goods Sold :	\$
(c) Inventory :	\$
(d) Debtors/Receivables :	\$
(e) Creditors/Payables :	\$

Step 2: Calculate Working Capital Days

(f) Debtor Days <i>How long, on average, it takes your customers to pay their invoices</i>	$\text{Debtor Days} = \left(\frac{\text{Receivables}}{\text{Sales}} \right) \times 365$
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$$(d) \$ \frac{\text{_____}}{\text{(Receivables)}} \quad / \quad (a) \$ \frac{\text{_____}}{\text{(Sales)}} \quad \times 365 \quad = \quad \text{_____ days}$$

(f) Debtor Days

(g) Inventory Days <i>How many days, on average, it takes for your business to sell its inventory</i>	$\text{Inventory Days} = \left(\frac{\text{Inventory}}{\text{COGS}} \right) \times 365$
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$$(c) \$ \frac{\text{_____}}{\text{(Inventory)}} \quad / \quad (b) \$ \frac{\text{_____}}{\text{(Cost of Goods Sold)}} \quad \times 365 \quad = \quad \text{_____ days}$$

(g) Inventory Days

(h) Payable Days <i>How many days, on average, it takes for your business to sell its inventory</i>	$\text{Payable Days} = \left(\frac{\text{Payables}}{\text{COGS}} \right) \times 365$
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$$(e) \$ \frac{\text{_____}}{\text{(Payables)}} \quad / \quad (b) \$ \frac{\text{_____}}{\text{(Cost of Goods Sold)}} \quad \times 365 \quad = \quad \text{_____ days}$$

(h) Payable Days

Step 3: Calculate the Working Capital Funding Gap

(f) Debtor Days	+	(g) Inventory Days	-	(h) Payable Days	=	(i) Working Capital Funding Gap
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$$(f) \text{ _____ } + (g) \text{ _____ } - (h) \text{ _____ } = \text{ _____ days}$$

(i) WC funding gap

Step 4: Calculate the Dollar Value of Your Working Capital Funding Gap

Working Capital Gap in Dollars

The total amount of funding your business would need to cover its working capital shortfall.

$$\left(\frac{\text{COGS}}{365} \right) \times \text{Working Capital Gap (Days)}$$

(b) \$ _____ (Cost of Goods Sold)	/ 365	X	_____ days (i) WC Funding Gap	=	\$ _____
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Working Capital Products

Once you have calculated your working capital gap, you can ascertain which working capital factor requires the funding. Then, you can choose the best facility for your business from the options below.

Facility Type	Purpose	Guidance
Business Overdraft	General working capital facility	Flexible debt for short-term working capital needs. Not tied to a specific purpose
Trade Finance	Purchase of inventory and raw inputs	Lending against supplier purchases. Used for financing inventory cycles, often paired with debtor finance.
Receivables/Debtor Finance	Bring forward cash owed to the business.	Enables quick scaling by taking the debtors as security, where lenders may be unwilling to provide a business overdraft.
R&D Funding	Lending against expected R&D Tax Refunds	This is for businesses that can claim R&D tax incentives. Helps with funding future innovation.
Cash	Most flexible funding source but provides no leverage.	Cash is the lifeblood of a business, so it should be managed carefully.

Capital Expenditure

Questions to ask when deciding on the right terms for your capital expenditure funding:

- What is the useful life of the asset being purchased?
- How long are we going to keep the asset?
- How do we plan to fund the asset purchase (Debt or Cash)
 - Debt:
 - Plan with the debt - maximise cash flow (interest-only) or day-pay debt levels (principal & interest)
 - Cash:
 - Does tying up cash in fixed assets limit other opportunities in the business that are not as easily financed? (dividend repayments, working capital, etc)

Capital Expenditure Products

Facility Type	Purpose	Guidance
Asset Finance (Finance Lease, Operating Lease, Chattel Mortgage)	Purchase of equipment, vehicles, or productive assets	Allows for alignment between debt term and the useful life of the asset, freeing up cash for other uses.
Term Loan	Longer-term facility for property/business acquisition	Ideal for long-term assets like property. Helps preserve cash flow for working capital or strategic growth.
Self Managed Super Fund Loan (SMSF)	Financing property purchases through a Self-Managed Super Fund.	Commonly used by business owners who want to purchase their own business premises through their SMSF, allowing them to pay rent to their own fund.

Summary

Working Capital:

Identify and calculate your working capital gap to select the right short-term funding product.

Capital Expenditure:

Align financing with the asset's useful life to preserve cash for other strategic purposes, such as paying dividends or funding growth.