



*Managing and  
Improving Cash Flow*

# Profit & loss

Patent Attorney Pty Ltd  
Not so smart  
Income statement  
For the year ended 30 June 2011

	Notes	2011 \$
<b>Revenue from continuing operations</b>		
Services	5	<u>3,050,000</u>
		3,050,000
<b>Expenses</b>		
Cost of providing services		(1,400,000)
Other expenses from ordinary activities		
Distribution		(115,000)
Marketing		(25,000)
Occupancy		(400,000)
Administration		(225,000)
Other		<u>(85,000)</u>
Expenses, excluding finance costs		<u>(2,250,000)</u>
Results from operating activities		800,000
Finance costs	7	<u>(15,000)</u>
<b>Profit before income tax</b>		785,000
Income tax expense	8	<u>(235,500)</u>
Profit from continuing operations		549,500
Profit from discontinued operations		<u>-</u>
<b>Profit for the year</b>		<u>549,500</u>

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

# Balance sheet

Patent Attorney Pty Ltd  
Not So Smart  
Balance sheet  
As at 30 June 2011

	Notes	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	9,880	12,880
Trade and other receivables	10	392,043	250,000
WIP	11	<u>134,247</u>	<u>73,973</u>
Total current assets		<u>536,170</u>	<u>336,853</u>
<b>Non-current assets</b>			
Held-to-maturity investments		56,000	36,000
Property, plant and equipment	18	292,000	212,000
Intangible assets	20	<u>52,000</u>	<u>52,000</u>
Total non-current assets		<u>400,000</u>	<u>300,000</u>
<b>Total assets</b>		<u>936,170</u>	<u>636,853</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	21	84,384	88,151
Derivative financial instruments	13	-	12,000
Other financial liabilities	23	1,320	2,350
Current tax liabilities	25	32,000	22,000
Provisions	24	14,000	23,000
Other liabilities	26	<u>43,000</u>	<u>40,650</u>
Total current liabilities		<u>174,704</u>	<u>188,151</u>
<b>Non-current liabilities</b>			
Borrowings	27	274,000	90,000
Non-interest bearing liabilities	28	<u>40,000</u>	<u>40,000</u>
Total non-current liabilities		<u>314,000</u>	<u>130,000</u>
<b>Total liabilities</b>		<u>488,704</u>	<u>318,151</u>
<b>Net assets</b>		<u>447,466</u>	<u>318,702</u>
<b>EQUITY</b>			
Contributed equity	31	5,000	5,000
Reserves	32	20,000	20,000
Retained earnings	32	<u>422,466</u>	<u>293,702</u>
Total equity		<u>447,466</u>	<u>318,702</u>

The above balance sheet should be read in conjunction with the accompanying notes.

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**What is missing**

***Free cash flow?***

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## ***Problems with financial statements***

- Profit & loss is an opinion
- Balance sheet is not generally understood or managed properly
- No visibility to free cash generation
- Dividend decisions based on profit not cash flow

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## ***Problems with financial statements***

- Debt financing decisions based on the wrong information
- In many cases they do not help to manage the business effectively
- There is no measure of economic value added

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***Owners measure and manage profit, but they don't  
measure and manage cash flow.***



Patent Attorney Pty Ltd

Not so smart

1 Jul 2010 to 30 Jun 2011

PROFIT & LOSS - OUTPUT									
GP 54.10%	Revenue	3,050,000	Gross Profit	1,650,000	Net Profit after Tax	549,500	Return on Capital		
Interest 7.12%	Variable COGS	1,400,000	Less: Fixed Expenses	850,000	Extraordinaries	0	183.56%		
Tax 30.00%	Contribution	1,650,000	Less: Variable Expenses	0	Net Income	549,500	Cost of Capital		
DAYS: 365.00	Fixed COGS	0	Plus: Sundry Income	0	Staff Profit Share		25.00%		
Debtor days: 42.65			<b>EBIT</b>	<b>800,000</b>	Contributions/(Drawings)	-420,736	Profitability		
Creditor days: 20.00			Interest	15,000	Movement in Equity (for the period)	128,764	26.23%		
WIP days: 35.00			Tax	235,500			Economic Profit		
Working Capital 11.53%							\$691,045		
							Free Cash Flow		
							\$233,736		
							Cash Payout %		
							180.00		
							Debt to Capital		
							40.46%		

  

CAPITAL - INPUT					PROFIT TO CASH	
	Opening	Movement	Closing			
WIP	73,973	60,274	134,247	Net Income	549,500	
Trade Debtors	250,000	142,043	392,043	Change in Working Capital	215,764	
Sundry Assets	0	0	0	Change in Fixed Assets	100,000	
<b>Less:</b> Trade Creditors	88,151	-3,767	84,384	Free Cash flow	233,736	
<b>Less:</b> Sundry Liabilities	100,000	-9,680	90,320	Contributions/(Drawings)	-420,736	
<b>Equals (=) V.Cap</b>	<b>135,822</b>	<b>215,764</b>	<b>351,586</b>	Net Cash Flow	-187,000	
<b>Plus:</b> Fixed Assets	300,000	100,000	400,000			
<b>Equals (=) Total Capital</b>	<b>435,822</b>	<b>315,764</b>	<b>751,586</b>			

  

FUNDING				
	Opening	Movement	Closing	
Net Debt	117,120	187,000	304,120	
Equity	318,702	128,764	447,466	
Other	0			
<b>Total</b>	<b>435,822</b>	<b>315,764</b>	<b>751,586</b>	







Patent Attorney Pty Ltd

Smart

1 Jul 2010 to 30 Jun 2011

		PROFIT & LOSS - OUTPUT							
GP 54.10%	Revenue	3,050,000	Gross Profit	1,650,000	Net Profit after Tax	557,000	Return on Capital		
	Variable COGS	1,400,000	Less: Fixed Expenses	850,000	Extraordinaries	0	183.56%		
	Contribution	1,650,000	Less: Variable Expenses	0	Net Income	557,000			
Interest 7.34%	Fixed COGS	0	Plus: Sundry Income	0	Staff Profit Share				
			<b>EBIT</b>	<b>800,000</b>	Contributions/(Drawings)	-424,736	Cost of Capital		
			Interest	7,500	Movement in Equity (for the period)	132,264	25.00%		
			Tax	235,500					
		CAPITAL - INPUT			PROFIT TO CASH				
		<b>Opening</b>	<b>Movement</b>	<b>Closing</b>					
	WIP	73,973	41,096	115,069	Net Income	557,000	Profitability		
	Trade Debtors	250,000	96,084	346,084			26.23%		
	Sundry Assets	0	30,084	30,084			Economic Profit		
Debtor days: 37.65	<b>Less:</b> Trade Creditors	88,151	165,000	253,151			\$691,045		
	<b>Less:</b> Sundry Liabilities	100,000	0	100,000					
	<b>Equals (=) W.Cap</b>	<b>135,822</b>	<b>2,264</b>	<b>138,086</b>	Change in Working Capital	2,264	Free Cash Flow		
Creditor days: 60.00	<b>Plus:</b> Fixed Assets	300,000	100,000	400,000	Change in Fixed Assets	100,000	\$454,736		
	<b>Equals (=) Total Capital</b>	<b>435,822</b>	<b>102,264</b>	<b>538,086</b>	Free Cash flow	454,736	Cash Payout %		
WIP days: 30.00							93.40		
Working Capital 4.53%					Contributions/(Drawings)	-424,736	Debt to Capital		
					Net Cash Flow	30,000	16.19%		
		FUNDING							
		<b>Opening</b>	<b>Movement</b>	<b>Closing</b>					
	Net Debt	117,120	-30,000	87,120					
	Equity	318,702	132,264	450,966					
	Other	0							
	<b>Total</b>	<b>435,822</b>	<b>102,264</b>	<b>538,086</b>					



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***Questions???***

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