

February 1, 2009

Newsletter

E-mail dutch@brrinc.org if you would like to receive notices of new newsletters.

"SINKING FUND" PURCHASING

1. The use of a "sinking fund" to buy equipment is more common in accounting and business textbooks or the balance sheets of very large corporations than it is for smaller businesses.
2. But it is a good idea.
3. In simple terms, "You make more money by saving up to buy equipment than making a loan to buy it."
4. Here's an example of why this is true:
 - a. You can buy equipment for \$60,000.00.
 - b. It will increase profit by \$3,000.00 per month.
 - c. If you make a three-year loan at 10%, the monthly note will be \$2,079.92.
 - d. The machine will last ten years before having to replace it.
 - e. This is what will happen.

Year	income	note	you make
1	36,000.00	24,959.04	11,040.96
2	36,000.00	24,959.04	11,040.96
3	36,000.00	24,959.04	11,040.96
4	36,000.00	paid off	36,000.00
5	36,000.00		36,000.00
6	36,000.00		36,000.00
7	36,000.00		36,000.00
8	36,000.00		36,000.00
9	36,000.00		36,000.00
10	36,000.00		36,000.00

In ten years this equipment makes 285,122.88

or

- a. You can set aside \$1,548.25 a month and deposit into a savings account that is paying 5% interest.
- b. Wait three years until the \$1,548.25 a month becomes the \$60,000.00 you need to purchase the machine.
- c. Since you wait three years to buy the machine, we have to look at 13 years.

Year	income	note	you make
		18,579.00	(18,579.00)
		18,579.00	(18,579.00)
		18,579.00	(18,579.00)
1	36,000.00		36,000.00
2	36,000.00		36,000.00
3	36,000.00		36,000.00
4	36,000.00		36,000.00
5	36,000.00		36,000.00
6	36,000.00		36,000.00
7	36,000.00		36,000.00
8	36,000.00		36,000.00
9	36,000.00		36,000.00
10	36,000.00		36,000.00
In ten years this equipment makes			304,263.00
The difference is			19,140.12

5. This may or may not seem significant to you. If it does not, then consider combining this technique with other profit-oriented techniques. Taken together, these can make a huge difference in your business.

Dutch Hawkins
Business Resources & Reports, Inc