

Financial Statements

Know Your Numbers

Why Should I Care?



Financial Statements

THE **WHY** SHOULD I CARE – THE ANSWER

YOU CAN NOT SUCCEED IF YOU DO NOT- KNOW YOUR NUMERS

1. Have **GOOD** financial statements
 - A. Timely
 - B. Accurate
 - C. Segregated into appropriate categories of information
2. Know how to read them and make **GOOD CHOICES**
3. **You can only improve what you measure!**



Financial Statements

- The Financial Statements are your **scorecard**
- A representation of the activity creating transactions in an organization and their results
- Tells both the current standing (Balance Sheet)
- And the net activity for a period of time (Income Statement)
- Shows the result of planning, creating strategies, and executing tactics related to the business model
- Discloses the results of satisfying perceived needs in the market
- Can tell where changes need to be made
- Proves the Value of the business over time





Your Catalyst

△ You can only IMPROVE what You
Measure

Balance Sheet

- The Balance Sheet = a Statement of POSITION as of a date in time.
- Shows the ASSETS of an organization
- Plus the LIABILITIES AND OWNERS' EQUITY
- Assets always EQUAL Liabilities and Owners' Equity
- There is always detail to support every BALANCE account
- Net Income is the final balancing amount
- Often “Compared” to prior year for same date

Balance Sheet- Assets

Company Name			
Balance Sheet			
As of December, 31			
		<u>Current Year</u>	<u>Prior Year</u>
ASSETS			
Current Assets			
	Checking/Savings	\$ 22,000	\$ 19,000
	Marketable Securities	\$ 55,000	\$ -
	Accounts Receivable	\$ 275,000	\$ 224,000
	Inventory	\$ 750,000	\$ 600,000
	Prepaid Expense	\$ 15,000	\$ 1,000
	Total Current Assets	\$ 1,117,000	\$ 844,000
Fixed Assets			
	Office Equipment	\$ 50,000	\$ 45,000
	Vehicles	\$ 75,000	\$ 65,000
	Equipment	\$ 225,000	\$ 200,000
	Building	\$ 750,000	\$ 750,000
	Accumulated Depreciation	\$ (200,000)	\$ (250,000)
	Total Fixed Assets	\$ 900,000	\$ 810,000
	TOTAL ASSETS	\$ 2,017,000	\$ 1,654,000



Balance Sheet- Assets

- Current Assets = Cash and items convertible to cash in the normal operating cycle (typically 1 year)
- Fixed Assets = Investment in assets used in the business with a longer term useful life.
- Accumulated Depreciation = Reasonable charge of Fixed Assets to Expense as they are used
- Other Assets like due from owners or employees

Balance Sheet- Liab. & Equity

LIABILITIES & EQUITY			
Current Liabilities			
	Accounts Payable	\$ 525,000	\$ 400,000
	Credit Cards	\$ 15,000	\$ 12,000
	Accrued Expenses	\$ 35,000	\$ 33,000
	Taxes Payable	\$ 25,000	\$ 20,000
	Line of Credit	\$ 125,000	\$ 150,000
	Total Current Liabilities	\$ 725,000	\$ 615,000
Long Term Liabilities			
	Notes Payable- Equipment	\$ 225,000	\$ 275,000
	Mortgage Payable	\$ 510,000	\$ 550,000
	Total Long Term Liabilities	\$ 735,000	\$ 825,000
	Total Liabilities	\$ 1,460,000	\$ 1,440,000
Equity			
	Invested capital	\$ 100,000	\$ 100,000
	Retained Earnings- Prior Years	\$ 114,000	\$ 100,000
	Net Income- Current Year	\$ 343,000	\$ 14,000
	Total Equity	\$ 557,000	\$ 214,000
	TOTAL LIABILITIES & EQUITY	\$ 2,017,000	\$ 1,654,000



Balance Sheet- Liab. & Equity

- Current Liabilities = Amounts that will be paid in the normal operating cycle
- Long Term liabilities = Amounts due over a longer time (2 or more years)
- Owners' Equity = Investment in the business by the owners; includes retained earnings over time



Your Catalyst

△ Follow your LIQUIDITY over time

LIQUIDITY = Current Assets (less prepaid expenses and inventory)
Minus Current Liabilities

Its more relevant than cash balances!

Income Statement

- The income Statement is for a PERIOD OF TIME, a month, a quarter of a year, a year
- It starts all over for the next period of time
- It measures transactional activity
- It includes categories for SALES, COST OF SALES, AND OPERATING EXPENSES

Income Statement - Revenue

Company Name			
Income Statement			
For the Years Ended December, 31			
		<u>Current Year</u>	<u>Prior Year</u>
Sales			
Line of Business 1		\$ 2,500,000	\$ 2,200,000
Line of Business 2		\$ 1,300,000	\$ 1,000,000
Discounts		\$ (40,000)	\$ (60,000)
Total Sales		\$ 3,760,000	\$ 3,140,000



Income Statement - Revenue

- Income from operating activity
- Like to show Lines of business
- Like to show discounts- helps to manage margins!



Your Catalyst

△ Record **DISCOUNTS** given and why

SMEs give away much more margin than they realize!

Discounts rob the bottom line, unless part of a pricing **STRATEGY!**

Income Statement- COS

Cost of Sales		
Direct Cos of Sales		
Line of Busienss 1		
Payroll	\$ 1,000,000	\$ 900,000
Materials	\$ 400,000	\$ 350,000
Other	\$ 30,000	\$ 25,000
Total Line of Business 1	\$ 1,430,000	\$ 1,275,000
Line of Busienss 2		
Payroll	\$ 250,000	\$ 225,000
Materials	\$ 300,000	\$ 275,000
Other	\$ 50,000	\$ 45,000
Total Line of Business 2	\$ 600,000	\$ 545,000
Indirect Cost of Sales		
Rent	\$ 120,000	\$ 120,000
Equipment repairs	\$ 80,000	\$ 95,000
Other	\$ 20,000	\$ 25,000
Total Indirect Cost of Sales	\$ 220,000	\$ 240,000
Total Cost of Sales	\$ 2,250,000	\$ 2,060,000
Gross Profit	\$ 1,510,000	\$ 1,080,000
Gross Profit %	40.2%	34.4%



Income Statement- COS

- Direct costs to make sales
- Show by line of business so see the margins being generated
- Other indirect costs to make sales



Your Catalyst

▲ YOUR BIGGEST LEVER TO SUCCESS

MARGINS- GROSS PROFIT AND GP%

Proper recording of the costs to make a sale gives valuable data to improve

PROFIT and the
VALUE OF THE BUSINESS!



Income Statement- Expenses

Operating Expenses		
Development Expenses		
Technology	\$ 50,000	\$ 40,000
Payroll	\$ 75,000	\$ 45,000
Total Development	\$ 125,000	\$ 85,000
Development %		<u>3.3%</u> <u>2.7%</u>
Marketing Expenses		
Marketing production	\$ 120,000	\$ 110,000
Marketing placement	\$ 240,000	\$ 230,000
Total Marketing	\$ 360,000	\$ 340,000
Marketing %		<u>9.6%</u> <u>10.8%</u>
Sales Expenses		
Payroll	\$ 60,000	\$ 60,000
Commissions	\$ 120,000	\$ 100,000
Total Sales	\$ 180,000	\$ 160,000
Sales %		<u>4.8%</u> <u>5.1%</u>
General & Administrative Expenses		
Payroll	\$ 300,000	\$ 275,000
Payroll taxes	\$ 23,000	\$ 22,000
Benefits	\$ 45,000	\$ 42,000
Rent	\$ 60,000	\$ 60,000
Utilities	\$ 20,000	\$ 20,000
Supplies	\$ 10,000	\$ 12,500
Bank charges	\$ 6,000	\$ 6,000
Technology	\$ 9,000	\$ 15,000
Taxes	\$ 8,000	\$ 7,500
Licenses	\$ 4,000	\$ 4,000
Other	\$ 2,000	\$ 2,000
Total G & A	\$ 487,000	\$ 466,000
G & A %		<u>13.0%</u> <u>14.8%</u>
Total Operating Expenses	\$ 1,152,000	\$ 1,051,000



Income Statement- Expenses

- All the costs of running the business
- Like to segregate by major decision making sections
- Development; Marketing; Sales and Overhead
- Shows how the company gets prospects; makes sales; and ultimately makes money!



Your Catalyst

△ You MUST know

- △ Cost to acquire a quality prospect- marketing
- △ Cost to make a sale
- △ Monthly nut- overhead

Income Statement- Other

Other			
Interest Expense		\$ 20,000	\$ 18,000
Interest Income		\$ (5,000)	\$ (3,000)
Total Other		\$ 15,000	\$ 15,000
Net Income Before Taxes		\$ 343,000	\$ 14,000



Income Statement

- Income for the period is the Balancing amount for Balance Sheet in equity section
- If an LLC taxes are paid at owner level



Your Catalyst

▲ You MUST

KNOW YOUR NUMBERS!

