

Reviewing Financial Statements

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**Reviewing Financial Statements-
Not Just Number Crunching, it is**

MUCH MORE!

Reviewing Financial Statements

WHY?

Reasons to Review FS

1. Business Planning

- What is our Business Model; How do we make \$\$
- Where have we been, ? Rhythms of change

2. Credit Analysis

- What will the banks think?
- How will we finance our needs?

3. Investment and Value Analysis

4. Continuous Improvement Process

5. Risk Analysis

6. Performance Review





Your Catalyst

▲ We Must know truth to make good choices!

Knowing Today is Important

Truth?

Best

Typical



Your Catalyst

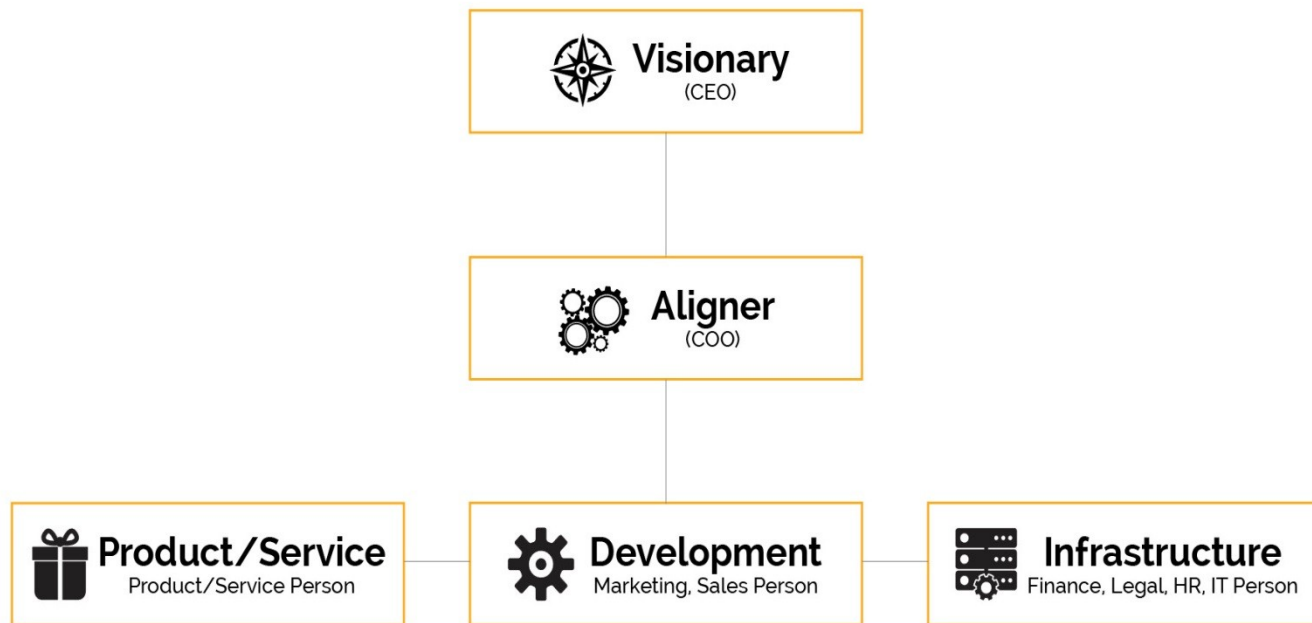
▲ To be worthwhile, FS must be

- 1. Accurate (truth),**
- 2. Fairly Presented and**
- 3. Timely**

12 Questions to Ask

ENTERPRISE - BASIC RESPONSIBILITY STRUCTURE (BRS)

Core Enterprise Leadership Team



12 Questions to Ask

Product or Service

1. What is your product or service?
2. Customer Segments- What customer groups are you serving?
3. Value Proposition – How are you solving your Customer Segments Felt or Unfelt Needs in a unique way?
4. Revenue Streams- How do you price and successfully offer your value proposition to customers?

12 Questions to Ask

Development:

5. How do you Find leads from the marketplace?
6. What are your marketing Channels?
7. How do you move leads through your sales funnel as quickly as possible?
8. How do you communicate your unique value proposition to prospects to get a new customer; and then how do you sell more to these customers?

12 Questions to Ask

Infrastructure:

9. How do you get important things done in an efficient manner?
10. How do you report results in a way to make decision making EASY?
11. How are you developing your inspired workforce?
12. How do you handle all the regulatory issues?

Balance Sheet

- As of a Date
- Balances of Assets to Liabilities and Owners Equity
- Always Balances with Net Income for the period

Balance Sheet- Current Assets

Company Name
Balance Sheet
For the Years Ended 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



Balance Sheet – LT Assets

Fixed Assets	<u>Current Year</u>	<u>Prior Year</u>
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- Liabilities

LIABILITIES & EQUITY	<u>Current Year</u>	<u>Prior Year</u>
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



Balance Sheet- Equity

Equity	<u>Current Year</u>	<u>Prior Year</u>
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

Income Statement

- For a Period of Time
 - Monthly (month ended)
 - Annual (year ended)
- Operational Activity
 - Sales
 - Cost of Sales
 - Expenses
 - Net Income before and after taxes



Your Catalyst

- ▶ **Only include the detail in your financials that is at a level you will make a choice from this info**

Income Statement - Sales

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- Direct COS

Cost of Sales	<u>Current Year</u>	<u>Prior Year</u>
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



Income Statement – Indirect COS

Indirect Cost of Sales	<u>Current Year</u>	<u>Prior Year</u>
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 %	<u>40.2%</u>	<u>34.4%</u>



Income Statement- Development

Operating Expenses	<u>Current Year</u>	<u>Prior Year</u>
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>



Income Statement- Overhead

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- Other

	<u>Current Year</u>	<u>Prior Year</u>
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



Your Catalyst

- ▶ **See Rhythm; Seasonality; and Highlight errors by looking at trailing 13 months**