FINANCIAL STATEMENT MANAGEMENT

•WELCOME

PRESENTER INTRODUCTION

- Steph Albano
- Hatched Concepts, LLC
- Previously served as a Financial Analyst, Director of Distribution Center Operations, National Marketing Roles, and owned businesses of my own.
- Enjoy working with small business to ensure growth and profitability.
- Please feel free to ask questions and participate in today's conversation.

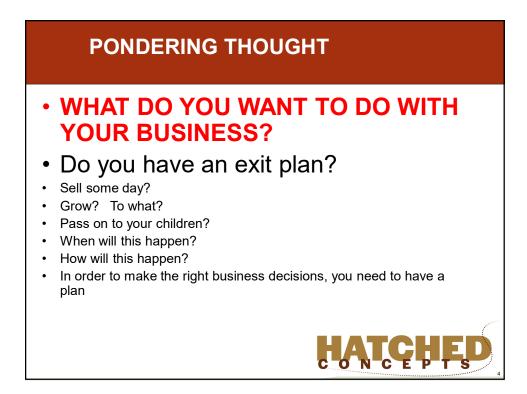


HATCH

INTRODUCTION

- An accurate financial statement package provides you with the tools to assess the financial health of your business
- Just as a doctor uses observation and diagnostic tools, you need to use your financial statements to monitor your business performance.
- In this seminar, you will learn how to use the statements to inform your business decisions.

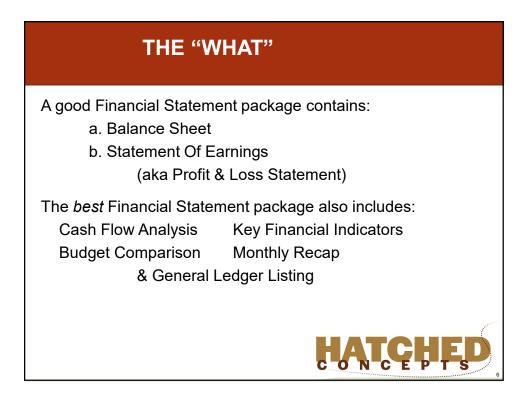


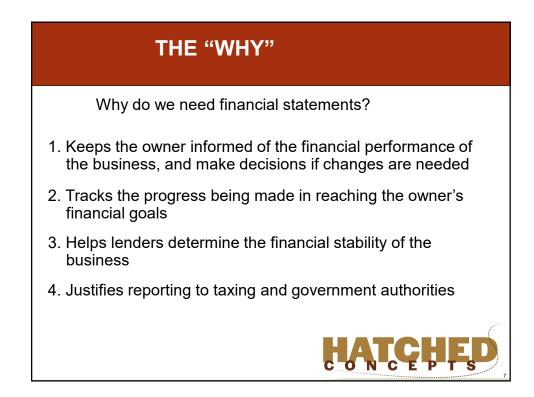


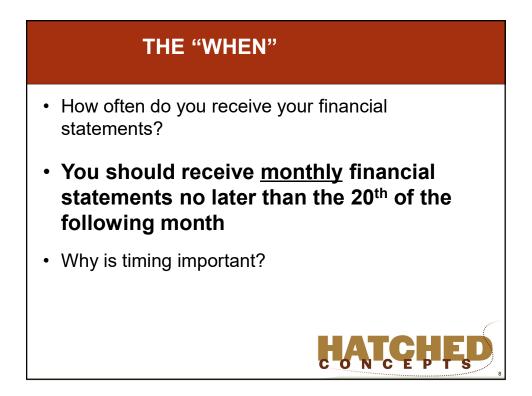
GETTING TRAPPED

- Dick and Jane (their real names) made short term decisions that haunted them in the long term:
- Intentionally understated inventory
- At sale, would have to recognize gains
- In the long term, were in a higher tax bracket









THE BALANCE SHEET

 The Balance Sheet is a statement of Assets, Liabilities, and subsequent Net Worth as of a certain date

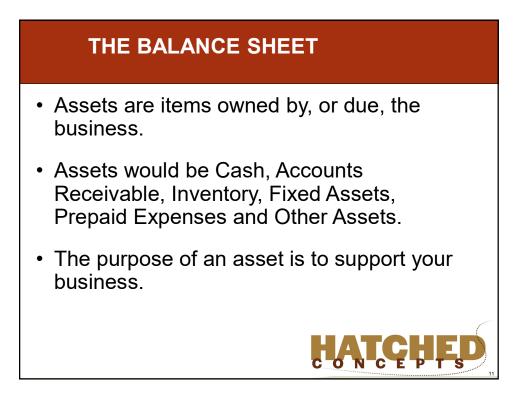
(Net Worth is also known as Equity)

The Balance Sheet is a statement as to Where You Are, as of that date

(Think of the Equity vs balance owned on your home)



THE BALANCE SHEET		
THE BALANCE SHEET		
ASSETS	\$400,000	
LIABILITIES	\$300,000	
NET WORTH/EQUITY INVESTMENT CURRENT PROFIT	\$75,000 _ <u>25,000</u> _ <u>\$100,000</u>	
TOTAL LIABILITIES AND NET WORTH\$400,000		
	HATCHED	

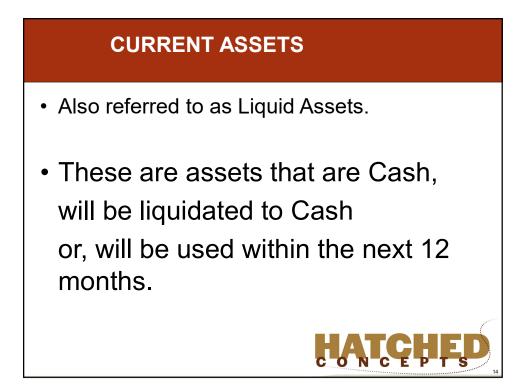




THE BALANCE SHEET

- Asset reporting on the Balance Sheet should be done in order of liquidity.
- Assets should be segregated into three categories.





FIXED ASSETS

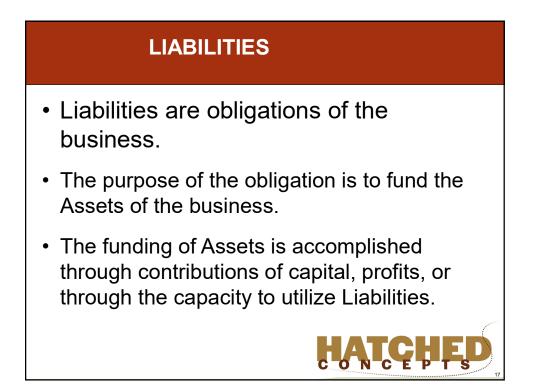
- Fixed Assets are assets having an extended life, used to support the business, and not acquired with the intent of resale.
- Fixed Assets are generally depreciable in value.

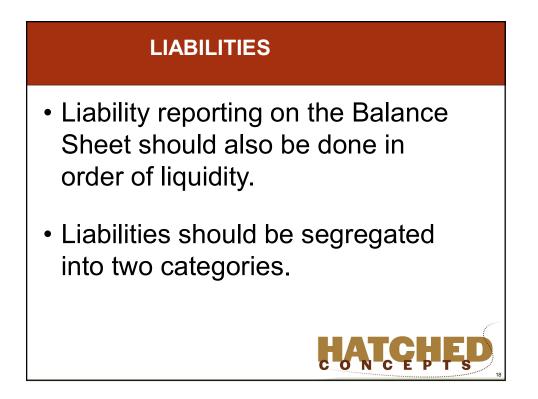


OTHER ASSETS

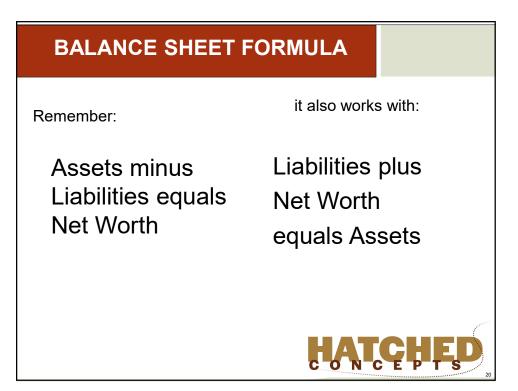
- Other Assets are those assets that do not qualify as a Current Asset (will not be used or liquidated within the next 12 months), or as a Fixed Asset.
- Examples would include Deposits for Rent or Utilities, Investment in another business, Goodwill, Non-Compete Agreements, etc.

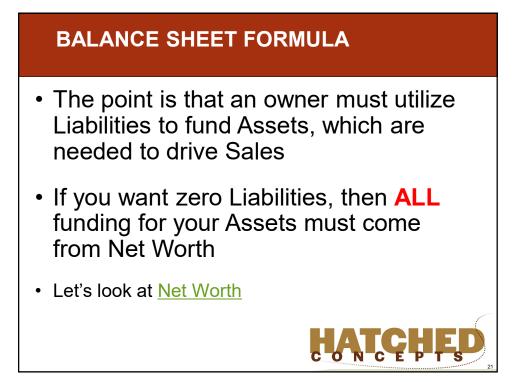


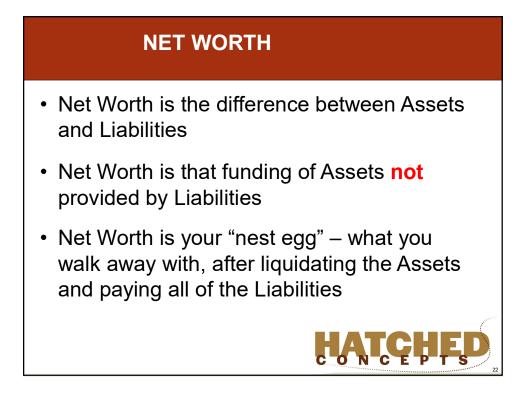


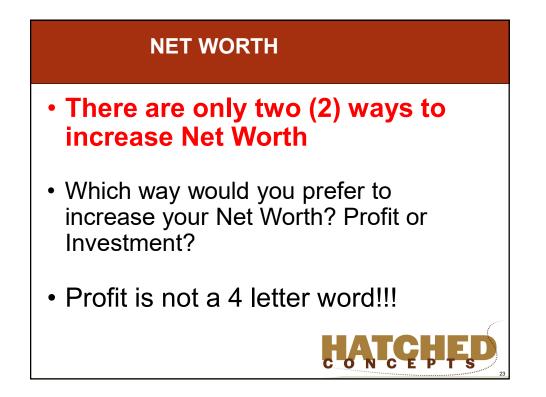


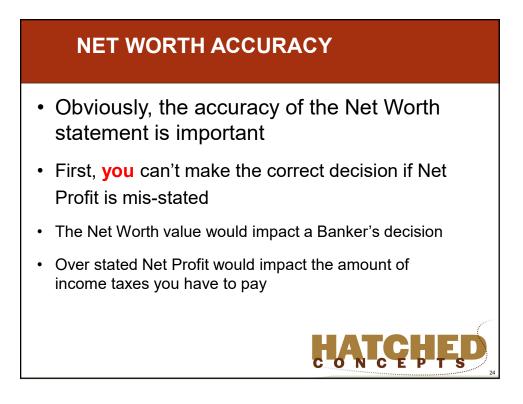
LIABILITIES Current Liabilities are those liabilities that are to be paid within the next 12 months. Long Term Liabilities are those liabilities that are to be paid in 13 months and longer.











NET WORTH ACCURACY

The decisions you want to make, if you plan to sell your business, might be very different than the decisions you would make if you are going to "gift" the business to your children, and very different if your plan is to be in business for many more years.



CURRENT ASSET ACCOUNTS

- From ground level, let's examine some of the accounts, starting with Cash On Hand and Cash In Bank. Are you reconciling these to ensure accuracy each month?
- The purpose of Accounts Receivable is to support Sales.
- How would you know this is an accurate number?

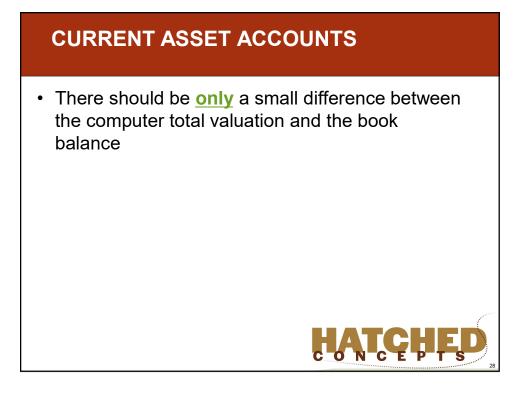
Are your accounts current and collectable?



CURRENT ASSET ACCOUNTS

- Inventory might be your largest investment, therefore requires the utmost in management:
 - a. Performing Classifications on schedule
 - b. Having a firm policy on Special Orders
 - d. Proper accounting of consigned merchandise
- How would you know this is an accurate number?

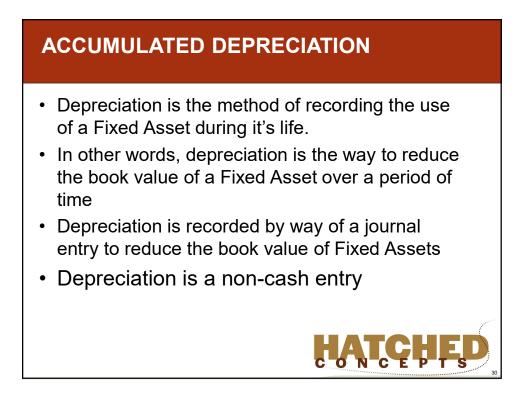


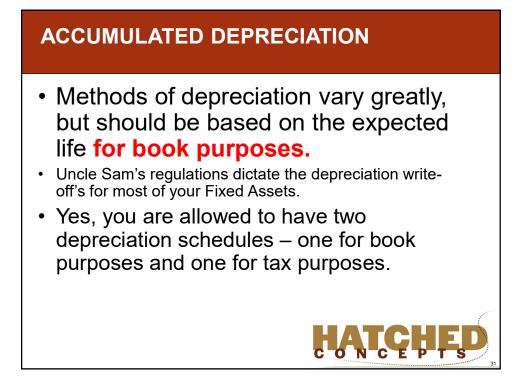


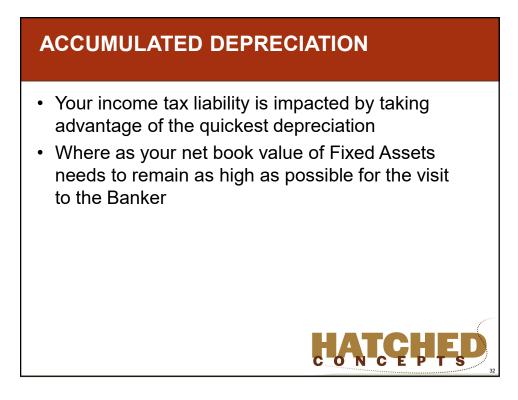
FIXED ASSET ACCOUNTS

- The management of Fixed Assets is as important as any other type of asset
- Best practice would be to do an annual inventory to make sure the book amount is accurate
- After all, it affects your property tax, income tax, and statement of Net Worth









OTHER ASSETS

- Other Assets are those assets that do not qualify as a Current Asset, or as a Fixed Asset
- Examples would include Deposits for Rent or Utilities, Investment in another business, Goodwill, Non-Compete Agreements, etc.





- Now, let's look at the second page of the Balance Sheet
- Notes Payable amounts should closely proximate the amount of principal to be paid in the next 12 months.
- This is not the total owed on a loan.



PAYABLES AND ACCRUALS

• **Payroll Taxes Payable** should represent the business' liability for payroll taxes and withholding not yet paid.

This includes the employee and employer share.

• <u>Sales Tax Payable</u> should be the amount of sales taxes collected and owed.

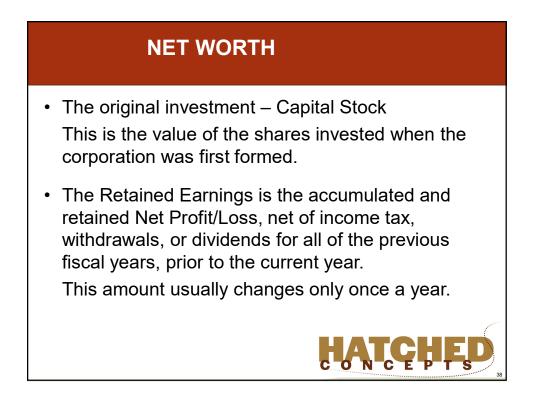


ACCRUED EXPENSES

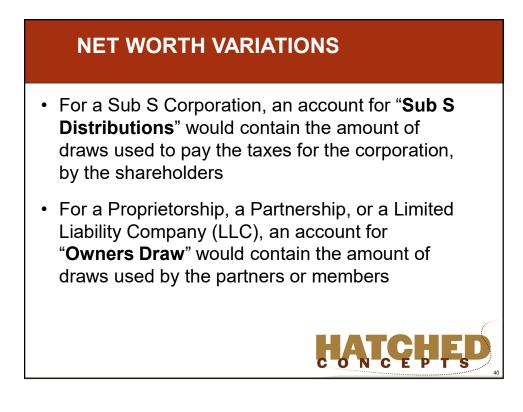
- <u>Accrued Expenses</u> is the recognition of amounts (often an approximation) for an expense owed, but for which an invoice or bill has not been received (Think of the opposite of a Prepaid).
- Examples: Accrued Payroll – month-end is Wed., P/R is on Friday Accrued Property Tax – billed at the end of the year

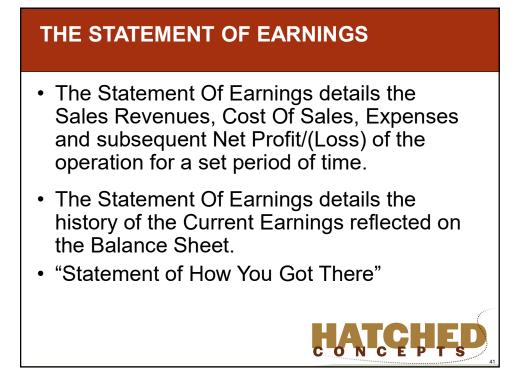


NET WORTH• The Net Worth section will vary by type of business entity • The Net Worth section will be comprised of at least 3 components:

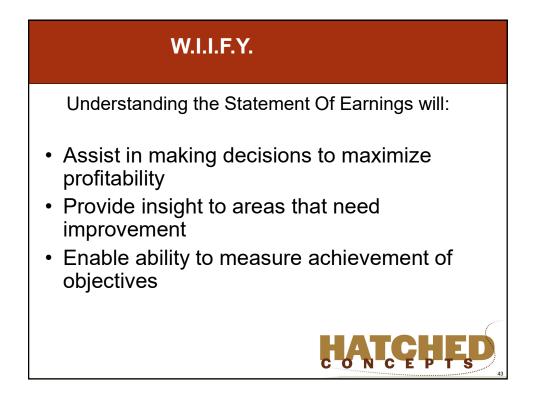


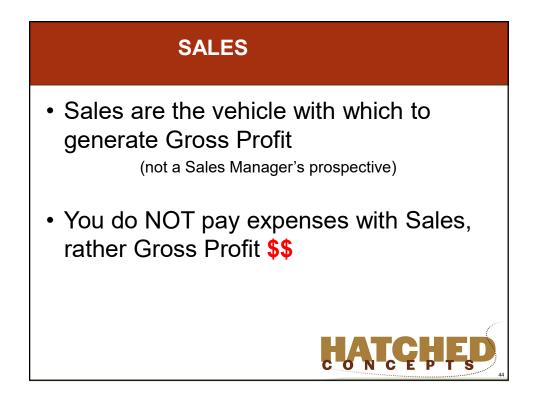
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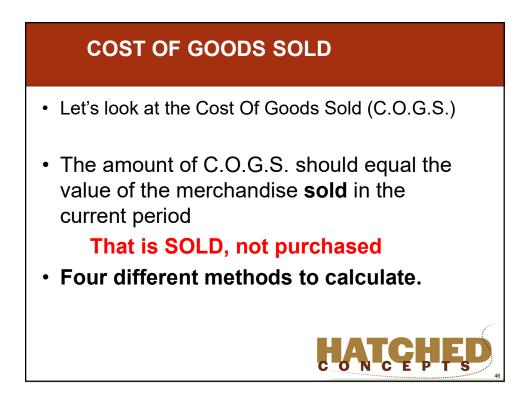


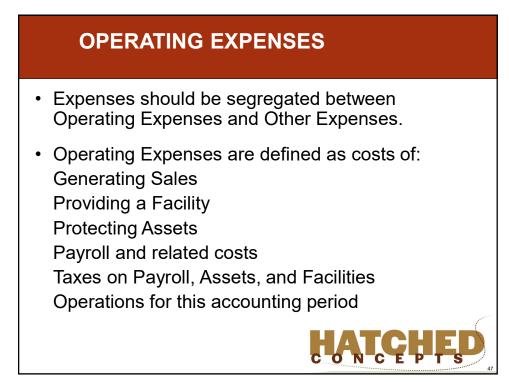
THE STATEMENT OF EARNINGS		
THE STATEMENT OF EARNINGS		
SALES	\$300,000	
COST OF GOODS SOLD	<u>200,000</u>	
GROSS PROFIT	\$100,000	
EXPENSES	<u>75,000</u>	
CURRENT PROFIT	\$ 25,000	

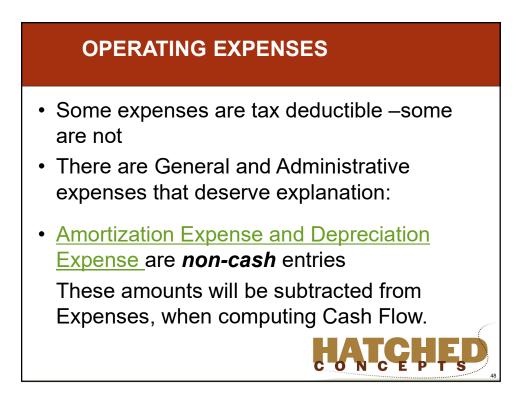












CASH FLOW ANALYSIS

"My Statement Of Earnings reports that I have made \$50,000 in Net Profit this year, but I look in my check book, and it is not there."

The Cash Flow Analysis report can show you what has used, or provided, the cash for the period being reported.



CASH FLOW ANALYSIS

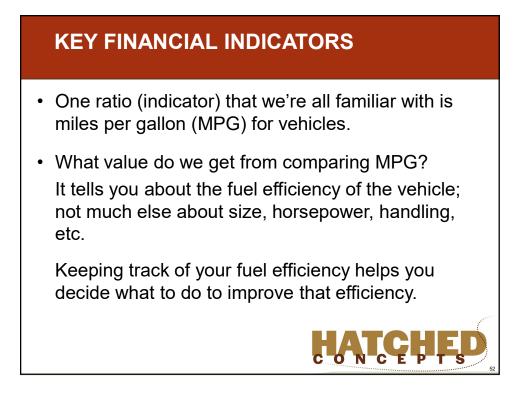
- A Cash Flow Analysis report is necessary to an owner to identify where your cash is being tied up due to increases in Asset base, or the decreases in Liabilities
- If your Asset Base growth out paces the available cash, then cash flow will be impacted



TAKING ACTION

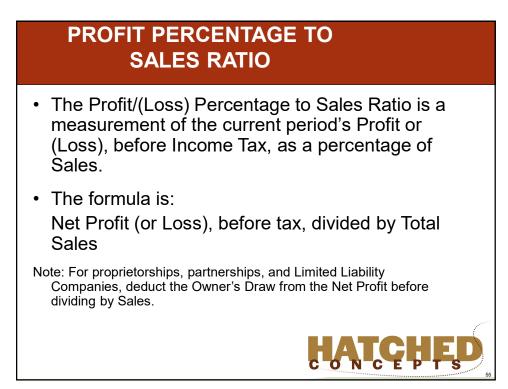
- You have ascertained what is providing and/or using your cash; now what do you do?
- Evaluate the course of action:
- a. Is your Net Profit adequate?
- b. Do your Accts. Rec. collections need improvement?
- c. Is your Inventory level where it should be?
- d. Is your Equity sufficient?
- e. Is it time to review financing opportunities?











PROFIT PERCENTAGE TO SALES REMEDIES

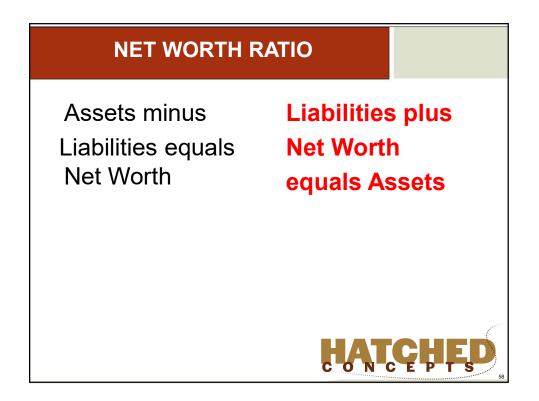
- When the ratio does not meet the target, you will need to implement this remedy:
- INCREASE NET PROFIT
- There are only 3 courses of action:
- 1. Increase the Gross Profit margin on existing Sales
- 2. Increase Sales
- 3. Reduce Expenses

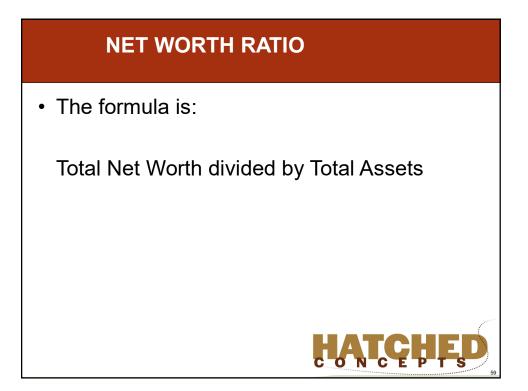


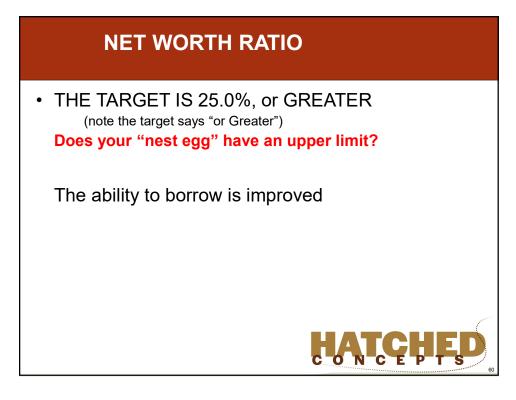
NET WORTH RATIO

- The Net Worth Ratio is a measurement of the Asset base funding contributed by Net Worth, versus the funding by Liabilities
- This ratio is the 1st thing a Banker examines
- This ratio compares the Total Net Worth to the Total Assets
- Remember the Balance Sheet formula?









NET WORTH RATIO

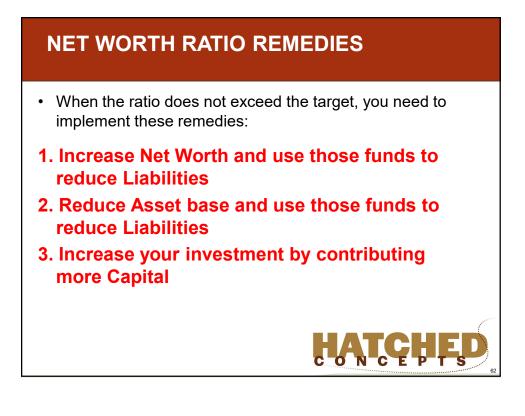
• If below the target:

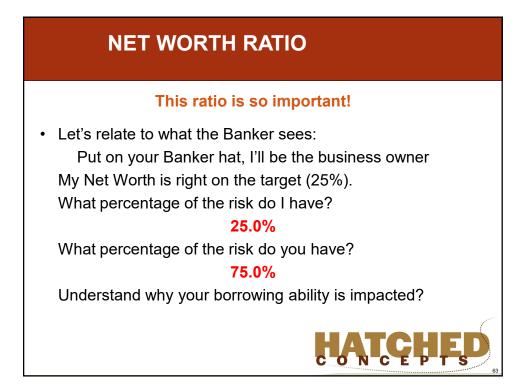
There is an inability to grow the Asset Base, which limits ability to grow sales, generate profit, etc.

Cash Flow pressure will be high if the Net Profit is marginal.

Or, if Sales and Revenues decline due to seasonality or economic conditions.







ACCOUNTS RECEIVABLE CURRENCY

- This ratio measures the portion of the Accounts Receivable balance that is the result of the current month's Charge Sales
- The formula is:

This Month's Charge Sales divided by Accounts Receivable



ACCOUNTS RECEIVABLE CURRENCY

- THE TARGET IS 85.0%, or GREATER (note the target says "or Greater")
- The lack of collections is affecting Cash Flow.



ACCOUNTS RECEIVABLE CURRENCY REMEDIES

- When the ratio for Accts. Rec. Currency does not meet the target, you may want to implement these remedies:
- <u>Credit policies</u> must be instituted and enforced
- Be strict on credit limits
- Offer a prompt payment discount
- · Assess a Finance Charge for late payments
- · Instigate weekly payment for slow paying accounts

Improve your collection efforts



GROSS PROFIT PERCENTAGE RATIO

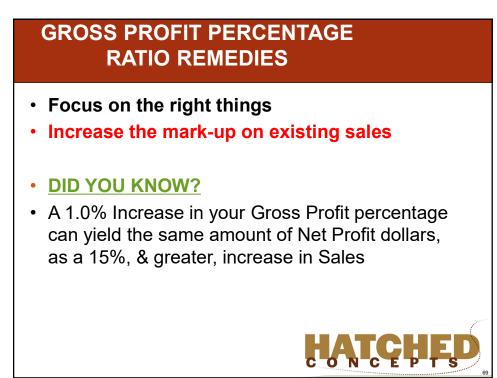
- This ratio gives you a measurement of the Sales Gross Profit dollars in proportion to Net Sales of Parts.
- The formula is: Gross Profit divided by Sales



GROSS PROFIT PERCENTAGE RATIO REMEDIES

- When the ratio for Gross Profit does not meet the target, you need to implement these remedies:
- Review Customer Pricing schedules to verify that customers deserve the discounts received
- Take full advantage of quantity and seasonal discounts



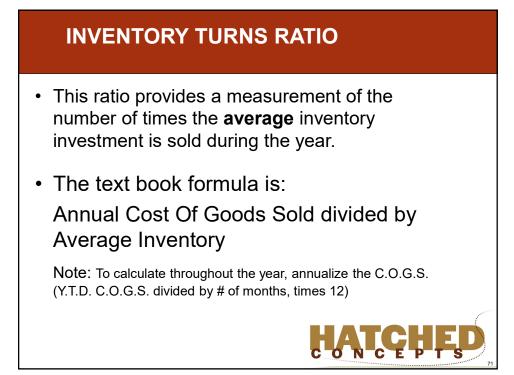


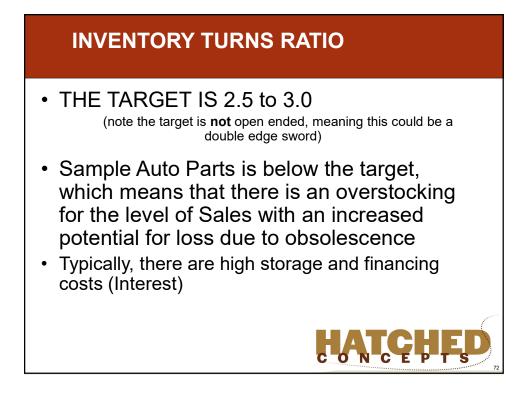
GROSS PROFIT PERCENTAGE IMPROVEMENT

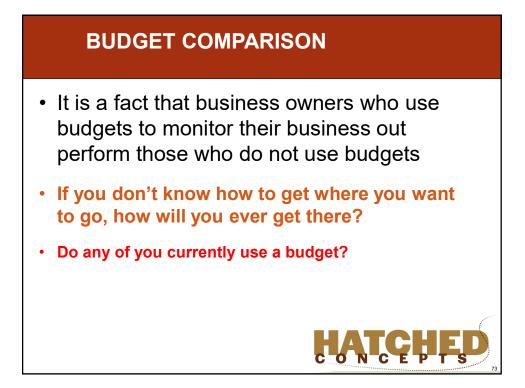
 Let's discuss what you can do to gain an increase in Gross Profit. What ideas do you have? (1.0% is \$.01 on a dollar)

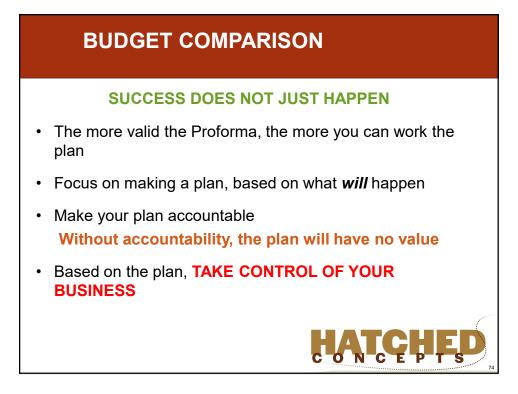
Price Rounding – that \$2.84 widget can be rounded to \$2.89 Stop permitting over-rides at P.O.S.











BUDGET PREPARATION

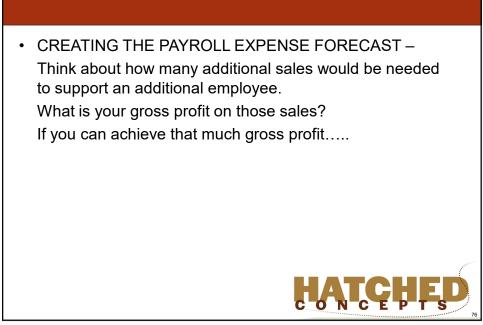
 <u>CREATE A SALES FORECAST</u> – Look at the last 2 years of Sales history (best by monthly), coupled with all of the previously mentioned.

Don't forget Seasonality impacts!

- Next, based on the number of work days, each month. Calculate the average daily Sales.
- CREATE THE GROSS PROFIT FORECAST Begin with what % you have had historically, and forecast what changes you will make based what you've learned today.



BUDGET PREPARATION



GENERAL LEDGER LISTING

 The General Ledger Listing shows all of the accounting transactions, for the current month, with a column reflecting the total account balance (year-to-date).



FINANCIAL STATEMENT SEMINAR WRAP UP

THANK YOU

VERY MUCH FOR THE TIME AWAY FROM YOUR BUSINESS TODAY

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