

Business Bootcamp

Financial Success

Presented by Julie Anderholm
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- BS & MBA in Finance from the University of Minnesota
- Financial & General Business Consulting for the SBDC
- Independent Financial Contracting
- Worked for Aetna Insurance and Blue Cross & Blue Shield
- Wife/Mom/Marathoner/Gardener/Traveler

Goals for Today...

Learn to “Read” an Income Statement

**Percentage of Sales
Trend Analysis**

Balance Sheet Basics

Cash Flow Projections

Please Participate!!!

**“Reading” an Income Statement
or Profit and Loss Statement, or P and L,
or the "monthly report that my accountant prepares"**

Sales

Less **Cost of Goods Sold**

Equals Gross Profit

Less **Expenses**

Equals Net Income/Loss

Sales:

Break down into profit centers

Into as much detail as is useful

Cost of Goods Sold (COGS):

Raw Material Cost

Direct Labor Costs

Use same categories as Sales

Gross Profit

Sales less COGS

Expense:

All the cost of business operations

Net Income/(Loss)

Gross Profit less Expense

Income Statement Analysis

Over a period of time...month, quarter, year

Usually by month

Add a YTD column

Always add a total column

Add percentage of Total Sales

Add prior year totals & percentage of sales

Percent to Total Sales

Basic Analysis

Identifies the major sales/expense categories by showing the largest %

80 -20 Rule

Trend Analysis

Trend Analysis

- By Category
- What is the Change?
- Positive or Negative?
- Why?
- Research...
- Future Projections?

Sales	2021	2020
Bird House	\$222,288	\$196,019
Bird Classes	\$26,250	\$24,999
Other	\$2,250	\$0

Trend Analysis – Other Calculations

Sales per Square Foot

Sales per Employee

Inventory per Square Foot

Each Industry has Key “Drivers” or “Rules of Thumb”

Do you know yours?

Industry Reports

RMA = Robert Morris & Associates

Gather financial data and sort it by NAICS Code

NAICS Code = North America Industry Classification System

Benchmark to compare your business to other similar businesses

Industry Trade Associations

Take advantage of this info if you are a paying member

Best match to your business

Meetings and mentor groups

Banker

Dun & Bradstreet (D&B)

Internet Research

Profit and Loss ties to Tax Return

Schedule C – Example
1120S - Example

Make sure they do!

Balance Sheet Basics

Assets = Liabilities & Equity

What you Own = What you Owe & What you are Worth

At a Single Point in Time

Assets - What a business “owns”

equal

Liabilities - “What a business “owes”

plus

Equity - “Value or Worth” of a business

Assets = Liabilities + Equity

Balance Sheet formula

Assets - Liabilities = Equity

May be more intuitive

Balance Sheet – Key Points

Assets

Cash...is King

Accounts Receivable - aging, collection policies

You are the bank

Inventory – days on hand, turns, stale

Liabilities

Accounts Payables – aging, terms,

They are the bank

Debt – appropriate levels, type

Equity

Ties to Income Statement via Net Income!

“Value” of the company

**Balance Sheet
links to Income Statement...
always use the same ending date!**

Net Income reported in Equity

**Retained Earnings = Accumulation
of Net Income over time**

Other “Links” ...

**Depreciation Expense = Added to
Accumulated Depreciation**

Loan Payments = Interest & Principal
Interest Expense on Income Statement
Principal Payment reduces the loan on B/S

Balance Sheet Analysis

use
Comparisons
or
Ratios

Without...hard to tell what's "good" or "bad"

Balance Sheet

Key Points/Ratios

Assets

Reported at “Cost” and not “Value”

Equipment Cost less Depreciation = Book Value

Book Value decreases...current value may increase!

Inventory – prices change – FIFO

Cash...is King

Inventory

The product that you hold to sell

Raw Materials/Work in Progress/Finished Goods

Days on hand, Inventory Turns, Stale Inventory

Inventory Turnover = COGS/Inventory

Rate at which Inventory is being used

Higher is “better”

Inventory Turn-Days = 360/Inventory Turnover

Average days inventory on hand

Lower is “better”

Accounts Receivable

What other businesses owe you...you are the bank
Aging of A/R, collection policies

Accounts Receivable Turnover = Sales/Accounts Receivable

Rate which A/R are being collected

Higher is “better”

Average A/R Collection Period = 360/A/R Turnover

Average # of Days for A/R to be paid

Lower is “better”

Liabilities

Accounts Payable

What you owe other businesses...they are the bank!

A/P aging, terms

Accounts Payable Turnover = COGS/Accounts Payable

Rate at which A/P is being paid

Higher is “better”

Average Payment Period = 360/A/P Turnover

Number of days it takes to pay A/P

Lower is “better”

Equity or Net Worth
Value of Business
Higher is Better!

Return on Investment = Net Profit/Net Worth
Measures the efficiency of Net Worth in
generating Profit

Known as “ROI”

Other Balance Sheet Ratios...

Current Ratio = Current Assets/Current Liabilities

Measures Solvency

For every \$ of current liabilities the business has \$ of current assets to pay them

Higher is better

Quick Ratio = Cash & Accounts Receivable/Current Liabilities

Measures Liquidity

Higher is better

Cash Flow Projection

Measures the Inflow and Outflows of Cash

Cash flow mimics your bank account balance

When all your inflows and outflows of cash go through one account
End of the month balance of that account

Reflects the “seasonality” of your business

When are your busy months? Slow Months?

Very important in our area

Tourists

Weather

Projects Cash available

Can you pay your bills?

**Questions?
Comments?**

Thank you!