

Financial Statements 101: Your Business' Report Card

May 18, 2017

The webinar will begin at 11:30 am CT.



Jandrea Blumanhourst
Senior Manager, Controller Services

Administration



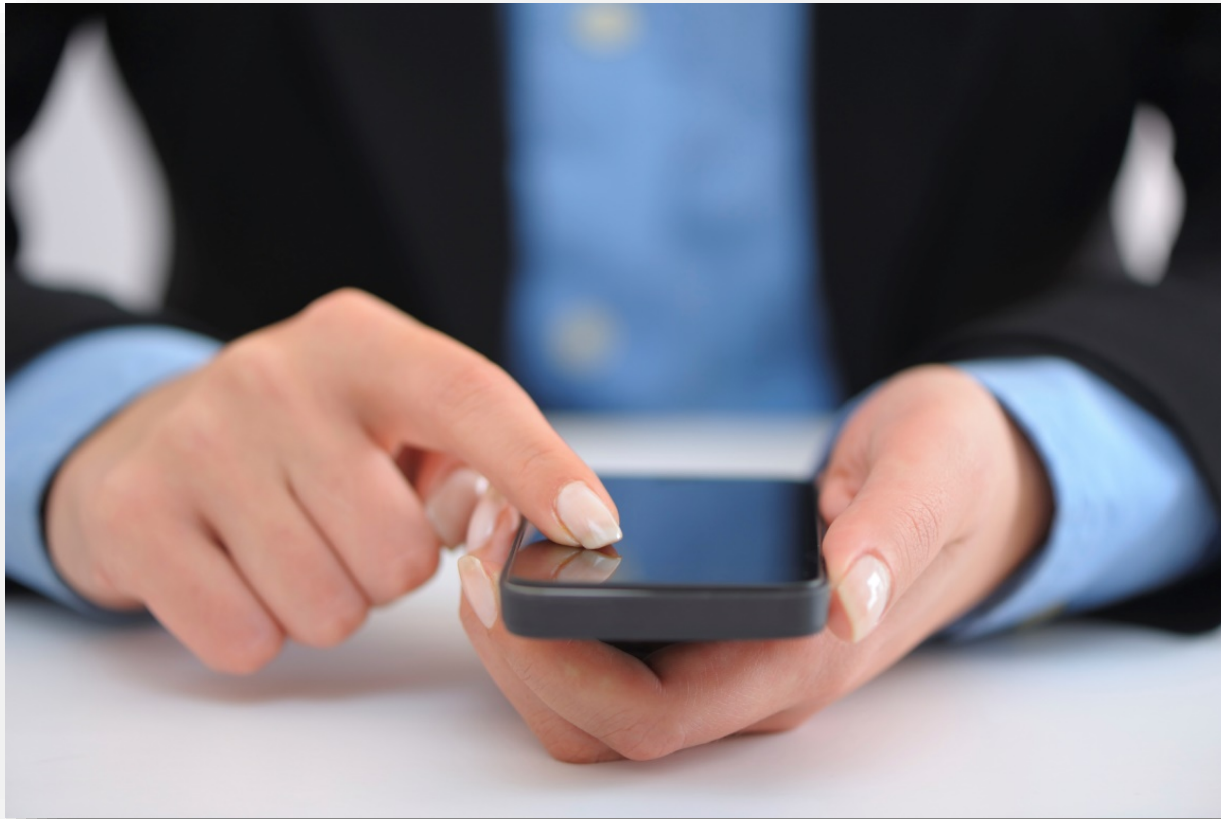
If you need CPE credit, please participate in all polls throughout the presentation.

Administration



A recording of today's webinar will be emailed for your reference or to share with others.

Administration



For best quality, call in by phone instead of using your computer speakers.

Administration



To ask questions during the presentation, use the questions box on the right side of your screen.

Administration



Please provide your feedback at the end of today's presentation.

About the Speaker



Jandrea Blumanhourst
Senior Manager, Controller Services

Audit and private sector financial leadership positions

Experience with large commercial companies, governmental entities and not-for-profits

Outsourced CFO, monthly close-out, audit support, fraud investigation, accounting systems

Learning Objectives



Understand what the different users of your financial statements may want to know



Understand information in balance sheet, income statement, statement of cash flows



Learn benefits of ratio analysis, key performance indicators, dashboards





Polling Question #1

Users of the Financial Statements

Business owner(s)



Users of the Financial Statements

Business owner(s)

Managers



Users of the Financial Statements

Business owner(s)

Managers

Bankers



Users of the Financial Statements

Business owner(s)

Managers

Bankers

Bonding/insurance agents



Users of the Financial Statements

Business owner(s)

Managers

Bankers

Bonding/insurance agents

Vendors



Users of the Financial Statements

Business owner(s)

Managers

Bankers

Bonding/insurance agent(s)

Vendors

Tax preparer(s)



Users of the Financial Statements

Business owner(s)

Managers

Bankers

Bonding/insurance agents

Vendors

Tax preparer(s)

Taxing authorities



Financial Reporting Framework

Cash basis

Modified cash basis

Tax basis

Generally Accepted
Accounting Principles
or GAAP (accrual)



Financial Statement Components

Balance Sheet

Income Statement (Profit and Loss)

Statement of Changes in Equity

Statement of Cash Flows

Footnotes

Supplementary Schedules



Balance Sheet

Point-in-time reporting
– as of a specific date

Uses historical values



Balance Sheet Example

Jandrea's Jumpsuits

BALANCE SHEET

December 31, 2014

ASSETS

Current Assets

Cash	\$ 24,317
Accounts receivable	756,074
Inventory	2,232,042
Prepaid expenses	35,949
Other	525
Total current assets	<u>3,048,907</u>

Property & Equipment

Machinery & equipment	803,362
Transportation equipment	142,045
	945,407
Less - accumulated depreciation	<u>(749,907)</u>
	<u>195,500</u>

Long Term Assets

Intercompany and related party receivables	68,358
Cash surrender value of life insurance	38,366
	<u>\$ 3,351,131</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities

Note payable - revolver	\$ 755,000
Current maturities of lease payable	8,336
Current maturities of long term debt	29,679
Trade accounts payable	429,727
Accrued wages and expenses	<u>284,613</u>
Total current liabilities	<u>1,507,355</u>

Long Term Liabilities

Lease payable, less current portion	442,485
Long term debt, less current portion	<u>365,784</u>
Total long term liabilities	<u>808,269</u>

Stockholder's Equity

Common stock	500
Retained earnings	<u>1,035,007</u>
	<u>1,035,507</u>
	<u>\$ 3,351,131</u>

Income Statement

Also called
profit & loss

Period of time results
– covers a time period



Income Statement Example

Jandrea's Jumpsuits
INCOME STATEMENT
For the Month Ended
December 31, 2014

		<u>% of sales</u>
Sales	\$ 713,769	100.0%
Cost of sales	<u>568,642</u>	79.7%
Gross profit	145,127	20.3%
General, selling and administrative expenses	<u>84,036</u>	11.8%
Income from operations	61,091	8.6%
Other income	<u>49,000</u>	6.9%
Income before interest expense	110,091	15.4%
Interest expense	<u>(7,321)</u>	-1.0%
Net income	<u>\$ 102,770</u>	14.4%

Income Statement Example

Jandrea's Jumpsuits
INCOME STATEMENT
For The Twelve Months Ended
December 31, 2014

		<u>% of sales</u>
Sales	\$ 7,408,035	100.0%
Cost of sales	<u>5,860,765</u>	79.1%
Gross profit	1,547,270	20.9%
General, selling and administrative expenses	<u>642,110</u>	8.7%
Income from operations	905,160	12.2%
Other income	<u>108,173</u>	1.5%
Income before interest expense	1,013,333	13.7%
Interest expense	<u>(94,677)</u>	-1.3%
Net income	<u>\$ 918,656</u>	12.4%

Statement of Changes in Equity

Also called “Statement of Retained Earnings” or “Statement of Stockholders’ Equity”

Shows how all the other statements tie in



Statement of Changes in Equity Example

Jandrea's Jumpsuits

STATEMENT OF STOCKHOLDER'S EQUITY

As of and for the Year Ended December 31, 2014

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>		
Balance, December 31, 2013	50	\$ 500	\$ 532,039	\$ 532,539
Net income			918,656	918,656
Distributions			(415,688)	(415,688)
Balance, December 31, 2014	<u>50</u>	<u>\$ 500</u>	<u>\$ 1,035,007</u>	<u>\$ 1,035,507</u>



Polling Question #2

Statement of Cash Flows

Shows changes in cash
not related to net income

Three sections

- Operating
- Investing
- Financing



Statement of Cash Flows Example

Jandrea's Jumpsuits
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

Cash flows from operating activities:	
Net income	\$ 918,656
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation and amortization	8,407
Changes in operating assets and liabilities:	
Accounts receivable	(221,517)
Inventory	(340,232)
Prepaid expenses	835
Intercompany and related party receivables	(88,521)
Other assets	25
Trade accounts payable	10,586
Accrued wages and expenses	8,487
Net cash flow from operating activities	296,726
Cash flows from investing activities:	
Purchase of property and equipment	(573,588)
Net cash flow from investing activities	(573,588)
Cash flows from financing activities:	
Net change on note payable - revolver	205,000
Proceeds from long-term debt	405,000
Principal payments on long-term debt	(9,537)
Principal payments on lease payable	(40,567)
Stockholder distributions	(415,688)
Net cash flow from financing activities	144,208
Change in cash	(132,654)
Cash at beginning of year	156,971
Cash at end of year	\$ 24,317

Footnotes

Additional information provided regarding financial statements

Includes accounting policies and methods

Gives details on certain items in the financial statements

Required for an audit, review or compilation, but can make an exception for compilations



Footnote Examples

3. Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Inventories may also include a reserve for obsolete and slow-moving inventory that is based on management's estimates and judgments.

7. Line of Credit

The Company has a \$1,800,000 revolving note payable with a bank. The revolver bears an interest rate of 0.25% above the Wall Street Journal prime rate, (3.5% effective rate at December 31, 2014) and matures on September 9, 2015. The revolver is secured by substantially all of the Company's assets and is personally guaranteed by the majority stockholder of the Company. As of December 31, 2014, the amount of unused and available credit was \$1,045,000.

Supplementary Information

Any additional information provided with financial statements

- Budget vs. actual

- Departmental or location schedules

- Detail schedules

- Schedule of contracts

- Ratios

- Benchmarking

- Trend reports

- Graphs / dashboards





Polling Question #3

Ratios or Key Performance Indicators

Show relationships
between accounts

Different types of ratios:

Financial condition

Profitability

Financial leverage

Productivity



But First ... Working Capital

Working capital =

Current assets – current liabilities

Working Capital Calculation Example

Jandrea's Jumpsuits Working Capital December 31, 2014

Current assets	\$ 3,048,907
Current liabilities	<u>(1,507,355)</u>
	<u><u>\$ 1,541,552</u></u>

Financial Condition Ratios

Current ratio

Current assets / current liabilities

Quick Ratio

Current assets – inventory / current liabilities

Accounts receivable turnover

Annual credit sales / average accounts receivable

Days outstanding = $365 / \text{AR turnover}$

Inventory turnover

Annual cost of goods sold / average inventory

Days in inventory = $365 / \text{inventory turnover}$

Financial Condition Ratios Example

Jandrea's Jumpsuits
Financial condition ratios:
December 31, 2014

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{3,048,907}{1,507,355} = 2.02$$

Quick ratio

$$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}} = \frac{816,865}{1,507,355} = 0.54$$

Accounts receivable turnover

$$\frac{\text{Annual credit sales}}{\text{Average accounts receivable}} = \frac{7,408,035}{756,074} = 9.80$$

$$\text{Days A/R outstanding} = 37$$

Inventory turnover

$$\frac{\text{Annual cost of goods sold}}{\text{Average inventory}} = \frac{5,860,765}{2,232,042} = 2.63$$

$$\text{Days in inventory} = 139$$

Profitability Ratios

Gross profit margin

Gross profit / gross sales

Net profit margin

Net profit / gross sales



Profitability Ratio Examples

Jandrea's Jumpsuits

Profitability Ratios

For the Year Ended December 31, 2014

Gross profit margin

$$\frac{\text{Gross profit}}{\text{Gross sales}} = \frac{1,547,270}{7,408,035} = 20.89\%$$

Net profit margin

$$\frac{\text{Net profit}}{\text{Gross sales}} = \frac{918,656}{7,408,035} = 12.40\%$$

Another Definition – EBIT and EBITDA

EBIT = Earnings Before Interest and Taxes

EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization

EBIT and EBITDA Calculation Example

Jandrea's Jumpsuits

EBIT and EBITDA

For the Year Ended December 31, 2014

EBIT

Earnings (net income)	\$	918,656
Plus:		
Interest		94,677
Taxes		-
		<hr/>
	\$	<u><u>1,013,333</u></u>

EBITDA

Earnings (net income)	\$	918,656
Plus:		
Interest		94,677
Taxes		-
Depreciation		7,865
Amortization		542
		<hr/>
	\$	<u><u>1,021,740</u></u>

Financial Leverage Ratios

Debt to equity

Total debt / total equity

Return on equity

Annual net income / equity

Interest coverage

EBITDA / interest expense

Debt Service Coverage

EBITDA / total principal and interest payments



Financial Leverage Ratios Example

Jandrea's Jumpsuits
Financial Leverage Ratios
As of and for the Year Ended December 31, 2014

Debt to equity

$$\frac{\text{Total debt}}{\text{Total equity}} = \frac{1,601,284}{1,035,507} = 1.55$$

Return on equity

$$\frac{\text{Annual net income}}{\text{Equity}} = \frac{918,656}{1,035,507} = 0.89$$

Interest coverage

$$\frac{\text{EBITDA}}{\text{Interest expense}} = \frac{1,021,740}{94,677} = 10.79$$

Debt Service Coverage

$$\frac{\text{EBITDA}}{\text{Total principal and interest payments}} = \frac{1,021,740}{144,781} = 7.06$$



Productivity Ratios

Sales per customer

Sales per employee

Sales per square foot of production space

Productivity Ratios Example

Jandrea's Jumpsuits

Productivity Ratios

As of and for the Year Ended December 31, 2014

Sales per employee

Wichita

$$\frac{\text{Sales}}{\text{Full time equivalent employees}} = \frac{3,107,519}{15} = \$ 207,167.93$$

Oklahoma City

$$\frac{\text{Sales}}{\text{Full time equivalent employees}} = \frac{4,300,516}{37} = \$ 116,230.16$$

Sales per machine

Wichita

$$\frac{\text{Sales}}{\text{Number of machines}} = \frac{3,107,519}{11} = \$ 282,501.73$$

Oklahoma City

$$\frac{\text{Sales}}{\text{Number of machines}} = \frac{4,300,516}{22} = \$ 195,478.00$$

Sales per square foot

Wichita

$$\frac{\text{Sales}}{\text{Square footage}} = \frac{3,107,519}{10,419} = \$ 298.26$$

Oklahoma City

$$\frac{\text{Sales}}{\text{Square footage}} = \frac{4,300,516}{7,207} = \$ 596.71$$

Productivity Ratios Example



Benchmarking

Takes your financial information and compares it to others in your industry

Helps if comparison is done in relation to size of assets or sales

Shows how a company is doing in relation to its peers



Benchmarking Example

Jandrea's Jumpsuits
Industry Standards
As of and for the Year Ended December 31, 2014

	Jandrea's Jumpsuits 2014		(1) Industry Standard Sales \$5 - 10 million	(1) Industry Standard Assets \$2 - 10 million
BALANCE SHEET				
Cash	\$ 24,317	0.73%	7.80%	9.70%
Accounts receivable	756,074	22.56%	21.50%	25.60%
Inventory	2,232,042	66.61%	46.00%	47.10%
Other current assets	36,474	1.09%	9.20%	7.90%
Fixed assets, net	195,500	5.83%	8.90%	6.10%
Intangibles	38,366	1.14%	1.80%	0.40%
Other non-current assets	68,358	2.04%	4.80%	3.20%
Total assets	\$ 3,351,131	100.00%	100.00%	100.00%
Short term notes payable	\$ 755,000	22.53%	17.80%	29.80%
Current maturities, long term debt	38,015	1.13%	1.70%	2.50%
Trade accounts payable	429,727	12.82%	21.50%	16.10%
Other current liabilities	284,613	8.49%	6.70%	8.00%
Long term debt	808,269	24.12%	2.60%	3.60%
Other non-current liabilities	-	0.00%	3.00%	1.00%
Equity	1,035,507	30.90%	46.70%	39.00%
Total liabilities & equity	\$ 3,351,131	100.00%	100.00%	100.00%
INCOME STATEMENT				
Sales	\$ 7,408,035	100.00%	100.00%	100.00%
Cost of goods sold	5,860,765	79.11%	71.90%	68.70%
Gross profit	1,547,270	20.89%	28.10%	31.30%
General, selling and administrative expenses	642,110	8.67%	26.20%	33.00%
All other expenses, net	13,496	0.18%	0.60%	1.00%
Income before taxes	\$ 918,656	12.40%	1.30%	-2.70%

(1) Industry standards provided by RMA 2014-2015 Annual Statement Studies

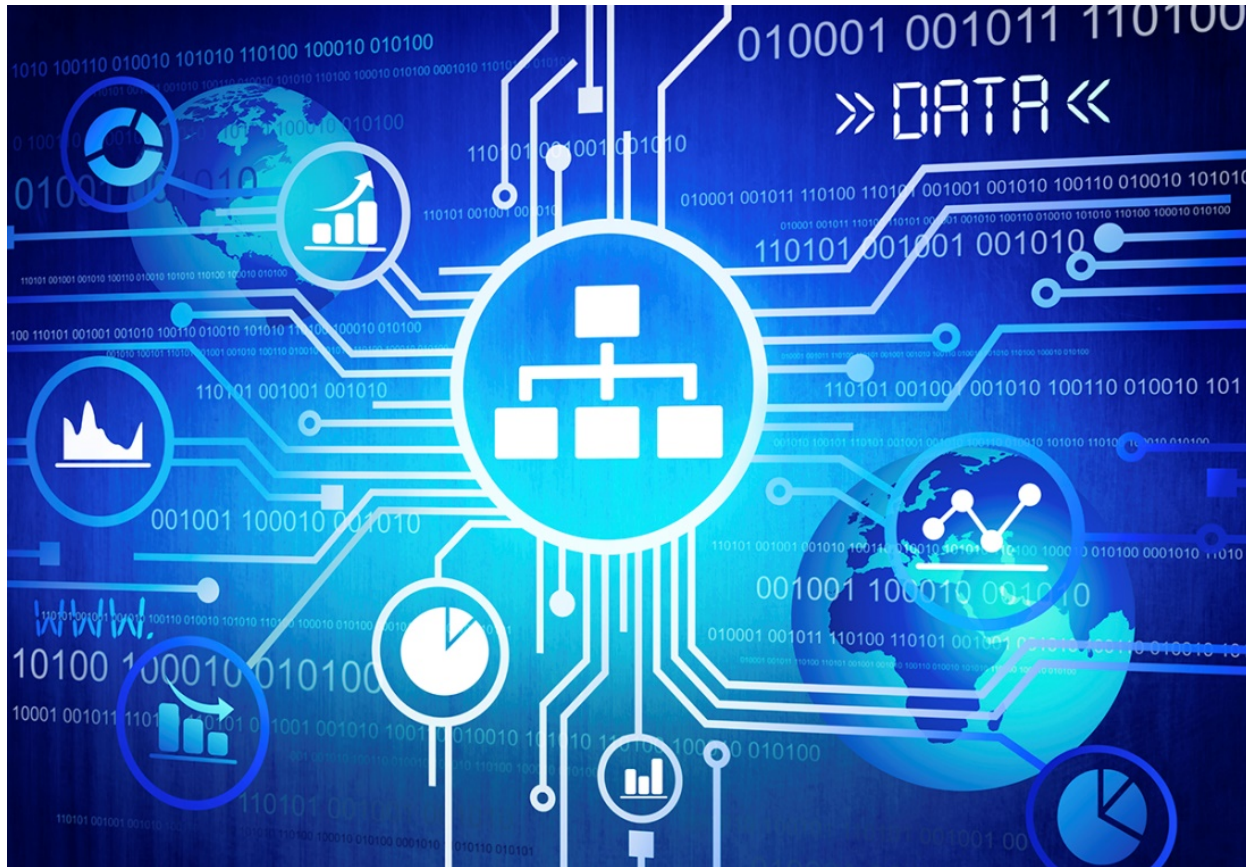
Benchmarking Example

Jandrea's Jumpsuits Industry Standards As of and for the Year Ended December 31, 2014

	Jandrea's Jumpsuits 2014	Industry Standard ⁽¹⁾ Sales \$5 - 10 million	Industry Standard ⁽¹⁾ Assets \$2 - 10 million
METRICS			
Current Ratio	2.02	1.80	1.60
Quick Ratio	0.54	0.70	0.70
Sales / Receivables (AR Turns)	9.80	13.10	12.80
Days' Sales in A/R (365 / Turns)	37.25	27.86	28.52
COGS / Inventory (Inventory Turns)	2.63	3.90	2.70
Days COGS in Inv. (365 / Turns)	139.01	93.59	135.19
COGS / Payables (AP Turns)	13.64	11.10	11.50
Sales / Working Capital	4.81	5.40	6.00
EBIT / Interest	4.56	4.20	3.00
Fixed Assets / Net Worth	0.19	0.10	0.10
Debt / Net Worth	0.82	1.20	1.50
% Profit Before Taxes / Tangible Net Worth	85.55%	14.80%	4.40%
% Profit Before Taxes / Assets	27.41%	5.90%	1.70%
Sales / Assets	2.21	2.20	1.90

(1) Industry standards provided by RMA 2014-2015 Annual Statement Studies

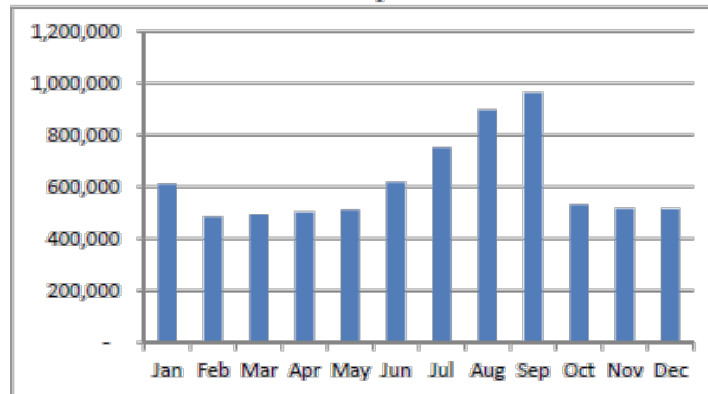
Dashboards



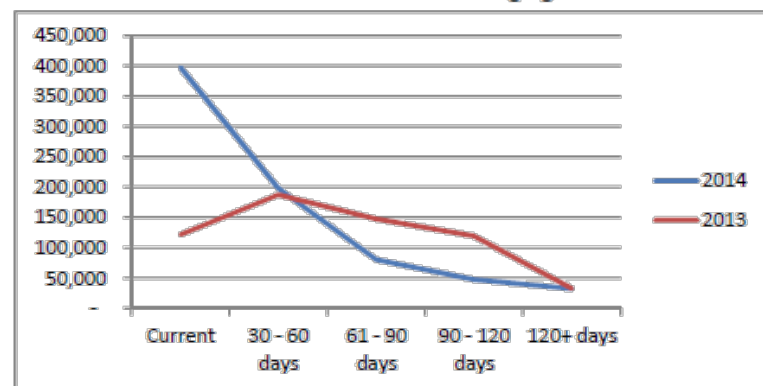
Dashboards

Jandrea's Jumpsuits
Dashboard for Jandrea
As of and for the Year Ended December 31, 2014

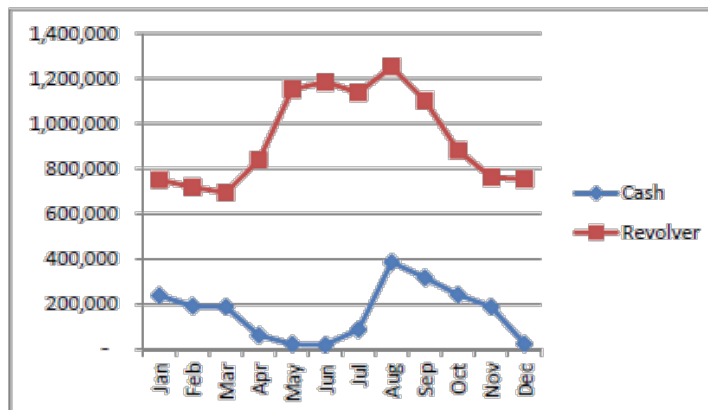
Sales by Month



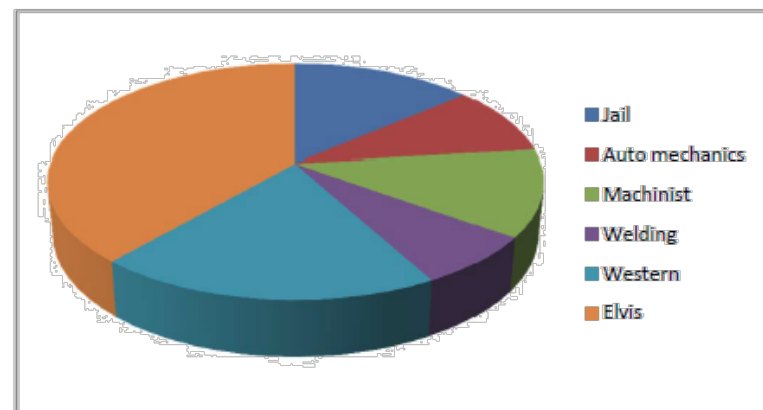
Accounts Receivable Aging



Cash and Revolver Balances



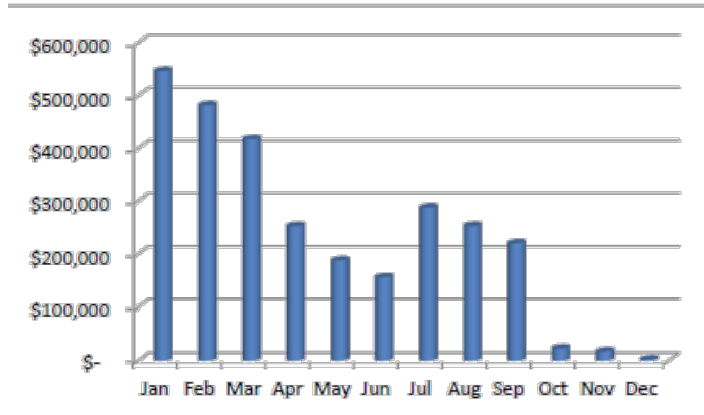
Sales by Product Line



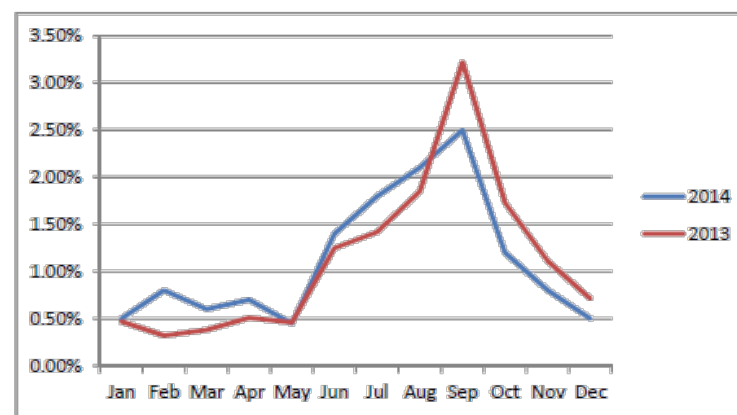
Dashboards

Jandrea's Jumpsuits
Dashboard for Doug
As of and for the Year Ended December 31, 2014

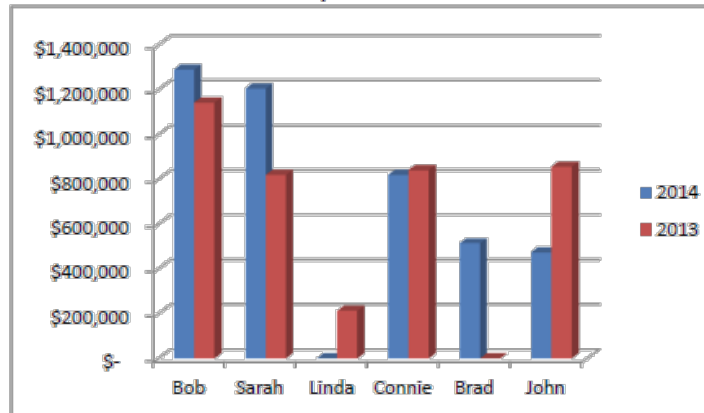
2015 Backlog



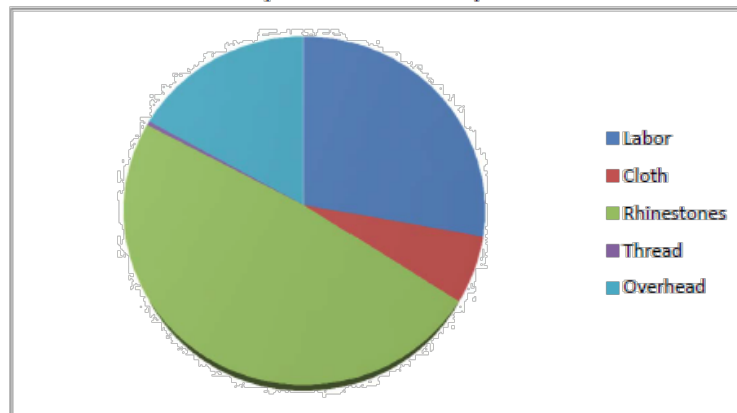
Rework as a % of Sales



Sales per Salesman



Component Costs of Jumpsuits





Polling Question #4

Thank You!



Jandrea Blumanhourst

Manager, Controller Services



Jandrea.Blumanhourst@aghlc.com



<https://www.linkedin.com/in/jandreablumanhourst>



316.291.4005

Check out our other webinars!
AGHUniversity.com

Questions **NOT** related to today's content?
mike.ditch@aghlc.com