

Know Your Numbers!!!

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Objectives



Takeaways from today's presentation:

- An understanding of some basic finance.
- A general understanding of the balance sheet, income statement (Profit&Loss), and cash flow statement.
- Understanding gross profit margin.

Physical Health



Blood Pressure

Cholesterol

Temperature



Financial Health



Gross Profit Margin

Return on Investment

Cash Flow Trends



Financial Health



82% of businesses fail due to poor cash management.

Study by U.S. Bank



Time Value of Money

A dollar today is worth more than a dollar tomorrow.

Why? Because you can invest a dollar today and have more than a dollar tomorrow.

Cash Flow

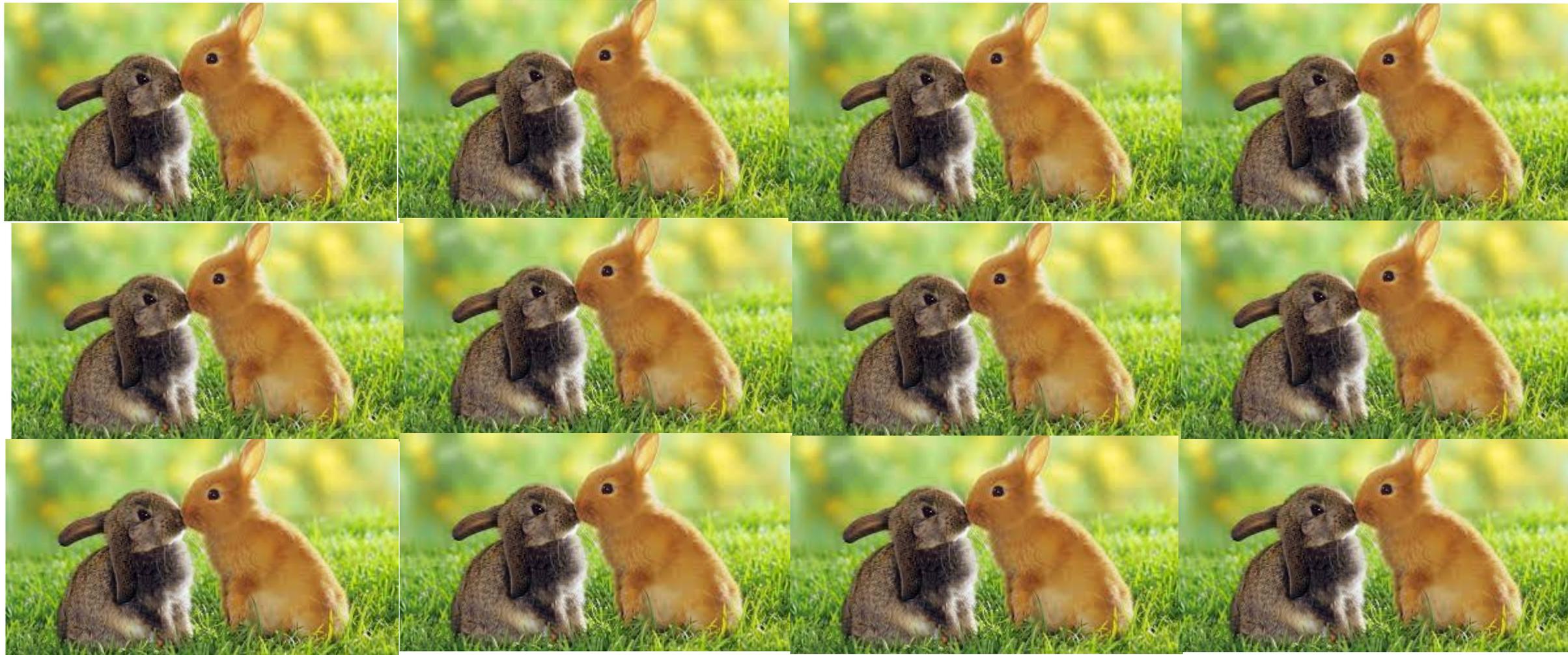


- Cash flow is money on the move that, like a stream, is either moving into or out of your business.
- Money flowing into your business—as soon as possible.
- Money flowing out of your business—as late as possible.

Compound Interest



Compound Interest



Compound Interest



Yavapai
COLLEGE

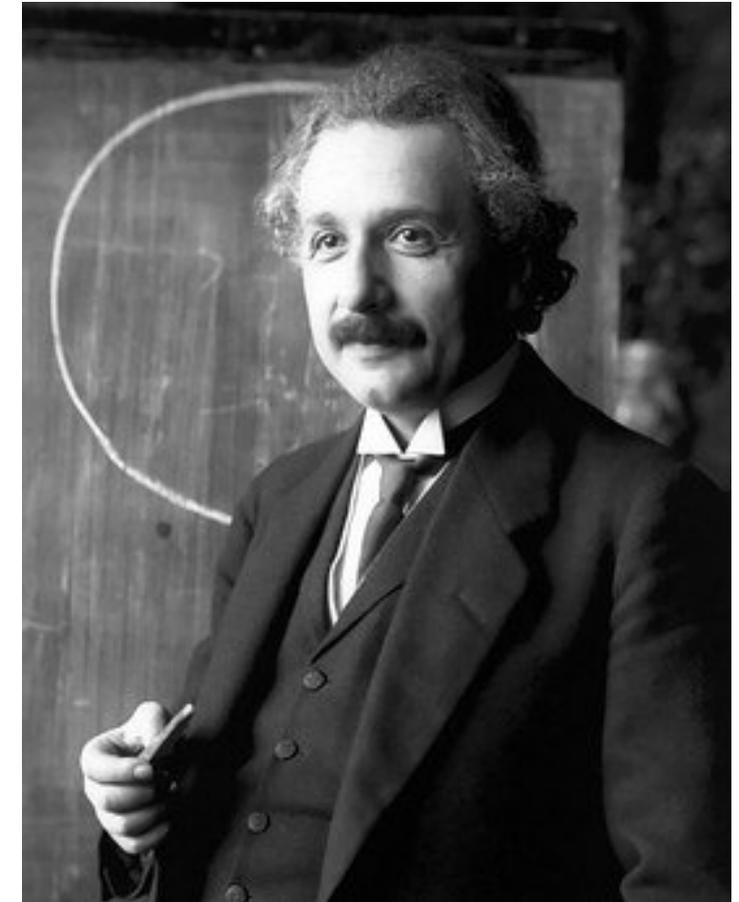
ARIZONA
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Compound Interest



Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it. Albert Einstein



Three Key Financial Statements



- Balance Sheet
- Income Statement
- Cash Flow Statement

Balance Sheet

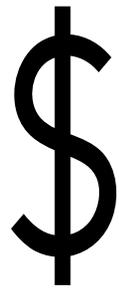


PRO FORMA BALANCE SHEET			
	2003	2004	2005
ASSETS			
Current Assets			
Cash	\$148,497	\$203,523	\$198,415
Accounts Receivable	\$29,097	\$37,394	\$40,341
Inventory	\$42,570	\$52,277	\$53,774
Other Current Assets	\$4,000	\$4,000	\$4,000
Total Current Assets	\$224,164	\$297,194	\$296,530
Long-term Assets			
Long-term Assets	\$80,000	\$80,000	\$90,000
Accumulated Depreciation	\$36,000	\$76,000	\$121,000
Total Long-term Assets	\$44,000	\$4,000	(\$31,000)
Total Assets	\$268,164	\$301,194	\$265,530
LIABILITIES AND CAPITAL			
Current Liabilities			
Accounts Payable	\$63,518	\$74,611	\$78,318
Current Borrowing	\$0	\$0	\$0
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$63,518	\$74,611	\$78,318
Long-term Liabilities	\$390,000	\$360,000	\$285,000
Total Liabilities	\$453,518	\$434,611	\$363,318
Paid-in Capital	\$125,000	\$125,000	\$125,000
Retained Earnings	(\$331,000)	(\$310,354)	(\$283,417)
Earnings	\$20,646	\$51,938	\$60,629
Total Capital	(\$185,354)	(\$133,417)	(\$97,788)
Total Liabilities and Capital	\$268,164	\$301,194	\$265,530
Net Worth	(\$185,354)	(\$133,417)	(\$97,788)

Balance Sheet Organization



Assets



Liquidity

Liabilities



Time

Balance Sheet



Cash	15,000	Accounts Payable	30,000
AR	25,000	Wages Payable	5,000
Inventory	<u>50,000</u>	Loans Payable	<u>10,000</u>
Total CA	90,000	Total CL	45,000
Fixed Assets	<u>60,000</u>	Long Term Debt	40,000
		Contributed Capital	20,000
		Retained Earnings	<u>45,000</u>
Total Assets	150,000	Liabilities + Equity	150,000

Hurricane Preparedness



Balance Sheet



- Inventory—Part art, part science
- Have enough. . .
...but not too much.
- Money is never free.

Income Statement Organization



Revenue

Direct Costs

Gross Profit

Fixed Expenses

Net Profit

Income Statement



PRO FORMA PROFIT AND LOSS			
	2003	2004	2005
SALES	\$1,017,000	\$1,307,000	\$1,410,000
Direct Cost of Sales	\$457,650	\$562,010	\$578,100
Other	\$33,000	\$38,000	\$43,000
Total Cost of Sales	\$490,650	\$600,010	\$621,100
Gross Margin	\$526,350	\$706,990	\$788,900
Gross Margin %	51.76%	54.09%	55.95%
EXPENSES			
Payroll	\$202,800	\$317,000	\$353,000
Sales and Marketing and Other Expenses	\$70,925	\$82,900	\$102,000
Depreciation	\$36,000	\$40,000	\$45,000
Utilities	\$18,000	\$18,000	\$20,000
Insurance	\$18,000	\$21,000	\$23,000
Rent	\$72,000	\$77,000	\$80,000
Other	\$18,000	\$6,300	\$10,000
Payroll Taxes	\$24,336	\$38,040	\$42,360
Other	\$0	\$0	\$0
TOTAL OPERATING EXPENSES	\$460,061	\$600,240	\$675,360
Profit Before Interest and Taxes	\$66,289	\$106,750	\$113,540
EBITDA	\$102,289	\$146,750	\$158,540
Interest Expense	\$39,000	\$37,500	\$32,250
Taxes Incurred	\$6,643	\$17,313	\$20,661
NET PROFIT	\$20,646	\$51,938	\$60,629
Net Profit/Sales	2.03%	3.97%	4.30%

Income Statement



Revenue	100,000
Cost of Goods Sold	<u>70,000</u>
Gross Margin	30,000
Operating Expenses	<u>10,000</u>
Operating Income	20,000
Interest Expense	<u>10,000</u>
Income Before Taxes	10,000
Income Taxes	<u>3,000</u>
Net Income	7,000

Income Statement



Common Size Income Statement

- Created by dividing each number by the amount of Revenue

Income Statement



Revenue	100,000	100%
Cost of Goods Sold	<u>70,000</u>	<u>70%</u>
Gross Margin	30,000	30%
Operating Expenses	<u>10,000</u>	
Operating Income	20,000	
Interest Expense	<u>10,000</u>	
Income Before Taxes	10,000	
Income Taxes	<u>3,000</u>	
Net Income	7,000	

Income Statement



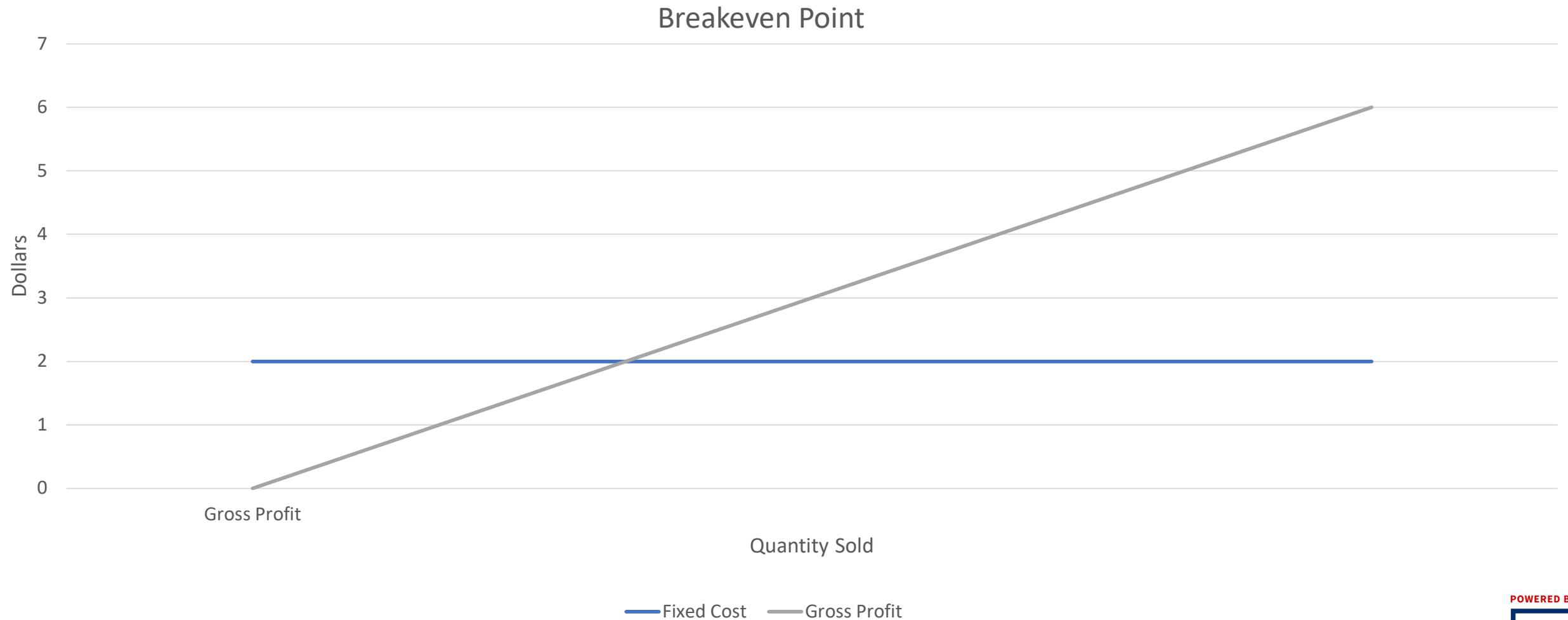
- Gross Profit Margin is the engine of profitability.
- Gross Profit Margin = Revenue - Cost of Goods Sold.
- Two ways to increase gross profit margin:
 - Raise Prices.
 - Lower your purchase price.

Income Statement



Revenue	100,000	110,000	+10%
Cost of Goods Sold	<u>70,000</u>	<u>70,000</u>	
Gross Margin	30,000	40,000	+33%
Operating Expenses	<u>10,000</u>		
Operating Income	20,000		
Interest Expense	<u>10,000</u>		
Income Before Taxes	10,000		
Income Taxes	<u>3,000</u>		
Net Income	7,000		

Break-even Point



Statement of Cash Flows Organization



Three Categories

- Operating Activities
- Investing Activities
- Financing Activities

Statement of Cash Flows



PRO FORMA CASH FLOW			
	2003	2004	2005
CASH RECEIVED			
Cash from Operations			
Cash Sales	\$661,050	\$849,550	\$916,500
Cash from Receivables	\$340,853	\$449,153	\$490,553
Subtotal Cash from Operations	\$1,001,903	\$1,298,703	\$1,407,053
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$50,000	\$0	\$0
Subtotal Cash Received	\$1,051,903	\$1,298,703	\$1,407,053
EXPENDITURES			
Expenditures from Operations			
Cash Spending	\$202,800	\$317,000	\$353,000
Bill Payments	\$790,606	\$896,677	\$949,161
Subtotal Spent on Operations	\$993,406	\$1,213,677	\$1,302,161
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$30,000	\$75,000
Purchase Other Current Assets	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$10,000
Dividends	\$0	\$0	\$25,000
Subtotal Cash Spent	\$993,406	\$1,243,677	\$1,412,161
NET CASH FLOW	\$58,497	\$55,026	(\$5,108)
Cash Balance	\$148,497	\$203,523	\$198,415

Statement of Cash Flows



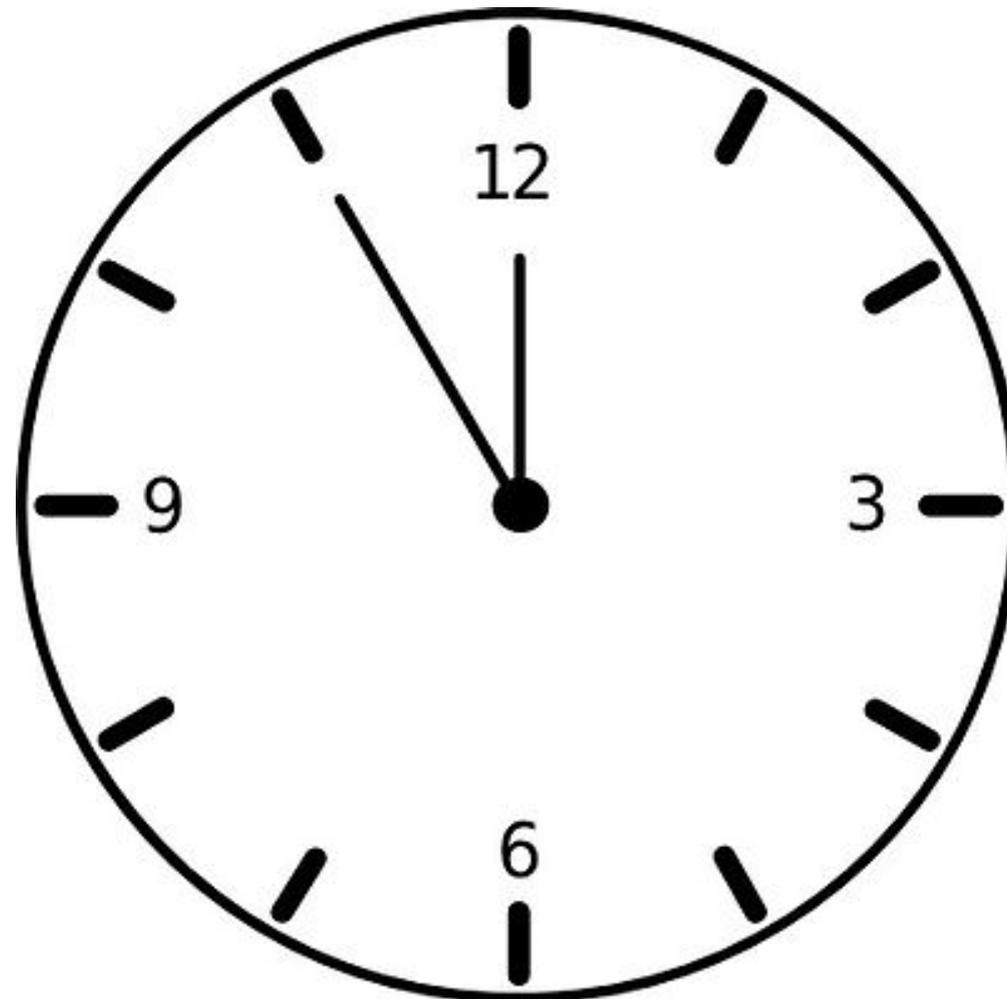
Operating Activities

- Depreciation
- Accounts Receivable
- Inventory
- Accounts Payable
- Wages Payable

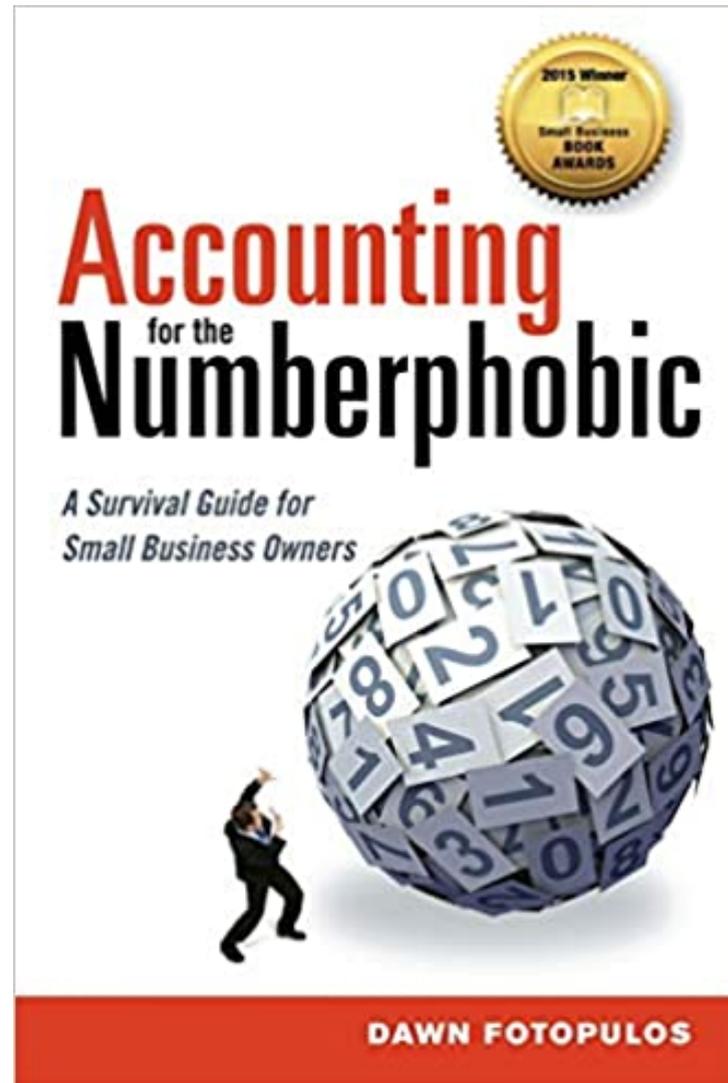
Statement of Cash Flows



Timing is essential!!!



Resources

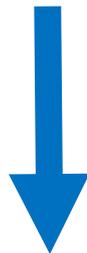


- <https://www.dawnfotopulos.com/>

Create a Business Plan



GOAL



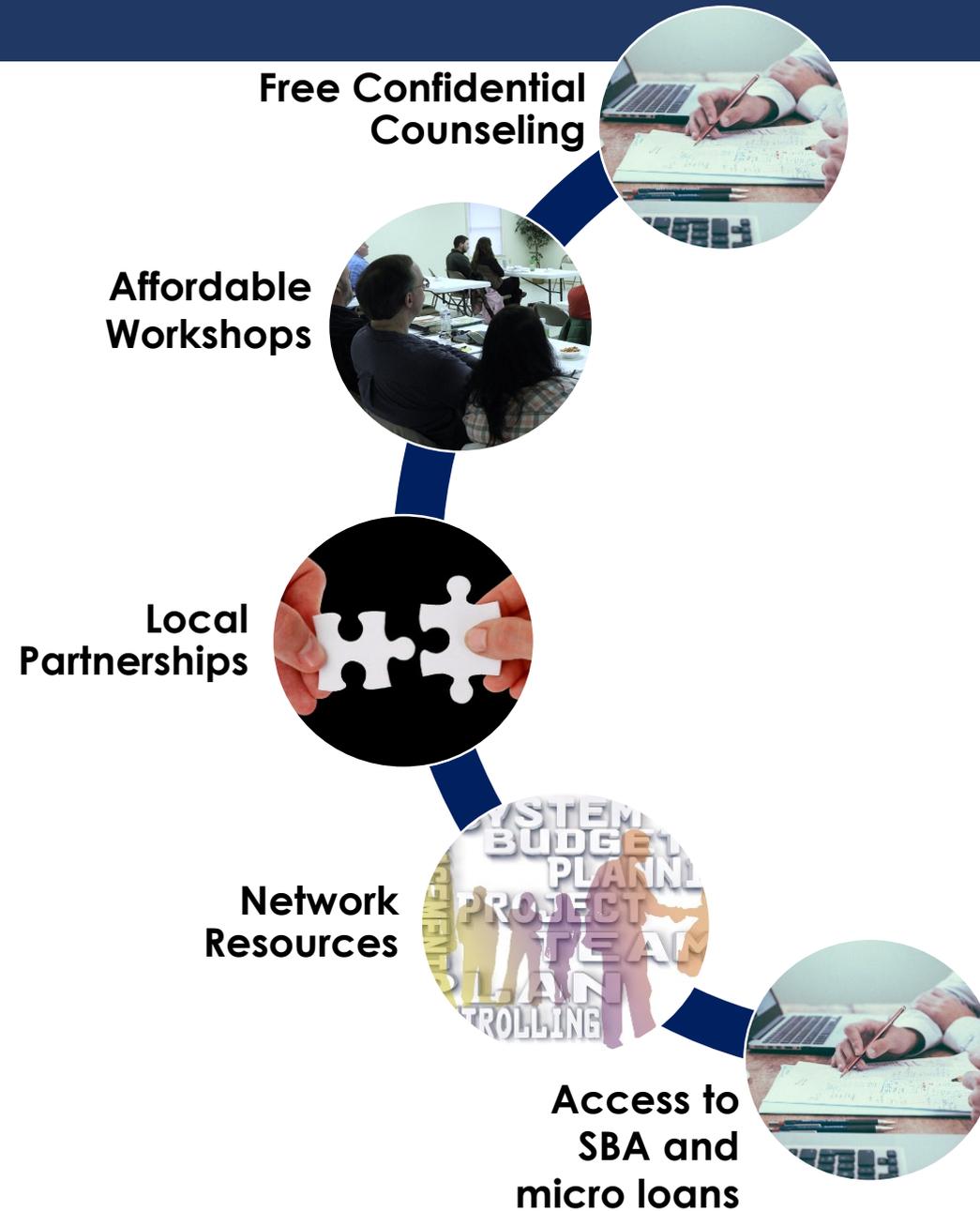
Write a
business
plan



Write a business plan

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