



MAKE IT RAIN

0



PRISM TECHNICAL
INSTITUTE

How many Languages do you know?

- ▶ זה לא לערבב עם שום ביזנס זה כמו שמן דבר חוץ עסקי. Hebrew
- ▶ Бизнес, как нефть. Она не будет смешиваться с ничего, кроме бизнеса. Russian
- ▶ Les affaires sont comme le pétrole. Il ne se mélange pas avec n'importe quoi, mais des affaires. French
- ▶ Negocio es como el petróleo. No se mezcla con nada pero el negocio. Spanish



The Language of Money / Financial Accounting

- ▶ Business is like oil. It won't mix with anything but business.

English



The Language of Money / Financial Accounting

Business without profit is not business any more than a pickle is a candy.

- Charles F. Abbot



About the Instructor



- ▶ BS Electrical Engineering
- ▶ Entrepreneur since 1975*
- ▶ Fulltime in 1984
- ▶ Start up (32 years)
- ▶ Business Experience
 - ▶ Wholesale Distribution
 - ▶ Custom Fabrication
 - ▶ Process Controls
 - ▶ Military Contracting
 - ▶ Engineering Services
 - ▶ Service (Motor Repair)
 - ▶ Professional Services



▶ *Sophomore in college

Three key take away items

1. Most businesses fail because of

- A. Lack of management talent
- B. Lack of financial resources



Become a fast learner...

- 2. A business can survive bankruptcy if it has cash flow.
- 3. A profitable business with slow cash flow, dies.



Financial Statement Overview



Financial Statements

What are Financial Statements?

- ▶ A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity.



Major Statements

- ▶ **Balance Sheet**
- ▶ **Income Statement**
- ▶ **Cash Flow Statement**



Balance Sheet

The balance sheet presents a company's financial position as of a specified date.



Balance Sheet

Questions the Balance Sheet answers

- ▶ Who owns the business?
- ▶ How well are resources being managed?
- ▶ How liquid is the business?



Balance Sheet

Components?

- ▶ Assets
- ▶ Owner's Equity
- ▶ Liabilities

Another way to say it

- ▶ Stuff in the business
- ▶ What you own
- ▶ What other people own



The Balance Sheet is a Snap Shot

- ▶ Who owns what at a specific point in time....

As of December 31, 2015

As of February 12, 2016

Typically at the end of the month, quarter, period or year, etc., etc.



Income Statement

The Income Statement provides information on the company's profitability for a specified period of time.



Income Statement Elements

Note: Shown differently depending upon your industry

- ▶ Revenues (Sales vs. Receipts)
- ▶ Cost of Goods Sold (Job Cost)
 - ▶ Labor (Foremen, Trade Labor, etc.)
 - ▶ Material (Purchased or pulled from inventory)
 - ▶ Other (Fuel, Equipment rental, permits)
- ▶ Gross Profit
- ▶ Operating Expenses
 - ▶ Support Staff (Estimators, Secretary, Sales, un-deployed production staff)
 - ▶ Rent
 - ▶ Interest Expenses
 - ▶ Utilities
 - ▶ Vehicles
- ▶ Profit (or Loss)



Income Statement

- ▶ Tells a story over a period of time
- ▶ It's like a movie with a beginning and end
- ▶ The end of the movie must match the “snap shot”
- ▶ The Income Statement measures your performance for one:
 - ▶ Month
 - ▶ Quarter
 - ▶ Period
 - ▶ Year, etc., etc.



Cash Flow Statement



Cash Flow Statements

The official name for the cash flow statement is the *Statement of Cash Flows*.

- ▶ The Statement of Cash Flows reports the sources and uses of cash by operating activities, investing activities and financing activities for the period specified in the heading of the statement.



Key Info

- ▶ Where did the money come from?
- ▶ Where did you use the money?
- ▶ Where is the money now?



Sources / Inflows of Cash

- 1) **Operating Activities**
- 2) **Financing**
- 3) **Investing**



Cash from Operating Activities

- ▶ Cash receipts for sale of goods and services
- ▶ Cash interest or dividends
- ▶ Other cash receipts that don't fit in the following two categories



Cash from Financing Activities

- ▶ Cash proceeds from sale of stock (*owners putting money back into the business*)
- ▶ Cash proceeds from borrowing (*drawing on the line of credit for example*)
- ▶ Cash receipts from contributions and investment income



Cash from Investing Activities

- ▶ Receipt of principal payment on debt
- ▶ Cash proceeds from the sale of equity investments
- ▶ Cash received from the sale of assets (such as manufacturing or other equipment)



Uses / Outlays of Cash

- 1) **Operating Activities**
- 2) **Financing**
- 3) **Investing**



Cash Outlays from Operating Activities

- ▶ Cash payments for trade goods purchased for resale or use in manufacturing
- ▶ Cash payments for notes to suppliers or trade goods
- ▶ Cash payments to other suppliers and to employees
- ▶ Cash paid for taxes, fees, fines, interest
- ▶ Other payments not directly identified with financing or investing activities



Cash Outlays from Financing Activities

- ▶ Principal payments on long and short-term debt
- ▶ Cash paid to reacquire common or preferred stock
- ▶ Dividends paid to stockholders



Cash Outlays from Investing Activities

- ▶ Cash paid to acquire debt instruments of other entities
- ▶ Cash paid to buy equity in other entities
- ▶ Disbursements made to purchase productive assets (i.e. manufacturing equipment)



Financial Ratios



WHO ARE YOU?

- ▶ How do you compare?
- ▶ What do we use?
- ▶ What category of business?
- ▶ How will your banker know?



North American Industry Classification System

- ▶ The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.
- ▶ NAICS was developed under the auspices of the Office of Management and Budget (OMB), and adopted in 1997 to replace the Standard Industrial Classification (SIC) system. It was developed jointly by the U.S. Economic Classification Policy Committee (ECPC), Statistics Canada This link to a non-federal Web site does not imply endorsement of any particular product, company, or content., and Mexico's Instituto Nacional de Estadística y Geografía This link to a non-federal Web site does not imply endorsement of any particular product, company, or content., to allow for a high level of comparability in business statistics among the North American countries.
- ▶ This official U.S. Government Web site provides the latest information on plans for NAICS revisions, as well as access to various NAICS reference files and tools.

▶ **NAICS** <http://www.census.gov/eos/www/naics/>

▶ **IT ALLOWS FOR COMPARISON OF LIKE BUSINESSES**



Financial Ratios



ANNUAL STATEMENT STUDIES

Financial Ratio Benchmarks



RMA

- ▶ How healthy is your company?
- ▶ Banker's Bible
- ▶ Data from bank clients
- ▶ Data Organized by NAICS* Code and by Size
- ▶ Most Widely Used Ratios
- ▶ Cooperation from the Construction Financial Management Association - CFMA (<http://www.cfma.org/>)
- ▶ Use as a Guide only –
Understand why your data may be different...

NAICS - North American Industry Classification System (<http://www.census.gov/eos/www/naics/>)



Key Ratios and Explanations

- ▶ Sales to Working Capital
- ▶ Current Ratio
- ▶ Quick Ratio
- ▶ Sales Receivables
- ▶ Days Receivable
- ▶ Cost of Sales/Inventory
- ▶ Days Inventory
- ▶ Cost of Sales/Payables
- ▶ Days Payables
- ▶ EBIT/Interest
- ▶ Sales/Assets
- ▶ %Officer Wages/Sales



RMA & Financials in Practice

- ▶ What adjustments do you need to make / or what to make and what are the consequences of each?
- ▶ How much income can you take and when?
- ▶ Need cash, should it be a Term Loan or Line of Credit?
- ▶ How do you rank compared to others in your industry?
- ▶ How are your collections?
- ▶ Do you have enough cash?
- ▶ How liquid are you?
- ▶ Is there a cash crunch about to take place?
- ▶ Where are your assets?



Business Plan Software

Creating Financial Projections



Business Plan Software or Excel Projections

- ▶ Ease of use.
- ▶ Helps you understand cash flow
- ▶ Helps you organize your thoughts
- ▶ Sales Projections and tie in to COGS
- ▶ Profitability Planning
- ▶ Helps with understanding your Financial Ratios
- ▶ Ease of Plan Adjustment
- ▶ **Performing “Stress Tests” What if....**
 - ▶ You receive a large contract
 - ▶ Your client fails to pay when anticipated
 - ▶ Your vendor demands COD



Thank you

END

