

SURVIVING FINANCIAL CHALLENGES CASE STUDY

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WisDOT DBE

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CASE STUDY ON

Fast Spring Contractors LLC

(It is a Fictitious Company and
resemblance to any business is regretted)

OVERVIEW

- Background & Description of Company
- Distinction of Financial Challenges
- Problem
- Analysis
- Proffered Solutions
- Performance Resources and Biz Templates
- Conclusions
- Questions?

FINANCIAL CHALLENGES

- Insurable
 - ❖ Disasters
 - ❖ Machinery breakdown
 - ❖ Human resource losses
- Non- Insurable*
 - ❖ Business Ups and Downs
 - ❖ Trade losses

**These are the categories for this presentation*

Background & Description of Company

- Company – Fast Spring Contractors LLC
- Established/Commenced Ops – Jan, 2006
- Offers array of construction Services
- DBE Certified
- Has Business Plan/3 Year Projections
- Obtained an SBA Guaranteed Loan
- Small Starting Equity
- Revenue took off at a fast pace
- Plan did not consider Working Capital

Fast Spring Contractors LLC

Fast Spring Contractors LLC

Forecasted Statements of Assets, Liabilities, and Member's Equity- Income Tax Basis

Assets	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Current Assets	\$	\$	\$	\$
Cash	15,985	80,973	245,419	566,303
Accounts Receivable	227,863			
Inventory	0	50,000	62,500	93,750
Total Current Assets	243,848	130,973	307,919	660,053
Fixed Assets				
Building, Plant, Equipment etc	609,710	828,461	922,211	1,109,710
Accumulated Depr	(42,746)	(136,800)	(246,478)	(370,219)
	566,964	691,661	675,733	739,491
Other Assets -				
Note Receivable - Member	259,838	259,838	259,838	259,838
Total Assets	1,070,649	1,082,471	1,243,489	1,659,381

Fast Spring Contractors LLC

Forecasted Statements of Assets, Liabilities, and Member's Equity- Income Tax Basis

Liabilities & Equity				
Liabilities				
Current Liabilities				
Payroll	84,556	3,125	5,000	7,500
Short Term Loan (LOC)	0	187,500	125,000	
Current Maturities	0	48,884	71,158	75,723
	84,556	239,509	201,158	83,223
Long Term Liabilities	739,405	838,591	767,433	691,710
Less Current Maturities	0	(48,884)	(71,158)	(75,724)
	739,405	789,707	696,276	615,986
Equity				
Member Contributions/(Distributions)	145,310	(151,149)	(259,415)	(397,122)
Retained Earnings	5,750	13,076	53,255	346,056
Net Income	95,628	191,328	552,216	1,011,238
Total Equity	246,688	53,255	346,056	960,172
Total Liabilities & Equity	1,070,649	1,082,471	1,243,489	1,659,381

Fast Spring Contractors LLC

- Business Plan (B/P)-

- ❖ Problem – *Industry Peculiarity*

- *Tax basis Financial Statement (Instead of Accrual Basis)*
 - *Working Capital requirement.*

- ❖ Analysis – *Low Margin; High Material Costs, High Payroll Cost*

- *Liquidity Ratios are misleading*
 - *AR Turnover Ratio is low – Long Cash Conversion Cycle*

- ❖ Proffered Solutions – *Understand your industry*

- *Ensure proper understanding of the B/P.*
 - *Use it as business management tool*
 - *B/P should be actionable.*

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- Business Loan (Guarantied by SBA)

- ❖ Problem – *Purpose & Planning for the loan*

- *Is the bank appropriate*
 - *Is the type of SBA Loan appropriate?*

- ❖ Analysis – *Do you meet the bank's criteria for SBA backed loans?*

- *What is the knowledge and history of the bank on SBA loans?*
 - *Would your bank sell the loan to other banks? SBA would not allow for duplicated fee charges by banks.*
 - *Transfer of SBA loan is difficult.*

- ❖ Proffered Solutions – *Develop your plan for SBA Loan well in advance*

- *Compliance - Sheet, sheet for Loan Covenants*

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Fast Spring Contractors LLC

Forecast Growth in Contract Payments

Years	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000
Contract Payments	945	1,788	2,682	4,024
Growth %		89.2%	50%	50%
Problem – ? Analysis – ? Solutions - ?				

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Forecast Growth in Contract Payments

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	\$'000	\$'000	\$'000	\$'000
Contract Payments	945	1,788	2,682	4,024
Growth %		89.2%	50%	50%
<p>Problem – Rapid growth in Sales</p> <p>Analysis – More debt/facilities to finance growth</p> <p>Solutions - Inject fresh capital; manage working capital</p>				

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Revenues - Actual Vs Plan



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Cost of Sales	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000
COS	271	572	804.7	1,126.6
Annual Growth %		111.5%	40.6%	40.0.0%
<p>Problem – ? Analysis – ? Solutions - ?</p>				

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Sample Working Capital Calculation -Operating Cycle Method			
Operating Cycle		Weeks	
Inventory		19	
Construction in Progress			
Materials		8	
Labor		8	
Overhead		3	
Completed jobs		2	
Debtors		4	
Creditors		4	
Working Capital Requirement		45	

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Labor Cost Plan	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000
Salary & Wages	373	592	819	1,277
Annual Growth %		58.6%	38.3%	56.0%
<p>Problem – ?</p> <p>Analysis – ?</p> <p>Solutions - ?</p>				

Fast Spring Contractors LLC

- Resources for Business Tools & Templates

- ❖ SBA – Visit: <https://www.sba.gov/business-guide>
Plan, Launch, Manage, Grow, Your Business

- ❖ SCORE – Visit : <https://www.score.org/content/take-workshop>

- Start Ups, Business Seminars and Workshops

- ❖ EXCEL – Visit: <https://templates.office.com/en-us/templates-for-Excel>

- For all templates you can think about – both Business and Personal

SURVIVING FINANCIAL CHALLENGES

- Questions?