

# **3 Ways Financial Information Can Make Your Business Thrive**

**Presented by:**

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# Presentation Goals

- **Understand basic financial statements – Balance Sheet, Income Statement, Cash Flow Statement**
  - Review basis building blocks of each statement and their meaning
  - How to read and what to look for in financial statements
- **How can understanding financial statements help me improve my business?**
  - Analyzing financial statements
- **Focus on Liquidity and Profitability**

# Presenter: Pavel Verbsky, CPA



Pavel Verbsky was born abroad in the Czech Republic. In 2002, he graduated from the University of Economics in Prague with a master degree in finance and accounting. He has worked in public accounting since 2003 when he moved to the USA. In 2005, he joined RLR, LLP in Fort Collins.

He enjoys working with business owners, helping them understand how to use accounting information efficiently. Pavel began volunteering for the Larimer SBDC in 2009. His focus is business valuations – helping potential buyers or sellers assess the value of a business.

# Introductions

- **Your name**
- **Your trade / business / industry**
- **How long in business?**
- **What accounting software do you use?**

# Understanding Your Statements

Why should you read and understand your business' financials?

***Would you drive a car without a dashboard?***



# Understanding Your Statements

**Financial statements are the dashboard of your business.**

- They are the language of the business – tell you how your business is doing financially.
- Understanding the past can help predict future (budgeting / what if?)
- Obtain / maintain financing sources
- Understand and improve your profitability
- Predict trouble
- Essential for buying and selling business

# Quick Review of Basic Financial Statements

## Review of the meaning and content of basic financial statements

- Balance Sheet
- Income Statement
- Cash Flow Statement

# Balance Sheet

A summary of what you **have** and **owe** at a single point in time.



## Assets

- Cash, Accounts Receivable, Inventory, Equipment, Intangible and Other Assets



## Debt

- All short-term and long-term financial obligations of the company, except leases



## Equity

- Your investment left in the company, plus all profits left in the company since it started



# Balance Sheet - Example

## Happy Joe's (Restaurant & Catering) Balance Sheet

As of December 31, Year 1

	<u>Year1</u>
<b>ASSETS</b>	
Current Assets	
Checking/Savings	16,400
Accounts Receivable	37,000
Inventory	<u>17,900</u>
Total Current Assets	71,300
Fixed Assets	
Furniture, Fixtures, Equipment	66,700
Accumulated Depreciation	<u>(46,000)</u>
Total Fixed Assets	<u>20,700</u>
<b>TOTAL ASSETS</b>	<u><u>92,000</u></u>

## LIABILITIES & EQUITY

### Liabilities

#### Current Liabilities

Accounts Payable	16,400
Credit Cards	9,300
Accrued Expense	15,000
Payroll Tax Payable	6,800
Sales Tax Payable	1,800
Customer Deposits	500
Line of Credit	<u>2,400</u>

    Total Current Liabilities 52,200

Total Liabilities 52,200

### Equity

Capital Stock	20,000
Retained Earnings - Prior Year	(34,700)
Distributions	0
Net Income	<u>54,500</u>

    Total Equity 39,800

**TOTAL LIABILITIES & EQUITY** 92,000

# Is the Balance Sheet correct?

Handout – common supporting documentation



# Income Statement

**Income Statement**, also commonly referred to as **Profit & Loss Statement**, displays the **revenues** recognized for a specific period and the **costs and expenses** charged against these revenues.

The purpose of the statement is to show how well the business has performed over the reported period.

It represents summary of net income over a period of time.

# Income Statement

Sales (Net)

Gross sales, net of discounts and returns and allowances.

Cost of Goods Sold

Products, materials, labor and freight used to generate sales (variable costs).

Gross Profit

Dollars remaining to pay operating expenses.

Operating Expenses

All selling and general administrative expenses, including depreciation, but not interest expense (fixed expenses).

Operating Profit

Profit generated from the day-to-day operations of the business.

# Income Statement - Example

## Happy Joe's (Restaurant & Catering) Income Statement

	<u>Year 1</u>
Income	
Catering Sales	539,500
Restaurant Sales	<u>213,000</u>
Total Income	<u>752,500</u>
Cost of Goods Sold	
Food & Drink	276,100
Labor	<u>89,600</u>
Total COGS	<u>365,700</u>
Gross Profit	386,800

Expense	
Advertising	17,800
Auto Expense	15,100
Depreciation Expense	12,600
Insurance	10,500
Office Supplies	900
Other Overhead Expenses	21,300
Professional Fees	10,300
Rent	114,000
Repairs & Maintenance	34,100
Salaries & Benefits	80,200
Utilities	<u>11,600</u>
Total Expense	<u>328,400</u>
Net Ordinary Income	58,400
Other Income/Expense	
Interest Expense	(2,200)
Other Gain (Loss)	<u>(1,700)</u>
Total Other Income	<u>(3,900)</u>
Net Income	<u><u>54,500</u></u>

# Profit vs. Cashflow

## Profit

Measures overall performance of the business.  
Compares **revenues** and **expenses** over a period of time.

## Cashflow

Time the business moves money in and out of a business. It is concerned with the ***time at which the movement of the money takes place.***

These are two crucial, but entirely **different** aspects of a business performance.

# True or False?

**Income Statement can be accurate even if  
Balance Sheet is not quite right.**



**There is no point reading your Income  
Statement until Balance Sheet is correct!**

# Is the Income Statement Correct?

- It is much harder to determine if Income Statement is correct and complete.
- If beginning Balance Sheet and ending Balance Sheet are both correct > **Net Income** should be right.





# Statement of Cash Flows

Statement of Cash Flows summarizes the flow of cash in and out of the business.

It shows where the business generated the cash and where the cash was spent – operating, investing, and financing activities.

It represents summary of net change in cash over a period of time.

# Statement of Cash Flows

## Operations

- Payments received from customers (accounts receivable)
- Payments made to vendors (accounts payable, payments for inventory & operating expenses - utilities, rent, etc)
- Payments made to employees (payroll, accruals)

## Investing

- Purchases / Proceeds from sale of property, plant and equipment
- Purchase / Proceeds from sale of investments

## Financing

- Borrowing on short term and long term debt
- Repayments of principle on debt
- Issuance of stock for cash
- Dividends to stockholders

- **Net increase/decrease in cash for the period**

# Cash Flow

**Operating** cashflow should always be positive in dollars

**Investing** and **Financing** cashflow can be negative, which stage of business cycle?

Note:

Statement is for Year 2, not year 1.

## Happy Joe's (Restaurant & Catering) Statement of Cash Flows For The Year Ended December 31, **Year 2**

### Cash Flows from Operating Activities

Net income	\$ 79,300
Adjustments to reconcile net income to net cash provided (used) by operating activities	
Depreciation	15,300
Decrease (increase) in current assets	
Accounts receivable	800
Inventory	(11,500)
Increase (decrease) in current liabilities	
Accounts payable	12,700
Accrued expense and taxes	5,300
Net cash provided (used) by operating activities	<u>101,900</u>

### Cash Flows from Investing Activities

Purchase of property and equipment	(145,600)
Sale of equipment	37,300
Net cash provided (used) by investing activities	<u>(108,300)</u>

### Cash Flows from Financing Activities

Net borrowings - short-term debt	1,100
Net borrowings - long-term loans	124,200
Shareholder distributions	(93,300)
Net cash provided (used) by financing activities	<u>32,000</u>

**Net increase (decrease)** 25,600

**Beginning of Period** 16,400

**End of Period** \$ 42,000

# Financial Statement Variables

- Cash basis or accrual basis of accounting
- Type of legal entity (C-corp v. S-Corp vs. Partnership)
- Type of industry (design and build vs. outsource)
- Current management priorities
- Quality of the financial statements
- Other accounting rules
  - Double entry system
  - Historical cost vs. Fair Market Value

Without knowing these variables, you cannot fully interpret the statements!

# Analyzing Financial Statements

**Developing stories behind the numbers**

# Types of Financial Analysis

- Dollar analysis (horizontal)
- Trend analysis (horizontal)
- Percentage analysis / Ratio analysis (vertical)
- Industry comparison

# Dollar & Trend Analysis – Balance Sheet

## Happy Joe's (Restaurant & Catering) Balance Sheet

As of December 31, Year 1

	Year1	Year 2	Year 3	Change %		Change \$	
				Yr 1 / Yr 2	Yr 2 / Yr 3	Yr 1 / Yr 2	Yr 2 / Yr 3
<b>ASSETS</b>							
Current Assets							
Checking/Savings	\$ 16,400	\$ 42,000	\$ 29,800	156.1%	-29.0%	\$ 25,600	\$ (12,200)
Accounts Receivable	37,000	36,200	25,500	-2.2%	-29.6%	(800)	(10,700)
Inventory	17,900	29,400	28,300	64.2%	-3.7%	11,500	(1,100)
Total Current Assets	71,300	107,600	83,600	50.9%	-22.3%	36,300	(24,000)
Fixed Assets							
Furniture, Fixtures, Equipment	66,700	191,200	210,900	186.7%	10.3%	124,500	19,700
Accumulated Depreciation	(46,000)	(77,500)	(92,800)	68.5%	19.7%	(31,500)	(15,300)
Total Fixed Assets	20,700	113,700	118,100	449.3%	3.9%	93,000	4,400
<b>TOTAL ASSETS</b>	<b>\$ 92,000</b>	<b>\$ 221,300</b>	<b>\$ 201,700</b>	140.5%	-8.9%	\$ 129,300	\$ (19,600)

# Happy Joe's (Restaurant & Catering)

## Balance Sheet

As of December 31, Year 1

	<u>Year1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Change %</u>		<u>Change \$</u>	
				<u>Yr 1 / Yr 2</u>	<u>Yr 2 / Yr 3</u>	<u>Yr 1 / Yr 2</u>	<u>Yr 2 / Yr 3</u>
<b>LIABILITIES &amp; EQUITY</b>							
Current Liabilities							
Accounts Payable	\$ 16,400	\$ 29,100	\$ 39,600	77.4%	36.1%	\$ 12,700	\$ 10,500
Credit Cards	9,300	8,000	12,500	-14.0%	56.3%	(1,300)	4,500
Accrued Expense	15,000	14,600	6,900	-2.7%	-52.7%	(400)	(7,700)
Payroll Tax Payable	6,800	11,100	1,800	63.2%	-83.8%	4,300	(9,300)
Sales Tax Payable	1,800	2,700	2,500	50.0%	-7.4%	900	(200)
Customer Deposits	500	1,000	500	100.0%	-50.0%	500	(500)
Line of Credit	2,400	4,800	7,900	100.0%	64.6%	2,400	3,100
Total Current Liabilities	52,200	71,300	71,700	36.6%	0.6%	19,100	400
Long Term Liabilities							
Long Term Bank Loans	0	27,900	27,900	x	0.0%	27,900	0
Equipment Leases	0	96,300	77,700	x	-19.3%	96,300	(18,600)
Total Long Term Liabilities	0	124,200	105,600	x	-15.0%	124,200	(18,600)
Total Liabilities	\$ 52,200	\$ 195,500	\$ 177,300	274.5%	-9.3%	\$ 143,300	\$ (18,200)
Equity							
Capital Stock	\$ 20,000	\$ 20,000	\$ 20,000	0.0%	0.0%	\$ -	\$ -
Retained Earnings - Prior Year	(34,700)	19,800	5,800	x	-70.7%	54,500	(14,000)
Distributions	0	(93,300)	(55,000)	x	-41.1%	(93,300)	38,300
Net Income	54,500	79,300	53,600	45.5%	-32.4%	24,800	(25,700)
Total Equity	39,800	25,800	24,400	-35.2%	-5.4%	(14,000)	(1,400)
TOTAL LIABILITIES & EQUITY	\$ 92,000	\$ 221,300	\$ 201,700	140.5%	-8.9%	\$ 129,300	\$ (19,600)



# Happy Joe's (Restaurant & Catering) Income Statement

	Year 1	Year 2	Year 3	Change %		Change \$	
				Yr 1 / Yr 2	Yr 2 / Yr 3	Yr 1 / Yr 2	Yr 2 / Yr 3
<b>Income</b>							
Catering Sales	539,500	522,200	498,200	-3.2%	-4.6%	\$ (17,300)	\$ (24,000)
Restaurant Sales	213,000	536,800	520,100	152.0%	-3.1%	\$ 323,800	\$ (16,700)
<b>Total Income</b>	752,500	1,059,000	1,018,300	40.7%	-3.8%	306,500	(40,700)
<b>Cost of Goods Sold</b>							
Food & Drink	276,100	404,000	361,800	46.3%	-10.4%	127,900	(42,200)
Labor	89,600	152,200	181,500	69.9%	19.3%		
<b>Total COGS</b>	365,700	556,200	543,300	52.1%	-2.3%	190,500	(12,900)
<b>Gross Profit</b>	386,800	502,800	475,000	30.0%	-5.5%	116,000	(27,800)
<b>Expense</b>							
Advertising	17,800	22,700	15,900	27.5%	-30.0%	\$ 4,900	\$ (6,800)
Auto Expense	15,100	8,200	6,900	-45.7%	-15.9%		
Depreciation Expense	12,600	15,300	18,900	21.4%	23.5%		
Insurance	10,500	16,000	13,800	52.4%	-13.8%	\$ 5,500	\$ (2,200)
Office Supplies	900	5,800	3,800	544.4%	-34.5%	4,900	(2,000)
Other Overhead Expenses	21,300	29,200	24,300	37.1%	-16.8%	7,900	(4,900)
Professional Fees	10,300	3,500	41,400	-66.0%	1082.9%	(6,800)	37,900
Rent	114,000	114,700	104,400	0.6%	-9.0%	700	(10,300)
Repairs & Maintenance	34,100	23,200	40,700	-32.0%	75.4%	(10,900)	17,500
Salaries & Benefits	80,200	163,700	127,300	104.1%	-22.2%	83,500	(36,400)
Utilities	11,600	15,200	14,400	31.0%	-5.3%	3,600	(800)
<b>Total Expense</b>	328,400	417,500	411,800	27.1%	-1.4%		
<b>Net Ordinary Income</b>	58,400	85,300	63,200	46.1%	-25.9%	26,900	(22,100)
<b>Other Income/Expense</b>							
Interest Expense	(2,200)	(8,400)	(9,600)	281.8%	14.3%	(6,200)	(1,200)
Other Gain (Loss)	(1,700)	2,400	-	-241.2%	-100.0%	\$ 4,100	\$ (2,400)
<b>Total Other Income</b>	(3,900)	(6,000)	(9,600)	53.8%	60.0%		
<b>Net Income</b>	54,500	79,300	53,600	45.5%	-32.4%	\$ 24,800	\$ (25,700)

# Multi-Month View of Income Statement

Excellent way to get to know your business

## Happy Joe's (restaurant & catering)

### Income Statement

January through December, Year 2

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
<b>Income</b>													
Catering Sales	17,145	34,236	17,011	27,587	40,279	51,818	57,289	59,335	41,395	47,099	29,781	99,253	\$ 522,227
Restaurant Sales	22,047	41,746	44,371	42,938	52,177	50,510	47,591	49,784	41,660	45,353	50,555	48,036	536,768
<b>Total Income</b>	<b>39,191</b>	75,982	61,383	70,526	92,456	<b>102,328</b>	104,880	<b>109,119</b>	83,055	92,451	80,335	<b>147,288</b>	\$ 1,058,994

# Vertical Analysis

Looking at a particular line item as a percentage of a different line item.

- Balance Sheet formula =  $\text{line item} / \text{Total Assets}$
- Income Statement formula =  $\text{line item} / \text{Sales}$

This converts financial statements into “common size” statements => comparable across time periods or entities.

# Happy Joe's (Restaurant & Catering)

## Balance Sheet

As of December 31

	Year 1	%	Year 2	%	Year 3	%
<b>ASSETS</b>						
Current Assets						
Checking/Savings	\$ 16,400	17.8%	\$ 42,000	19.0%	\$ 29,800	14.8%
Accounts Receivable	37,000	40.2%	36,200	16.4%	25,500	12.6%
Inventory	17,900	19.5%	29,400	13.3%	28,300	14.0%
Total Current Assets	71,300	77.5%	107,600	48.6%	83,600	41.4%
Total Fixed Assets	20,700	22.5%	113,700	51.4%	118,100	58.6%
<b>TOTAL ASSETS</b>	<b>\$ 92,000</b>	<b>100.0%</b>	<b>\$ 221,300</b>	<b>100.0%</b>	<b>\$ 201,700</b>	<b>100.0%</b>
<b>LIABILITIES &amp; EQUITY</b>						
Total Current Liabilities	52,200	56.7%	71,300	32.2%	71,700	35.5%
Total Long Term Liabilities	0	0.0%	124,200	56.1%	105,600	52.4%
Total Liabilities	\$ 52,200	56.7%	\$ 195,500	88.3%	\$ 177,300	87.9%
Total Equity	39,800	43.3%	25,800	11.7%	24,400	12.1%
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 92,000</b>	<b>100.0%</b>	<b>\$ 221,300</b>	<b>100.0%</b>	<b>\$ 201,700</b>	<b>100.0%</b>

## Happy Joe's (Restaurant & Catering) Income Statement

	Year 1	%	Year 2	%	Year 3	%
<b>Income</b>						
Catering Sales	539,500	71.7%	522,200	49.3%	498,200	48.9%
Restaurant Sales	213,000	28.3%	536,800	50.7%	520,100	51.1%
<b>Total Income</b>	<b>752,500</b>	<b>100.0%</b>	<b>1,059,000</b>	<b>100.0%</b>	<b>1,018,300</b>	<b>100.0%</b>
<b>Cost of Goods Sold</b>						
Food & Drink	276,100	36.7%	404,000	38.1%	361,800	35.5%
Labor	89,600	11.9%	152,200	14.4%	181,500	17.8%
<b>Total COGS</b>	<b>365,700</b>	<b>48.6%</b>	<b>556,200</b>	<b>52.5%</b>	<b>543,300</b>	<b>53.4%</b>
<b>Gross Profit</b>	<b>386,800</b>	<b>51.4%</b>	<b>502,800</b>	<b>47.5%</b>	<b>475,000</b>	<b>46.6%</b>
<b>Expense</b>						
Advertising	17,800	2.4%	22,700	2.1%	15,900	1.6%
Auto Expense	15,100	2.0%	8,200	0.8%	6,900	0.7%
Depreciation Expense	12,600	1.7%	15,300	1.4%	18,900	1.9%
Insurance	10,500	1.4%	16,000	1.5%	13,800	1.4%
Office Supplies	900	0.1%	5,800	0.5%	3,800	0.4%
Other Overhead Expenses	21,300	2.8%	29,200	2.8%	24,300	2.4%
Professional Fees	10,300	1.4%	3,500	0.3%	41,400	4.1%
Rent	114,000	15.1%	114,700	10.8%	104,400	10.3%
Repairs & Maintenance	34,100	4.5%	23,200	2.2%	40,700	4.0%
Salaries & Benefits	80,200	10.7%	163,700	15.5%	127,300	12.5%
Utilities	11,600	1.5%	15,200	1.4%	14,400	1.4%
<b>Total Expense</b>	<b>328,400</b>	<b>43.6%</b>	<b>417,500</b>	<b>39.4%</b>	<b>411,800</b>	<b>40.4%</b>
<b>Net Ordinary Income</b>	<b>58,400</b>	<b>7.8%</b>	<b>85,300</b>	<b>8.1%</b>	<b>63,200</b>	<b>6.2%</b>
<b>Other Income/Expense</b>						
Interest Expense	(2,200)	-0.3%	(8,400)	-0.8%	(9,600)	-0.9%
Other Gain (Loss)	(1,700)	-0.2%	2,400	0.2%	-	0.0%
<b>Total Other Income</b>	<b>(3,900)</b>	<b>-0.5%</b>	<b>(6,000)</b>	<b>-0.6%</b>	<b>(9,600)</b>	<b>-0.9%</b>
<b>Net Income</b>	<b>54,500</b>	<b>7.2%</b>	<b>79,300</b>	<b>7.5%</b>	<b>53,600</b>	<b>5.3%</b>

# Vertical Analysis – Profit Margins

## Profit Margin

- Single most powerful indicator of a company's health.
- **Myth**: Increased earnings leads to a higher gross profit margin. If company's costs have increased at a greater rate than sales, it leads to a lower gross profit margin.

# Types of Profit Margins

## Gross Profit Margin

- Measures how **efficiently** management **uses labor and materials** in the production process. The higher the margin, the more money will company have to spend on business operations.

## Operating Profit Margin

- Indicates how successful management has been in generating income from the operation of the business. High operating profits can mean the company has effective control of costs, or that sales are increasing faster than operating costs.

## Net Profit Margin

- Shows how effective the company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit.

# Small change – big effect

Even relatively small changes in gross profit margin % have significant impacts on profitability.

<u>Gross Profit Margin change</u>		4% decrease		4% increase	
Income	1,000,000	1,000,000		1,000,000	
Cost of Goods Sold	500,000	540,000		460,000	
<b>Gross Profit</b>	500,000 50%	460,000 46%		540,000 54%	
Expense	400,000	400,000		400,000	
<b>Net Ordinary Income</b>	<b>100,000 10%</b>	<b>60,000 6%</b>		<b>140,000 14%</b>	



# Major Types of Ratios

- **Liquidity Ratios** – measures of the enterprise's short-term ability to pay its maturing obligations.
- **Activity Ratios** – measures of how effectively the enterprise is using the assets employed.
- **Profitability Ratios** – measures of the degree of success or failure of a given enterprise for a given period of time.
- **Coverage Ratios** – measures of the degree of protection for long-term creditors and investors.

See handout for extended list of ratios,  
their formulas and purpose.

# Ratio Analysis – Balance Sheet

- **Current Ratio**

Formula = **Current Assets / Current Debt**

Indicates the company's ability to pay its current debt

- **Quick Ratio**

Formula = **(Cash + A/R) / Current Debt**

A more conservative 'acid test' of the company's ability to pay current debt.

- **Debt to Worth Ratio**

Formula = **Total Debt / Equity**

Ratio measures the relationship between debt and equity and who has claims on the assets of the company

# Ratio Analysis – Balance Sheet (cont.)

- **Return on Investment (after tax)**

Formula = **Net Income/ Equity**

Measures the profit generated for every dollar invested in the company.

- **Return on Assets (after tax)**

Formula = **Net Income/ Total Assets**

Ratio measures the profit generated for every dollar invested in assets of the company.

# Ratio Analysis – Income Statement

- **Sales to Receivables**

Formula = **Sales / Accounts Receivable**

Measures the number of times that trade receivables 'turn over' in a year.

- **Cost of Sales to Inventory**

Formula = **COGS / Inventory**

Ratio measures the number of times that inventory 'turns over' in a year.

Both ratios can be converted to average days A/R outstanding (inventory held)

Formula =  $365 / \# \text{ of turns}$

### Happy Joe's (Restaurant & Catering)

### Balance Sheet

As of December 31

	Year 1	%	Year 2	%	Year 3	%
<b>ASSETS</b>						
Current Assets						
Checking/Savings	\$ 16,400	17.8%	\$ 42,000	19.0%	\$ 29,800	14.8%
Accounts Receivable	37,000	40.2%	36,200	16.4%	25,500	12.6%
Inventory	17,900	19.5%	29,400	13.3%	28,300	14.0%
Total Current Assets	71,300	77.5%	107,600	48.6%	83,600	41.4%
Total Fixed Assets	20,700	22.5%	113,700	51.4%	118,100	58.6%
<b>TOTAL ASSETS</b>	<b>\$ 92,000</b>	<b>100.0%</b>	<b>\$ 221,300</b>	<b>100.0%</b>	<b>\$ 201,700</b>	<b>100.0%</b>
<b>LIABILITIES &amp; EQUITY</b>						
Total Current Liabilities	52,200	56.7%	71,300	32.2%	71,700	35.5%
Total Long Term Liabilities	0	0.0%	124,200	56.1%	105,600	52.4%
<b>Total Liabilities</b>	<b>\$ 52,200</b>	<b>56.7%</b>	<b>\$ 195,500</b>	<b>88.3%</b>	<b>\$ 177,300</b>	<b>87.9%</b>
<b>Total Equity</b>	<b>39,800</b>	<b>43.3%</b>	<b>25,800</b>	<b>11.7%</b>	<b>24,400</b>	<b>12.1%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 92,000</b>	<b>100.0%</b>	<b>\$ 221,300</b>	<b>100.0%</b>	<b>\$ 201,700</b>	<b>100.0%</b>
Current Ratio	1.37		1.51		1.17	
Quick Ratio	1.02		1.10		0.77	
Debt to Equity Ratio	1.31		7.58		7.27	
Return on Equity *	137%		307%		220%	
Return on Assets *	59%		36%		27%	

### Happy Joe's (Restaurant & Catering) Income Statement

	Year 1	Year 2	Year 3
Total Income	752,500	1,059,000	1,018,300
Total COGS	365,700	556,200	543,300
<b>Gross Profit</b>	<b>386,800</b>	<b>502,800</b>	<b>475,000</b>
Total Expense	328,400	417,500	411,800
<b>Net Ordinary Income</b>	<b>58,400</b>	<b>85,300</b>	<b>63,200</b>
Total Other Income	(3,900)	(6,000)	(9,600)
<b>Net Income</b>	<b>54,500</b>	<b>79,300</b>	<b>53,600</b>
 <b>Gross Profit Margin</b>	 51.40%	 47.48%	 46.65%
<b>Net Profit Margin</b>	7.24%	7.49%	5.26%
<b>Sales To Receivables</b>	20 x	29 x	40 x
<b>COGS To Inventory</b>	15 x	14 x	13 x
<b>COGS To Purchases</b>	17 x	14 x	09 x
 <b>Cash Cycle</b>			
Accounts Receivable Days	18	12	9
Inventory Days	24	27	29
less Accounts Payable Day	(22)	(26)	(40)
<b>Total cash cycle</b>	<b>20</b>	<b>13</b>	<b>(2)</b>

# Industry Comparisons

Is my business performing better, similar or worse than other comparable businesses?

What are industry standard values for various ratios?

Every business is unique – yet not so unique as to be without competition / comparison.

# Industry Information

- Industry associations
- Free resources
  - RMA Statement Studies (Risk Management Assoc.)  
Available at SBDC, most public libraries
  - ProfitCents (available at SBDC)
  - Fort Collins Library – business databases
- Other paid resources
  - Trade / industry associations, Financial Research Associates, CPA firms
- Generally driven by NAICS (SICS)
  - [www.census.gov/eos/www/naics](http://www.census.gov/eos/www/naics)



## sageworks<sup>®</sup> Industry Data and Analysis

**Industry:** 72211 - Full-Service Restaurants  
**Sales Range:** Yearly sales \$1 Million to \$10 Million  
**Data Source:** Private Companies  
**Location:** US - West - Colorado What's my region?  
**Prepared On:** 1/16/2011

### INDUSTRY FINANCIAL DATA AND RATIOS

#### Average by Year (Number of Financial Statements)

Financial Metric	2009 (12)	All Years (145)
Current Ratio	1.60	1.27
Quick Ratio	1.26	0.78
Gross Profit Margin	51.62%	54.71%
Net Profit Margin	6.02%	5.59%
Inventory Days	12.50	15.86
Accounts Receivable Days	0.87	0.58
Accounts Payable Days	18.08	22.51
Interest Coverage Ratio	12.47	9.57
Debt-to-Equity Ratio	1.23	2.08
Debt Service Coverage Ratio	N/A	3.05
Return on Equity	21.23%	22.32%
Return on Assets	27.13%	16.51%

## INDUSTRY DATA COMMON SIZE

Average by Year (Number of Financial Statements)

Income Statement	2009 (12)	All Years (145)
Sales (Income)	100.00%	100.00%
Cost of Sales (COGS)	48.38%	45.29%
Gross Profit	51.62%	54.71%
Depreciation	2.79%	2.23%
Overhead or S,G,& A Expenses	30.37%	37.18%
Payroll	20.03%	23.48%
Rent	6.16%	6.94%
Advertising	1.77%	1.68%
Other Operating Income	0.18%	0.21%
Other Operating Expenses	11.66%	8.93%
Operating Profit	9.69%	6.52%
Interest Expense	0.42%	0.76%
Other Income	0.09%	0.23%
Other Expenses	0.45%	0.42%
Net Profit Before Taxes	4.88%	5.57%

Balance Sheet	2009 (12)	All Years (145)
Cash (Bank Funds)	23.66%	17.54%
Accounts Receivable	0.90%	1.06%
Inventory	4.79%	8.39%
Other Current Assets	2.47%	5.51%
<b>Total Current Assets</b>	<b>35.08%</b>	<b>38.85%</b>
Gross Fixed Assets	174.29%	122.96%
Accumulated Depreciation	124.02%	71.91%
Net Fixed Assets	36.51%	51.05%
Other Assets	9.31%	10.10%
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>
Accounts Payable	10.87%	14.79%
Notes Payable / Current Portion of Long Term Debt	1.72%	1.73%
Other Current Liabilities	21.54%	21.81%
<b>Total Current Liabilities</b>	<b>34.02%</b>	<b>38.55%</b>
<b>Total Long Term Liabilities</b>	<b>37.07%</b>	<b>47.28%</b>
<b>Total Liabilities</b>	<b>71.09%</b>	<b>85.83%</b>
Ending Retained Earnings	6.94%	-11.80%
<b>Total Equity</b>	<b>39.20%</b>	<b>14.17%</b>

# 3 Ways ...

1

- Assess accuracy of your financial statements and obtain their deeper understanding

2

- Monitor key financial indicators – gross profit margin, quick ratio, etc.

3

- Compare your financial information to your own results over time and to your competition.

# Next Steps

- Review existing past financial statements – what can you now see?
- Review new financial statements periodically (monthly or quarterly)
- Determine a few key financial ratios for your business
- Find comparative industry data
  - how is your business doing?
- Seek help if you have trouble interpreting your data
- SBDC counselors or professional referrals will be able to help you.

# Evaluation / Feedback

Please fill out class evaluation that will be emailed to you & provide us feedback.

Help us make this class better!

# Presentation prepared by Pavel Verbsky of RLR, LLP



# Thank You!

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