



Bucks County

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Business Finances Made Simple

Small Business facts

- Small Business is a major engine of the US Economy – on average about 450,000 new businesses created every year.
- 50% of them fail before 5 years
- Surveys indicate that financial performance is at the forefront among causes of business failure – 80% cash flow problems, 40% no plan
- Many perceived barriers about financial tools

Managing a Business



AGENDA

Introduction

Financial Statements

Financial Management

Summary

Bookkeeping vs Accounting

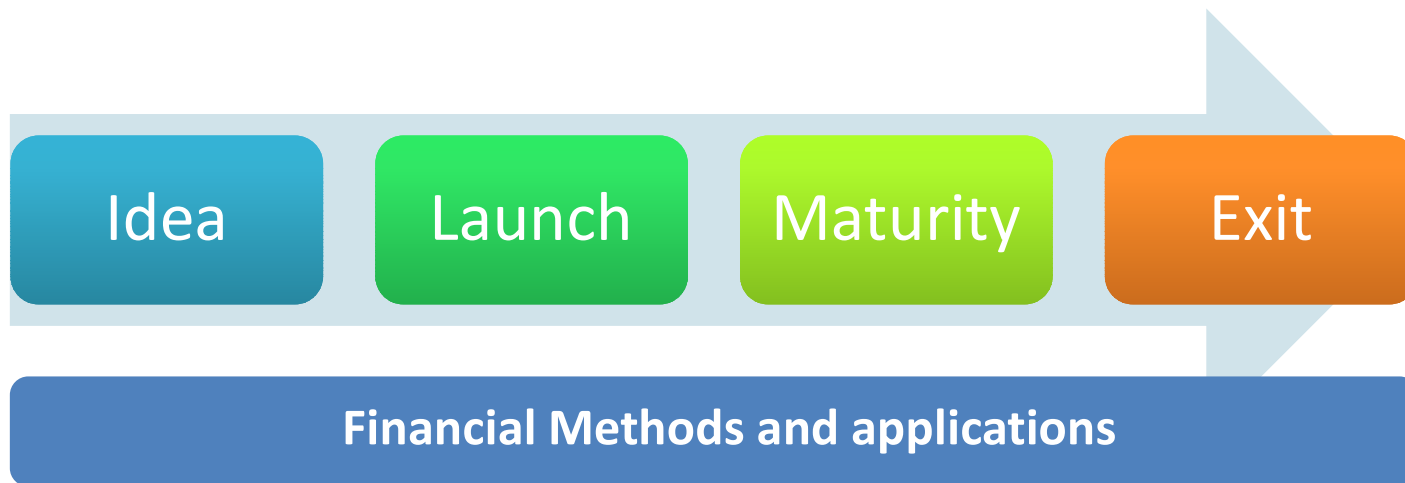
Accounting, refers to the process of recording, classifying and summarizing in monetary terms, the business transactions and events and interpreting the results

	Bookkeeping	Accounting
Meaning	the recording of transactions and so the work is clerical in nature.	all about summarizing the recorded transactions, which require a high level of subject knowledge, expertise, and analytical skills.
What is it?	It is the subset of accounting.	It is regarded as the language of business.
Tools	Journal and Ledgers	Financial Statements Balance Sheet, Income Statement and Cash Flow Statement
Financial Position	does not reflect the financial position of an organization.	Summarizes the financial position of the entity.

There are different specializations in Accounting

	Financial Accounting	Managerial Accounting
Objectives	Prepare company wide summarized financial reports – macro view	Provide relevant financial information to management – micro view
Users	Investors, Regulatory Agencies, stockholders	Managers who plan and control an organization
Time	Past events and historic data	Forward-looking information
Content	Financial information	More likely to incorporate non-financial information to managers
Rules	Must follow GAAP and prescribed formats	Not regulated
Requirement	Prepared on a periodic basis	Prepared frequently, as needed

Different Financial analyses are required along the business cycle – from start to exit



Financial Statements

Financial statements provide a narrative that explains your business

INCOME STATEMENT

CASH FLOW
STATEMENT

BALANCE SHEET

Profit & Loss or Income Statement

P&L summarizes the revenues, costs and expenses incurred during a specified period of time

Different types of expenses

Direct

- Expenses associated with production and delivery of the product or service

Indirect (or fixed)

- Expenses associated with the operation of the business

Income Statement

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 29, 2018	September 30, 2017	September 24, 2016
Net sales	\$ 265,595	\$ 229,234	\$ 215,639
Cost of sales	163,756	141,048	131,376
Gross margin	38.3% 101,839	88,186	84,263
Operating expenses:			
Research and development	14,236	11,581	10,045
Selling, general and administrative	16,705	15,261	14,194
Total operating expenses	30,941	26,842	24,239
Operating income	26.7% 70,898	61,344	60,024
Other income/(expense), net	2,005	2,745	1,348
Income before provision for income taxes	72,903	64,089	61,372
Provision for income taxes	13,372	15,738	15,685
Net income	\$ 59,531	\$ 48,351	\$ 45,687

Income Statement Format – Simple Example

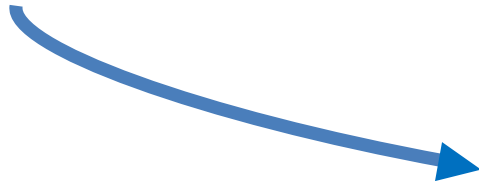
Company Business Performance in 2019

- Sold 10,000 units at avg price of \$25/unit
- Product cost: \$14/unit
- Lease: \$20,000
- Marketing: \$15,000
- Payroll: \$50,000

Income Statement Format – Example

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Profit & Loss Statement

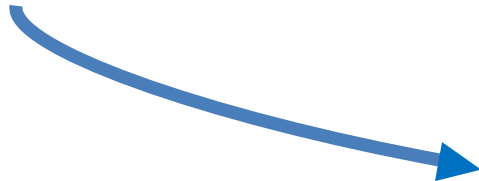
Period: 2019

Revenue		250,000
Cost of Goods Sold (COGS)	<u>140,000</u>	
Gross Profit (margin)		110,000 (44%)

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Profit & Loss Statement

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Less indirect costs (fixed)		
Marketing	15,000	
Lease	20,000	
Payroll	<u>50,000</u>	
	85,000	
Income from Operations		25,000 (10%)

Income Statement application comparison

Profit & Loss Statement FY2019

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Apple Annual Report

Profit & Loss Statement 2020 Financial Plan

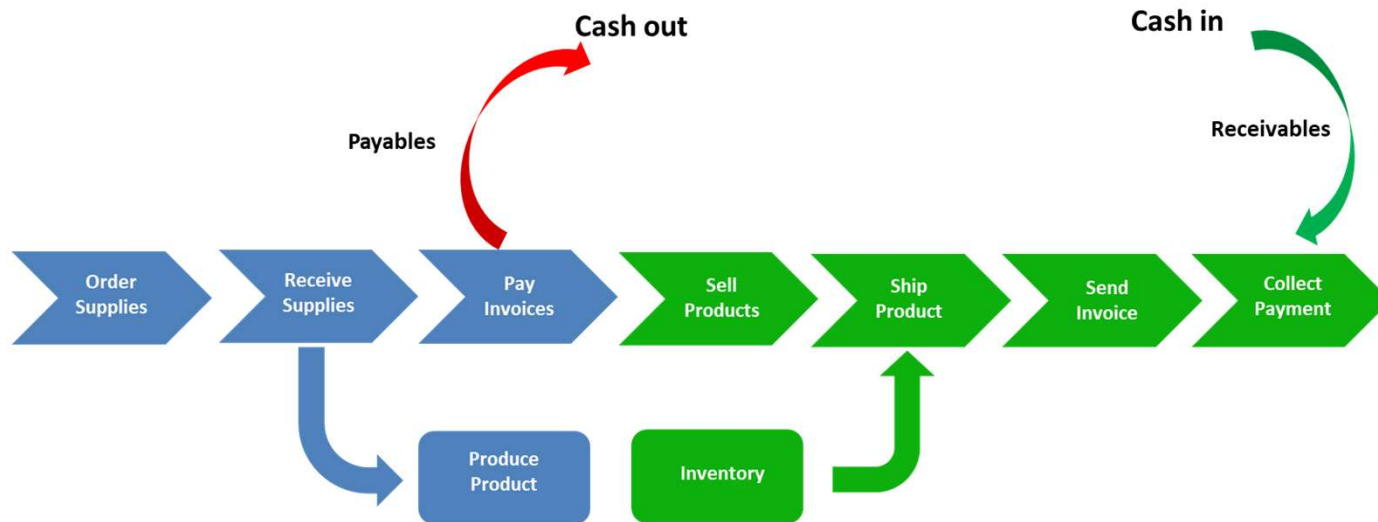
	Jan	Feb	Mar
Segment 1			
Revenue			
COGS			
Gross Profit			
Segment 2			
Revenue			
COGS			
Gross Profit			
Total Revenue			
Total COGS			
Total Gross Profit			

Management Planning and monitoring

Cash Flow Statement

It tracks the inflow and outflow of **cash** resulting from operating, investing and financing activities during a given time period – net cash available and future needs

Flow of cash through operations

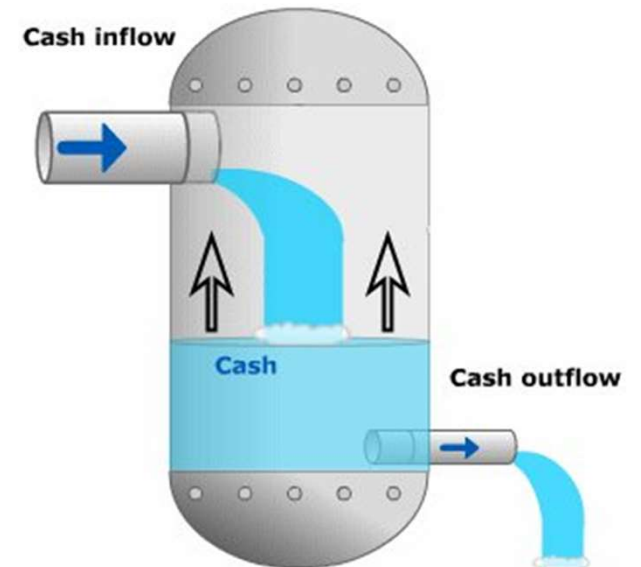
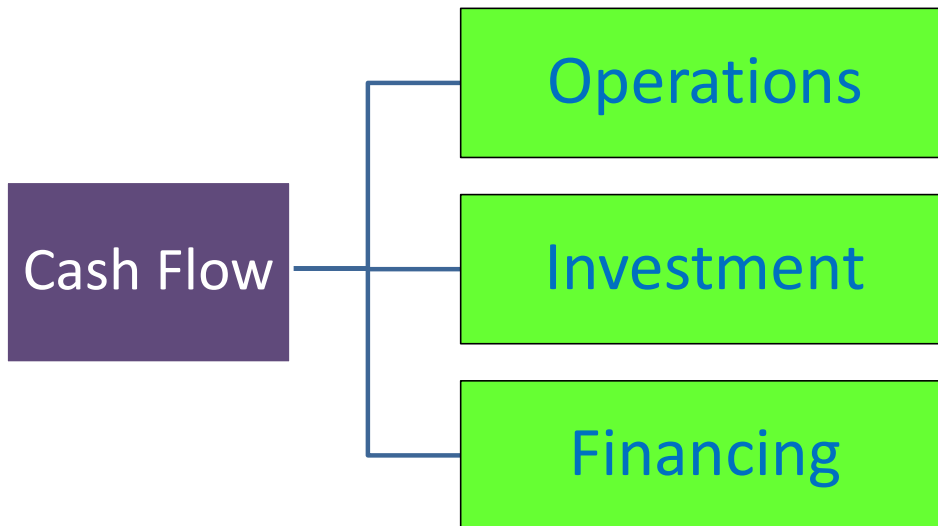


DELUXE eBook 2019

Types of cash flow

Inflow	Outflow
Cash sales	Payment to suppliers
Accounts receivables	Wages and salaries
Investment capital	Payment for fixed assets
Bank loans	Tax on profits
Sale of fixed assets	Paying interest on loans
Grants	Dividends paid to shareholders
	Repayment of loans

Elements of Cash Flow



Cash flow from operations example

Apple Inc.

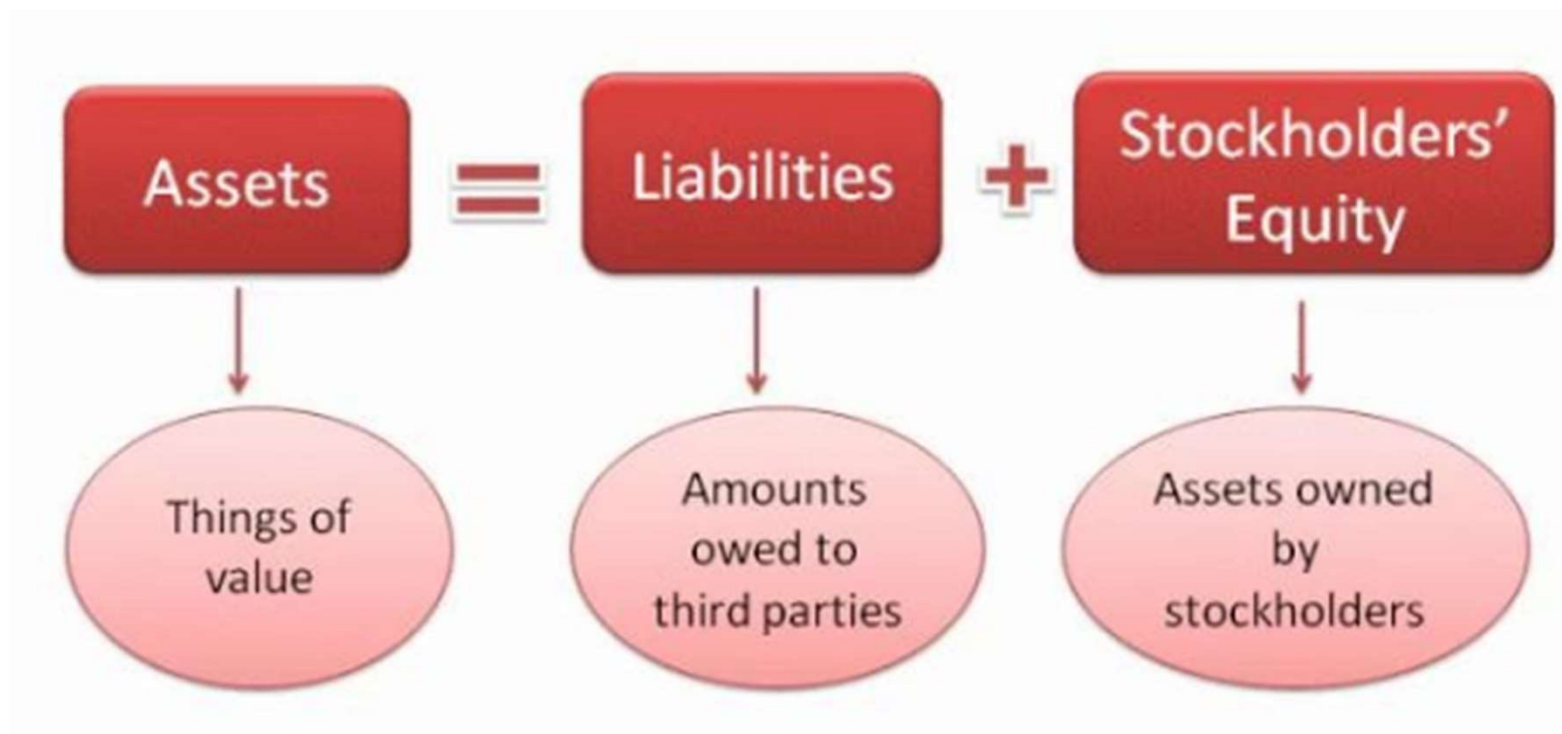
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended		
	September 29, 2018	September 30, 2017	September 24, 2016
Cash and cash equivalents, beginning of the year	\$ 20,289	\$ 20,484	\$ 21,120
Operating activities:			
Net income	59,531	48,351	45,687
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	10,903	10,157	10,505
Share-based compensation expense	5,340	4,840	4,210
Deferred income tax expense/(benefit)	(32,590)	5,966	4,938
Other	(444)	(166)	486
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,322)	(2,093)	527
Inventories	828	(2,723)	217
Vendor non-trade receivables	(8,010)	(4,254)	(51)
Other current and non-current assets	(423)	(5,318)	1,055
Accounts payable	9,175	8,966	2,117
Deferred revenue	(44)	(626)	(1,554)
Other current and non-current liabilities	38,490	1,125	(1,906)
Cash generated by operating activities	77,434	64,225	66,231

Balance Sheet

It reports a company's assets, liabilities, and equity at a single moment in time – net worth statement

The basic accounting equation – Balance Sheet



Balance Sheet a

Apple Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	<u>September 29, 2018</u>	<u>September 30, 2017</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 25,913	\$ 20,289
Marketable securities	40,388	53,892
Accounts receivable, net	23,186	17,874
Inventories	3,956	4,855
Vendor non-trade receivables	25,809	17,799
Other current assets	12,087	13,936
Total current assets	<u>131,339</u>	<u>128,645</u>
Non-current assets:		
Marketable securities	170,799	194,714
Property, plant and equipment, net	41,304	33,783
Other non-current assets	22,283	18,177
Total non-current assets	<u>234,386</u>	<u>246,674</u>
Total assets	<u>\$ 365,725</u>	<u>\$ 375,319</u>

Balance Sheet b

LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Accounts payable	\$	55,888	\$ 44,242
Other current liabilities		32,687	30,551
Deferred revenue		7,543	7,548
Commercial paper		11,964	11,977
Term debt		8,784	6,496
Total current liabilities		<u>116,866</u>	<u>100,814</u>
Non-current liabilities:			
Deferred revenue		2,797	2,836
Term debt		93,735	97,207
Other non-current liabilities		45,180	40,415
Total non-current liabilities		<u>141,712</u>	<u>140,458</u>
Total liabilities		<u>258,578</u>	<u>241,272</u>
Commitments and contingencies			
Shareholders' equity:			
Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 4,754,986 and 5,126,201 shares issued and outstanding, respectively		40,201	35,867
Retained earnings		70,400	98,330
Accumulated other comprehensive income/(loss)		(3,454)	(150)
Total shareholders' equity		<u>107,147</u>	<u>134,047</u>
Total liabilities and shareholders' equity	\$	<u>365,725</u>	\$ <u>375,319</u>

Financial Management

Your Account is your partner

- Accounting appears simple but it requires detailed knowledge of its principles. In many cases, the application of the tools described is simple and straightforward.
- As the business evolve and grow to include payroll, equipment, ... the complexity of these tools for planning purposes becomes more significant and you will need guidance from your Accountant

Business Management at different levels

- Recognition that small business are at different levels in the management of the business
- A couple of specific approaches for P&L for monitoring financial performance:
 1. Optimize present operations
 2. If no Business Plan, track month-to-month financials
 3. If Business Plan in place, track actual against plan financials
- Simple example of cash flow forecast

1 – Optimize existing operations

- Businesses generally evolve in incremental ways to fix specific problems without proper attention to costs.
- Inspect gross margin to see if it is consistent with your business: volume of business, pricing, and direct costs
- Review indirect costs and ensure that it is as efficient as possible: outsourcing, technology, processes
- Evaluate small improvements in all lines and use the P&L to evaluate impact. Even 1 or 2% improvement makes a bigger impact on net profitability

Income Statement Format – Example

Company Business Performance in 2019

- Sold 10,000 units at avg price of \$25/unit
- Product cost: \$14/unit
- Lease: \$20,000
- Marketing: \$15,000
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Changes:
Revenue: 2% higher price
COGS: 2% reduction
Indirect costs: 2% reduction

Profit & Loss Statement

Period: 2019

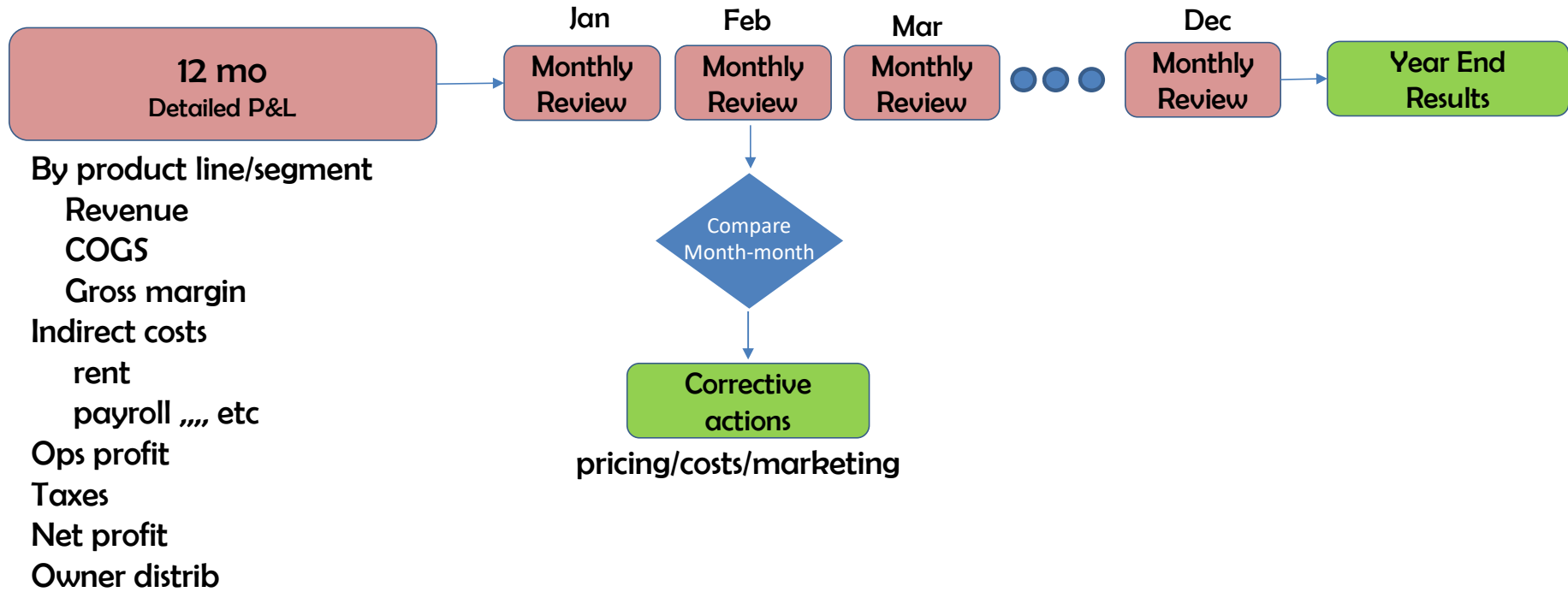
Revenue		250,000	
Cost of Goods Sold (COGS)	<u>140,000</u>		
Gross Profit (margin)		110,000	(44%) 46.2%
Less indirect costs (fixed)			
	Marketing	15,000	
	Lease	20,000	
	Payroll	<u>50,000</u>	
		85,000	
Income from Operations		25,000	(10%) 13.5%
		9,500↑	

Small changes can make a big difference!!

2 – Track month-to-month financials

- If you do not have a Financial Plan, you still get some insights of financial performance by tracking the results every month
- Create a spread sheet for your P&L by month and begin to record actual results every month
- Review month to month variations of key lines in your P&L statement and determine trends. In particular, the ratios **GROSS MARGIN** (as % revenue) and **NET MARGIN** (as % of revenue) are important to determine actions required

Financial Monitoring



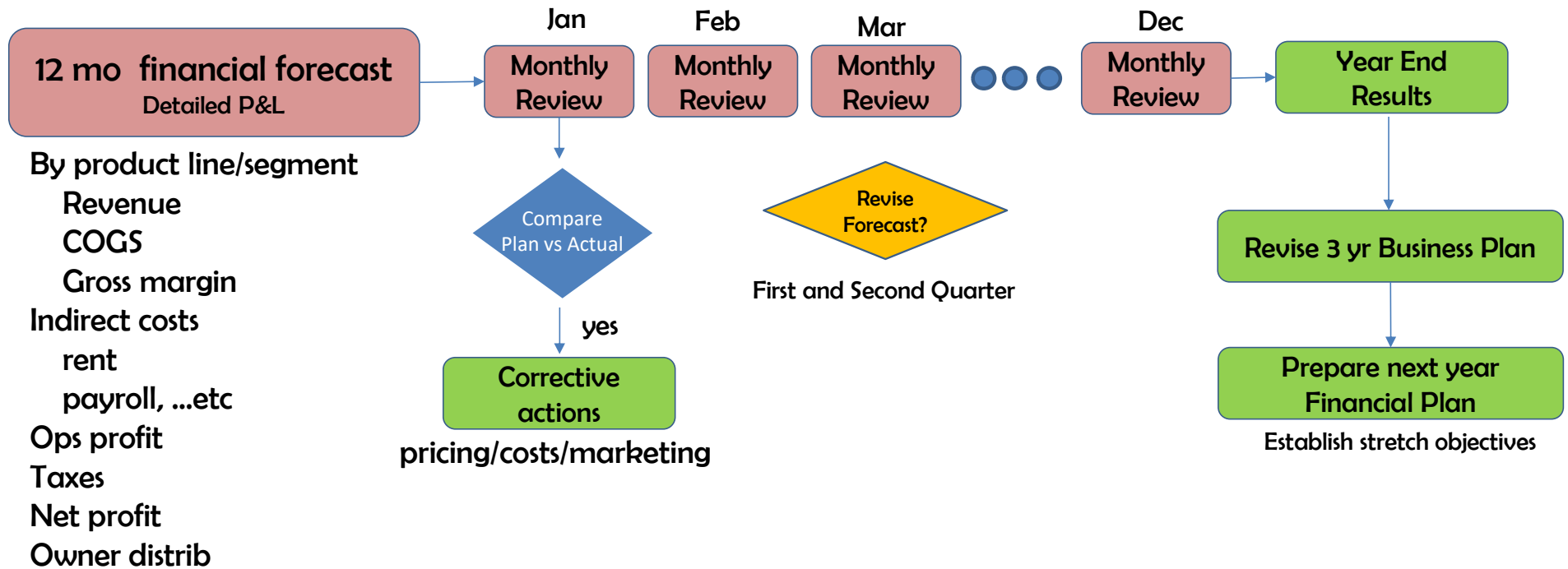
3 - Business Plan

- If you have a Business Plan, you already have multiple year forecast for the business, i.e., P&L projections for that period
 - This is done by estimating on a go forward basis key elements of your business, i.e., your educated guess of demand, costs, investments... based on your knowledge of the product, market, competition,...
 - Based on this long range plan, an Annual Budget is then established every year - P&L by month which becomes your plan for that year
 - Develop a or
- Planning and forecasting are skills that can be developed.
You should not expect to be great at the start!!

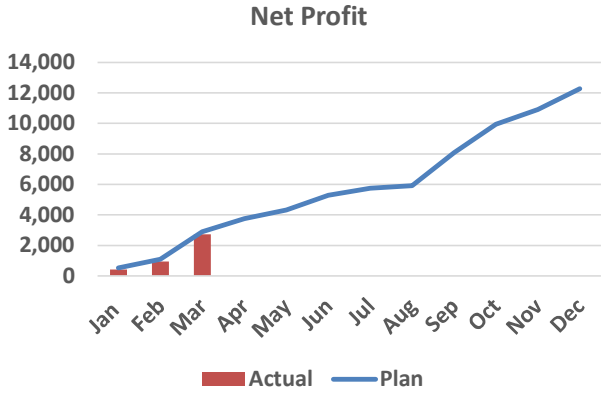
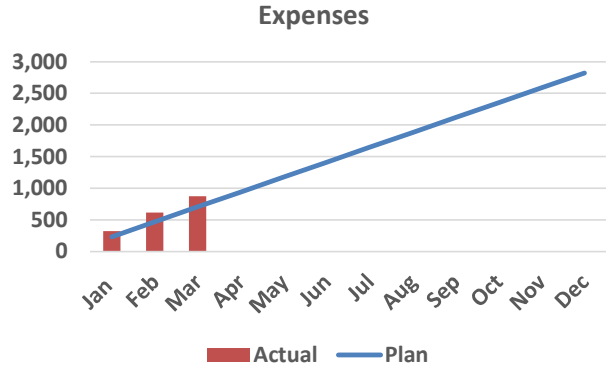
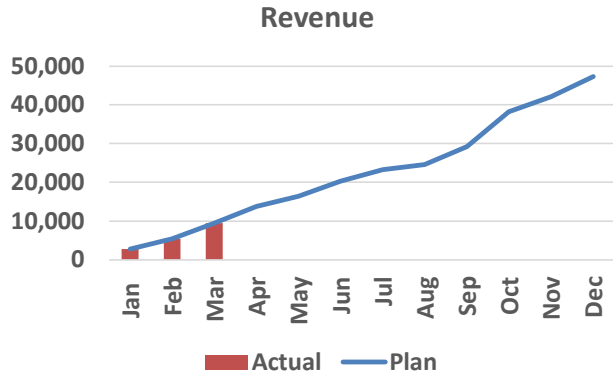
- Annual Budget is the reference plan (“Road Map”) for you near term business
- It is also a communication tool of company’s goals and provide guidance for decisions
- Review actuals every month for every P&L line, understand reasons for deviation from plan, and take corrective actions as necessary

This methodology enables you to develop strategies, evaluate different alternatives, risk assessments..

Putting all together ... Financial Monitoring Process



Monitoring financial performance example



- Advanced warning of potential cash shortage by looking ahead on what is coming – cash inflow and outflow
- Preventive action can ensure that there is sufficient cash to cover for needs
- Cash flow is dynamic and many times difficult to predict if you have a complex operations

Cash Flow Forecasting Simple Example

	June		
BEGINNING BALANCE	10,000		
Cash Inflow			
Cash sales	30,000		
Bank Loan			
Total inflow	30,000		
Cash Outflow			
Payroll	(10,000)		
Payment suppliers	(13,000)		
Purchase assets	0		
Advertisement	(3,000)		
Total outflow	(26,000)		
NET CASH FLOW	4,000		
ENDING BALANCE	14,000		

Cash Flow Forecasting Simple Example

	June	July	August
BEGINNING BALANCE	10,000	14,000	
Cash Inflow			
Cash sales	30,000	35,000	
Bank Loan			
Total inflow	30,000	35,000	
Cash Outflow			
Payroll	(10,000)	(10,000)	
Payment suppliers	(13,000)	(19,000)	
Purchase assets	0	(24,000)	
Advertisement	(3,000)	(1,000)	
Total outflow	(26,000)	(54,000)	
NET CASH FLOW	(9,000)	(19,000)	
ENDING BALANCE	14,000	(5,000)	

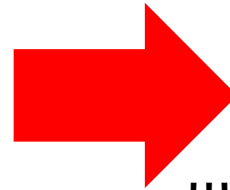
Evaluating business scenarios

Fixed Costs

Variable Costs

Capital Expenditures

Sales Forecast



Will it be possible to run the business during this period?

Cash Flow Forecast

Will it be worth running the business during this period?

Profit & Loss

What the business will be in at the end of this period?

Balance Sheet

STAPLES email with guidance on finance – evaluate scenarios

	Current	-15%	-25%	-40%
Monthly sales	\$300,000	\$255,000	\$225,000	\$180,000
Variable direct costs	\$90,000	\$76,500	\$67,500	\$54,000
Fixed direct costs	\$85,000	\$85,000	\$85,000	\$85,000
Total direct costs	\$175,000	\$161,500	\$152,500	\$139,000
Gross Margin or Contribution Margin	\$125,000	\$93,500	\$72,500	\$41,000
% of revenue	41.7%	36.7%	32.2%	22.8%
Variable Marketing & Sales	\$15,000	\$12,750	\$11,250	\$9,000
Fixed Marketing & Sales	\$30,000	\$30,000	\$30,000	\$30,000
Variable General & Admin	\$0	\$0	\$0	\$0
Fixed General & Admin	\$45,000	\$45,000	\$45,000	\$45,000
Total M&S and G&A	\$90,000	\$87,750	\$86,250	\$84,000
% of revenue	30.0%	34.4%	38.3%	46.7%
Operating Profit	\$35,000	\$5,750	-\$13,750	-\$43,000
% of revenue	11.7%	2.3%	-6.1%	-23.9%

Ref: Small Business Help, STAPLES email to Rewards members April 10,2020

Financial methods and applications are needed along the business cycle

Work with your Account to develop and apply these methods that model your business accurately

Idea

Launch

Maturity

Exit

Financial analyses can provide your business the competitive edge needed for success at any stage of the cycle

Summary

Key takeaways

- Proactive Financial Management is critical for success. You first need to create the **habit of doing !!**
- To run successful business you need to understand, create and interpret financial information
- Prepare a Financial Plan (P&L by month) every year and target net profitability greater than 15%
- Execution excellence is reached through an evolution of learning based on your practice



SCORE can help you

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- Consider a mentoring program to help you achieve your goals. Mentors bring direct experience
- Confidential one-one mentoring is tailored to your specific needs.
- It is free!!
- We can help you create your competitive VITAL EDGE





Visualize

Visualization is very powerful in shifting dysfunctional thoughts and behaviors. This can be done in your mind, journaling, or with visual journaling.

Contact Information

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*If you think you'll lose, you're lost
For out of the world we find,
Success begins with a person's will
It's all in the state of mind.
~~ Think and Grow Rich*



Every process goes through well defined transition steps to achieve excellence

