

SCORE EASTERN CONNECTICUT

Presents

Financial Analysis Made Simple For Small Business

with SCORE Mentor Rich Cheney

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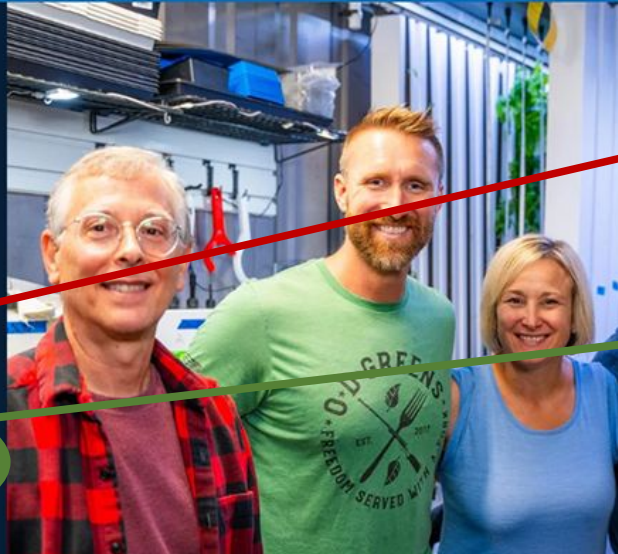


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SCORE can help you start, grow or successfully exit a business. Small business owners who receive three or more hours of mentoring report higher revenues and increased growth.

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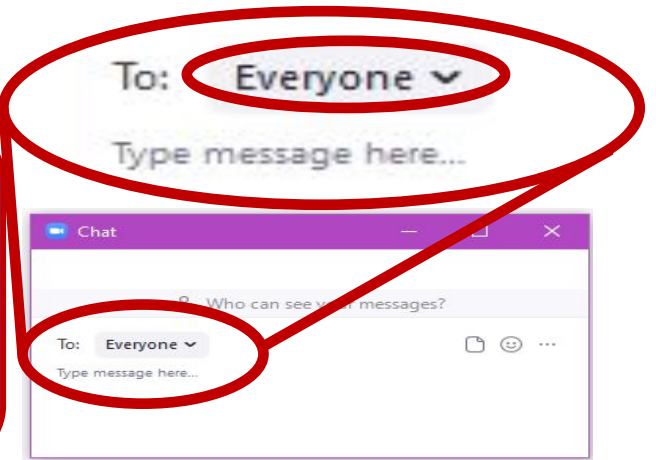
Remember: Webinars are an “overview” of a subject.

zoom

- Audio & Video are on **MUTE**.

Type **Questions** into the **CHAT**
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MAKE A NOTE:

Presentation will be found in 2-3 days at

<https://www.score.org/easternct/webinar-presentations>

Financial Analysis Made Simple For Small Businesses

ACCOUNTING: THE LANGUAGE OF BUSINESS

WITH SCORE MENTOR RICH CHENEY

Introduction to Accounting

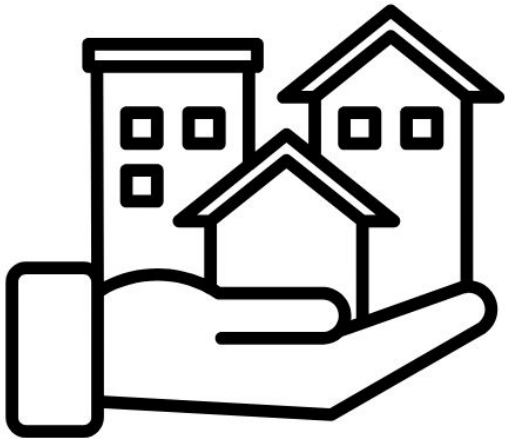
- Accounting is the language of business
 - Standardized communication of financial information
 - Supports decision-making and transparency
 - Used by managers, investors, and regulators



Accounting

Flow of Financial Information

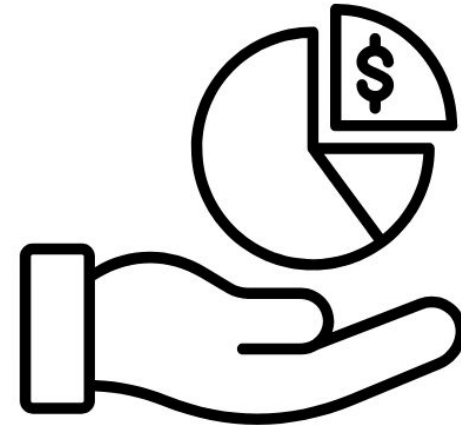
- Transactions recorded chronologically in journals
 - Posted to ledgers organized by account
 - Five core ledger accounts
 - Assets, Liabilities, Equity, Revenue, Expenses



Assets



Liabilities



Equity

Key Financial Statements: The Big Three



Financial Statements

- Income Statement shows profit or loss over time
- Balance Sheet shows financial position at a point in time
- Cash Flow Statement tracks cash inflows and outflows

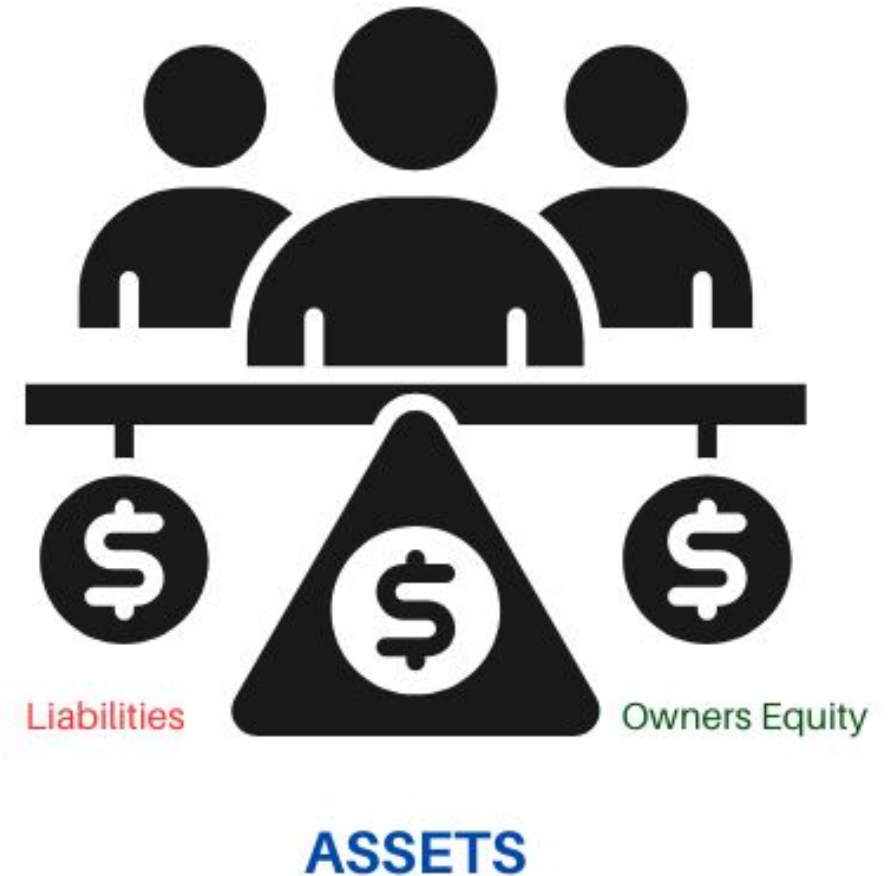
Income Statement

- **Revenues** minus **expenses** equals profit or loss
 - Prepared monthly or periodically
 - Common-size statements aid comparison and efficiency analysis

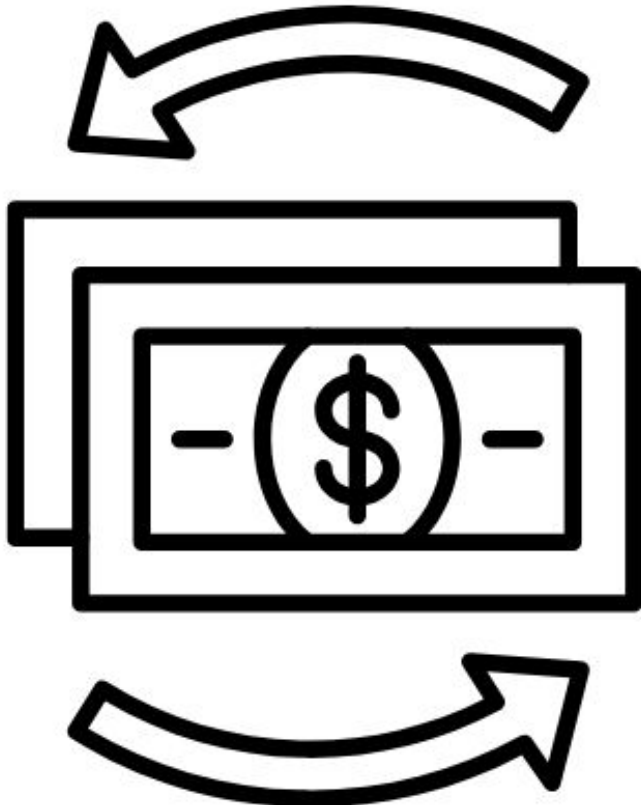


Balance Sheet

- **Assets = Liabilities + Owner's Equity**
 - Snapshot at a specific moment in time
 - Reflects cumulative results of operations



Cash Flow Statement

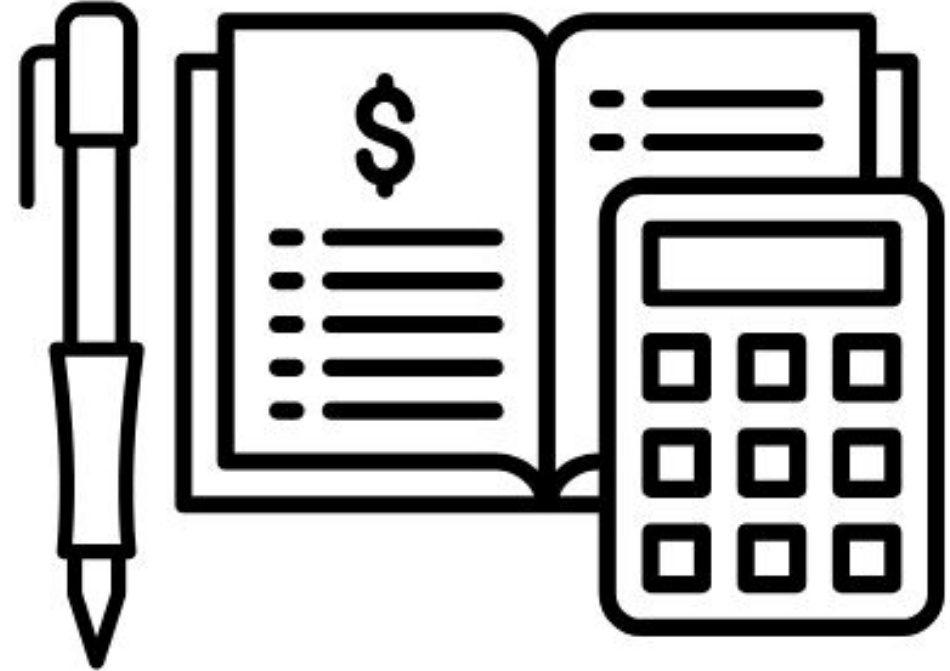


Cash Flow

- **Cash receipts** minus **disbursements**
 - Profit does not equal cash flow
 - Focuses only on cash movement

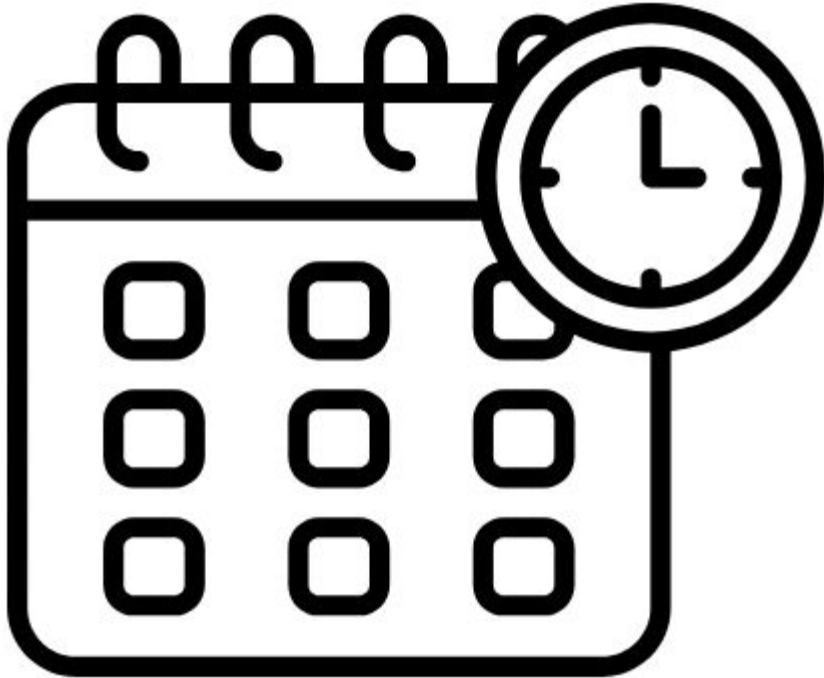
Accounting Process

- Record transactions in journal
 - Post to general ledger
 - Prepare financial statements



General Ledger

Routine Accounting Tasks



Daily/ Weekly/ Monthly Tasks

- **Daily:** cash, bank balances, receipts
- **Weekly:** AR, AP, payroll, taxes
- **Monthly:** financial statements and reconciliations

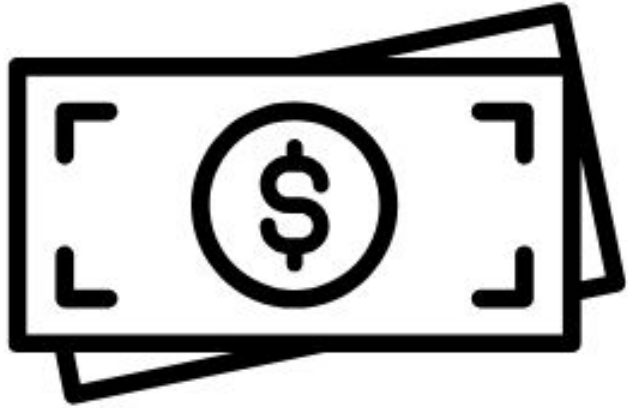
Small Business Accounting Basics

- Double-entry accounting uses **debits** and **credits**
 - Provides accuracy and self-checking
 - Single-entry systems are limited

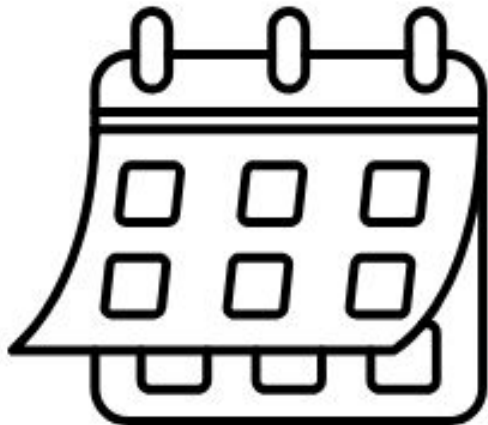


Ledger: Debits/Credits

Cash vs Accrual Accounting



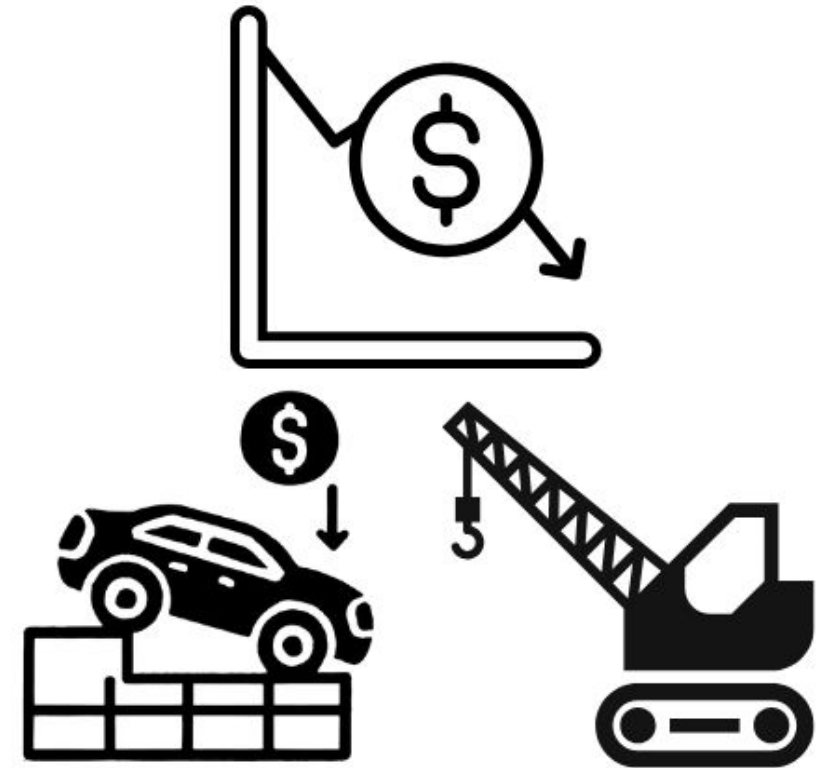
Cash Versus Accrual



- Accrual records income and expenses when incurred
- Cash records transactions when money changes hands
- Accrual provides a clearer financial picture

Depreciation and Cash Flow

- Depreciation allocates asset cost over time
 - Non-cash expense added back to cash flow
 - Common methods include straight-line and MACRS



Depreciation

Other Helpful Financial Analysis Reports

- **Break-even Analysis**

- Determines sales needed to cover costs
- $\text{Sales} = \text{Fixed Costs} + \text{Variable Costs}$
- Affected by pricing and cost structure

- **Cash Flow Forecasting**

- Plans for short-term cash needs
- Identifies surplus and shortage periods
- Critical for business stability

Other Helpful Financial Analysis Reports

- **Accounts Receivable Aging**
 - Macro aging groups receivables by age
 - Micro aging focuses on individual customers
 - Improves collection effectiveness
- **Ratio Analysis**
 - Compares firm performance over time
 - Uses cross-sectional and time-series analysis
 - Benchmarked by industry standards

Other Helpful Financial Analysis Reports

- **Liquidity and Activity Ratios**
 - Current and quick ratios measure short-term strength
 - Inventory turnover measures efficiency
 - Higher activity ratios often indicate better performance
- **Debt and Profitability Ratios**
 - Debt ratios show leverage and risk
 - Profitability ratios measure return on sales and assets
 - Higher profitability ratios are favorable

Summary and Takeaway

- Financial Analysis helps monitor the current health of your business, and forecasts future health
- Daily, Weekly, Monthly discipline
- SCORE mentors can help

Q & A

More questions about YOUR business?

Go to

SCORE.org

and request a mentor

Pro Forma

<u>Source</u>	<u>Amt</u>	<u>Pct</u>	<u>Coverage Ratio</u>	
<u>Owner Equity</u>	\$ 3,000	16%	<u>Year 1</u>	
bank loan*	\$ 16,000	84%	Net profit before I & D	\$ 57,434
Total	\$ 19,000		+ interest	\$ 660
			+ depreciation	\$ 1,500
<u>Use</u>			Tot. Net Prof+ Int	\$ 59,594
Business Supplies	\$ 500	3%	P&I	\$ 3,579
office suppleis	\$ 500	3%	Coverage Ratio	\$ 17
Robot	\$ 5,000	26%		
Tribrachs/Prisms/Rod	\$ 3,000	16%		
Working Capital	\$ 10,000	53%		
Total	\$ 19,000			
* 5 Yrs @ 4.5%				

Pro Forma

	Year 2				Year 3			Expenses			
	Year 1		vs Yr 1	% Chg		Vs Yr 2	% Chg	Year 1		Year 2	
Gross Revenue	\$ 90,200	\$ 112,450	\$ 22,250	25%	\$ 130,038	\$ 17,588	16%	Amt	Pct of Tot	Amt	Pct of Tot
Expenses	\$ -		\$ -			\$ -					
Insurance - Professional Liability	\$ 2,250	\$ 2,250	\$ -	0%	\$ 2,250	\$ -	0%	\$ 2,250	6.9%	\$ 2,250	5.9%
Insurance - General Liability	\$ 1,080	\$ 1,080	\$ -	0%	\$ 1,080	\$ -	0%	\$ 1,080	3.3%	\$ 1,080	2.8%
State LLC Registration	\$ 500	\$ 500	\$ -	0%	\$ 500	\$ -	0%	\$ 500	1.5%	\$ 500	1.3%
Depreciation	\$ 1,500	\$ 2,500	\$ 1,000	67%	\$ 3,500	\$ 1,000	40%	\$ 1,500	4.6%	\$ 2,500	6.6%
Debt (interest)	\$ 660	\$ 526	\$ (134)	-20%	\$ 386	\$ (140)	-27%	\$ 660	2.0%	\$ 526	1.4%
Telephone (Cell)	\$ 1,200	\$ 1,200	\$ -	0%	\$ 1,200	\$ -	0%	\$ 1,200	3.7%	\$ 1,200	3.2%
Insurance - Vehicle	\$ 1,200	\$ 1,200	\$ -	0%	\$ 1,200	\$ -	0%	\$ 1,200	3.7%	\$ 1,200	3.2%
Mileage-Tolls	\$ 4,800	\$ 5,760	\$ 960	20%	\$ 6,336	\$ 576	10%	\$ 4,800	14.6%	\$ 5,760	15.2%
Marketing	\$ 2,000	\$ 2,200	\$ 200	10%	\$ 2,400	\$ 200	9%	\$ 2,000	6.1%	\$ 2,200	5.8%
Web Site	\$ 1,000	\$ 1,000	\$ -	0%	\$ 1,000	\$ -	0%	\$ 1,000	3.1%	\$ 1,000	2.6%
Field Help (1099)	\$ 12,480	\$ 14,976	\$ 2,496	20%	\$ 16,464	\$ 1,488	10%	\$ 12,480	38.1%	\$ 14,976	39.4%
Marking Paint, Flagging	\$ 300	\$ 500	\$ 200	67%	\$ 500	\$ -	0%	\$ 300	0.9%	\$ 500	1.3%
Stakes (bundles)	\$ 800	\$ 900	\$ 100	13%	\$ 900	\$ -	0%	\$ 800	2.4%	\$ 900	2.4%
Professional Fees (Atty-Tax)	\$ 1,000	\$ 1,000	\$ -	0%	\$ 1,000	\$ -	0%	\$ 1,000	3.1%	\$ 1,000	2.6%
Registry/Town Eng. Fees	\$ 600	\$ 750	\$ 150	25%	\$ 750	\$ -	0%	\$ 600	1.8%	\$ 750	2.0%
Misc. (Inc. copy costs)	\$ 1,396	\$ 1,643	\$ 247	18%	\$ 1,838	\$ 195	12%	\$ 1,396	4.3%	\$ 1,643	4.3%
Total Expenses	\$ 32,766	\$ 37,985	\$ 5,219	16%	\$ 41,304	\$ 3,319	9%	\$ 32,766		\$ 37,985	
Earnings Before Tax	\$ 57,434	\$ 74,465	\$ 17,031	30%	\$ 88,734	\$ 14,269	19%				
Tax 21%	\$ 12,061	\$ 15,638	\$ 3,577	30%	\$ 18,634	\$ 2,996	19%				
Earnings After Tax	\$ 45,373	\$ 58,827	\$ 13,455	30%	\$ 70,100	\$ 11,272	19%				

Pro Forma- Cash Flow

	Year 1					
	Mar	Apr	May	Jun	Jul	Aug
Begin Cash	\$ 10,000	\$ 6,748	\$ 23,321	\$ 36,920	\$ 51,579	\$ 62,371
Cash In	\$ -	\$ 24,000	\$ 20,000	\$ 23,000	\$ 16,500	\$ 20,500
Cash Out						
Insurance - Professional Liability	\$ -	\$ 1,000	\$ -	\$ -	\$ 625	\$ -
Insurance - General Liability	\$ 270	\$ -	\$ -	\$ 270	\$ -	\$ -
State LLC Registration	\$ -	\$ -	\$ 500	\$ -	\$ -	\$ -
Debt (Prin. & Int.)	\$ 298	\$ 298	\$ 298	\$ 298	\$ 298	\$ 298
Telephone (Cell)	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Insurance - Vehicle	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Mileage-Tolls	\$ 319	\$ 373	\$ 426	\$ 479	\$ 532	\$ 532
Marketing	\$ 500	\$ -	\$ -	\$ 500	\$ -	\$ -
Web Site	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -
Field Help (1099)	\$ 1,040	\$ 1,040	\$ 1,040	\$ 1,040	\$ 1,040	\$ 1,040
Marking Pain, Flagging	\$ 75	\$ -	\$ -	\$ 75	\$ -	\$ -
Stakes (bundles)	\$ 200	\$ -	\$ -	\$ 200	\$ -	\$ -
Professional Fees (Atty-Tax)	\$ 250	\$ -	\$ -	\$ 250	\$ -	\$ -
Registry/Town Eng. Fees	\$ -	\$ -	\$ 200	\$ -	\$ -	\$ -
Misc. (Inc. copy costs)	\$ 100	\$ 111	\$ 122	\$ 133	\$ 144	\$ 144
Total Cash Out	\$ 3,252	\$ 3,021	\$ 2,786	\$ 4,445	\$ 2,839	\$ 2,214
Total Cash In Before Tax	\$ (3,252)	\$ 20,979	\$ 17,214	\$ 18,555	\$ 13,661	\$ 18,286
Tax 21%	\$ -	\$ 4,406	\$ 3,615	\$ 3,897	\$ 2,869	\$ 3,840
Total Cash In After Tax	\$ (3,252)	\$ 16,573	\$ 13,599	\$ 14,658	\$ 10,792	\$ 14,446
Ending Cash	\$ 6,748	\$ 23,321	\$ 36,920	\$ 51,579	\$ 62,371	\$ 76,816

Pro Forma- Depreciation

Description	Purchase Price	Use Life (Yrs)	Salvage Value	Depreciable Amount	Straight Line		
					Yr 1	Yr 2	Yr 3
Robot	\$ 5,000	5	\$ 500	\$ 4,500	\$ 900	\$ 900	\$ 900
Tribrachs/Prisms/Rod	\$ 3,000	5	\$ -	\$ 3,000	\$ 600	\$ 600	\$ 600
GPS*	\$ 12,000	5	\$ 2,000	\$ 10,000	\$ -	\$ 1,000	\$ 2,000
Total	\$ 8,000			\$ 17,500	\$ 1,500	\$ 2,500	\$ 3,500
* GPS purchased year 2							

Pro Forma- Balance Sheet

Assets	Year 1		Year 2			Year 3		
	Begin	End	End	Vs Yr 1	% Chg	End	Vs Yr 2	% Chg
Cash	\$ 10,000	\$ 143,550	\$ 306,461	\$ 162,911	113%	\$ 512,110	\$ 205,649	67%
Accounts Receivable	\$ -	\$ 13,000	\$ 15,675	\$ 2,675	21%	\$ 18,026	\$ 2,351	15%
Robot	\$ 5,000	\$ 5,000	\$ 5,000	\$ -	0%	\$ 5,000	\$ -	0%
Tribarchs/Prisms/Rod	\$ 3,000	\$ 3,000	\$ 3,000	\$ -	0%	\$ 3,000	\$ -	0%
GPS*	\$ -	\$ -	\$ 12,000	\$ 12,000		\$ 12,000		
- Accum Dep	\$ -	\$ (1,500)	\$ (4,000)	\$ (2,500)	167%	\$ (7,500)	\$ (3,500)	88%
Total Assets	\$ 18,000	\$ 163,050	\$ 338,136	\$ 175,086	107%	\$ 542,636	\$ 204,500	60%
Liabilities								
Bank Loan (P)	\$ 16,000	\$ 13,081	\$ 10,028	\$ (3,053)	-23%	\$ 6,834	\$ (3,194)	-32%
Owners Equity								
	\$ 2,000	\$ 149,969	\$ 328,108	\$ 178,140	119%	\$ 535,802	\$ 357,662	109%
* GPS Purch Sep Yr 2								

The 3 Major Pro Forma Statements

- Pro Forma **Income Statement** – Projects future revenues, expenses, and profits.
- Pro Forma **Balance Sheet** – Projects assets, liabilities, and equity.
- Pro Forma **Cash Flow Statement** – Projects cash inflows and outflows

Creating pro forma financial statements can help

you:

- **Secure financing** → Show lenders or investors how additional capital will impact growth.
- **Plan for the future** → Forecast best-case, worst-case, and most likely scenarios.
- **Anticipate changes** → See how new expenses, acquisitions, or tax bracket changes could affect your company.
- **Test strategy** → Evaluate if a new hire, location, or equipment purchase will be financially sustainable

Example: Pro Forma Balance Sheet

Daily Dumpling Deliveries

Year	2021	2022	2023
Assets	\$89,000	\$99,000	\$110,000
Liabilities	71,000	64,000	61,000
Equity	80,000	91,000	100,000

Example: Pro Forma Cash Flow

Mickie's Murakami Museum

Year	2021	2022	2023
Opening Balance	\$16,000	\$17,000	\$19,000
Cash Inflows	86,000	87,900	92,800
Cash Outflows	(66,000)	(68,600)	(69,800)
Net Cash Flow	20,000	19,300	23,000