



# Financial Guide

Northfield Enterprise Center

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# Introduction

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From a potential investor's point of view, accurate, realistic numbers are the most important part of a business plan. A company's financial statements are the basis of analyzing the investment value of a stock. It is imperative that you carefully consider every number you put in your plan – and how each number will affect other numbers. All information on financial statements must be relevant (significant enough to influence business decisions), reliable (dependable information that can be verified), and comparable (information can be compared to other businesses).

There are some important questions to consider initially:

- Do you know if you have enough cash to make payroll next month?
- Do you know how fast you are going through cash? (burn rate)
- Do you know how profitable your products or services are?
- Do you know how to determine the return on investment on a capital purchase?
- If your company is profitable, can you run out of cash, and are you necessarily successful?
- What is the difference between *profit* and *cash*?
- Do you know the level of inventory you need on hand and the cost of goods sold?
- What is your goal regarding ownership draw/annual compensation?
- With the fixed and variable costs, what is the profit that you will need to break even? How many units will you have to sell and at what price?
- What is your sales target (in dollars)? Are you currently meeting this target?
- If not, what factors have kept you from reaching this sales target, and what are you going to do about it?
- Is your Gross Profit Margin increasing or decreasing?



# General Vocabulary

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Some important vocabulary to become familiar with before discussing the various Financial Statements:

- Sales and revenue are synonymous and mean the “*top line*” of the Income Statement; the money that comes in from customers.
- Profits, earnings and income are all synonymous and mean the “*bottom line*,” or what is left over from revenue after all the costs and expenses spent in generating that revenue are subtracted.
- Costs are money spent making a product. Contrarily, expenses are money spent to develop it, sell it, account for it and manage this whole making and selling process.
- Both costs and expenses become expenditures when money is actually sent to vendors to pay for them.
- Orders are placed by customers and signify a request for the future delivery of products. When the products are actually shipped, the shipments become sales. Shipments and sales are synonymous.
- Solvency means having enough money in the bank to pay your bills. You can be profitable and insolvent at the same time. You are making money but still do not have enough cash to pay your bills.

<i>Period</i>	<b>Format</b>
Sales / Revenue (Top Line)	A
Costs	B
Expenses	C
Profits/Earnings/Income (Bottom Line)	= A-B-C

**Sales** and **revenue** mean the same thing – *Top Line*.

**Profit**, **earnings** and **income** mean the same thing – *Bottom Line*.

**Costs** are different from **expenses**.

**Expenses** are different from **expenditures**.

**Sales** are different from **orders** but are the same as **shipments**.

**Profits** are different from **cash**.

**Solvency** is different from **profitability**.

# Accounting Principles

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1. Accounting entity – The accounting entity is the business unit for which the financial statements are being prepared. The accounting entity principle states that there is a “business entity” separate from its owners.
2. Going concern – Unless there is evidence to the contrary, accountants assume that the life of the business entity is infinitely long. This assumption greatly simplifies the presentation of the financial position of the firm and aids in the preparation of financial statements.
3. Measurement – Accounting only deals with things that can be measured and quantified. This assumption leaves out many very valuable company assets. Financial statements contain only the quantifiable estimates of assets and liabilities. The difference between the two equals owner’s equity.
4. Units of measure – US dollars are the units of value reported in the financial statements of US companies. Foreign subsidiaries are translated into US dollars.
5. Historical cost – What a company owns and what it owes are recorded at their original cost with no adjustment for inflation. This assumption can greatly understate the value of some assets purchased in the past and depreciated to a very low amount on the books.
6. Materiality – Accountants don’t sweat the small stuff, but all transactions must be reported if they would materially affect the financial condition of the company.
7. Estimates and judgments – Must often be made for financial reporting. It is okay to guess if that is the best you can do and if the expected error would not matter much anyway.
8. Consistency – Each individual enterprise must choose a single method of reporting and use it consistently over time. Measurement techniques must be consistent from any one fiscal period to another.
9. Conservatism – Accountants have a downward measurement bias, preferring understatement to overvaluation. Losses are recorded when projected, gains are recorded after they happen.
10. Periodicity – Accountants assume that the life of a corporation can be divided into periods of time for which profits and losses can be reported, usually a month, quarter or year.
11. Substance over form – Accountants report the economic “substance” of a transaction rather than just its form.
12. Accrual Basis of presentation rather than Cash Basis.
  - Revenue recognition – A sale is recorded when all the necessary activities to provide the good or service have been completed regardless of when cash changes hands.
  - Matching principle – Costs of goods sold are recorded at the same time the matching revenue is recorded.
  - Allocation – Costs that aren’t associated with a product, but instead allocated to fiscal periods. (insurance)

# Balance Sheets

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*The Basic Equation of Accounting* → “What you have minus what you owe is what you’re worth.”

**Assets** (have) - **Liabilities** (owe) = **Worth** (value to owners, equity)

Or, Assets = Liabilities + Equity ← This equation must always be “in balance” on balance sheet

The Balance Sheet presents (at one moment in time):

- What the enterprise *has* today: ASSETS
- How much the enterprise *owes* today: LIABILITIES
- What the enterprise is *worth* today: EQUITY

## WHAT ARE ASSETS?

Assets are everything that you have – cash in the bank, inventory, machines, buildings, etc. Assets are also certain “rights” you own that have a monetary value – like the right to collect cash from customers who owe you money. Assets are also valuable, and this value must be quantifiable for an asset to be listed on the Balance Sheet.

## CURRENT ASSETS

Current assets are assets that are expected to be converted into cash in one year or less. The money the company will use to pay its bills within the year will come when its current assets are converted into cash. (That is, inventory is sold and accounts receivable are then paid to the company by customers.)

- Cash
  - Ultimate liquid asset (liquidity: convertibility to cash)
  - On-demand deposits in a bank as well as the money in the petty cash drawer
- Accounts receivable
  - When the enterprise ships a product to a customer on credit, the enterprise acquires a right to collect money from that customer at a specified time in the future.
- Inventory
  - Both finished products for ready sale to customers and also materials to be made into products.
- Prepaid Expenses
  - Bills the company has already paid, but for services not yet received (rent, insurance, etc)

### Current asset cycle

1. Cash buys inventory
2. Inventory when sold becomes accounts receivable
3. Accounts receivable upon collection becomes cash

# Balance Sheets

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## FIXED ASSETS

- Basic fixed assets
  - Property, plant and equipment, etc. is the largest and most important non-current asset grouping. Fixed assets are reported at their original price.
- Depreciation
  - Decline in useful value of a fixed asset due to wear and tear from use and the passage of time. Depreciation charges lower profits but do not lower cash.

## **WHAT ARE LIABILITIES?**

Liabilities are economic obligations of the enterprise, such as money that the corporation owes to lenders, suppliers, employees, etc. Liabilities are organized by: to whom the debt is owed, and whether the debt is payable within the year.

## CURRENT LIABILITIES

Current liabilities are bills that must be paid within one year of the date of the balance sheet. The cash generated from current assets is used to pay current liabilities when due. Types of current liabilities:

- Accounts payable
  - Bills to other companies for materials and equipment bought on credit.
- Accrued expenses
  - Monetary obligations similar to accounts payable (unpaid salaries, unpaid professional bills)
- Current portion of debt
  - Notes payable
    - Owed money to a bank within 12 months
  - Current portion of long term debt
    - The amount of a long-term debt due within the first 12 months
- Income taxes payable
  - A % of any profit will be owed to the government as income taxes.

## OTHER LIABILITIES

- Long-Term Debt
  - A loan with an overall term of more than 12 months from the date. (loans, mortgages)

*Total Liabilities* are the sum of current liabilities and long-term debt.

# Balance Sheets

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## EQUITY

- Shareholders' Equity
  - Total liabilities – total assets = Shareholders' equity
  - Shareholders' equity has two components.
    - Capital stock
      - Original amount of money the owners contributed as their investment in the stock of the company.
    - Retained earnings
      - Company earnings that have been retained--not paid out as dividends to owners
      - Retained earnings = sum of all profits – sum of all dividends

This shows a very general setup of a Balance Sheet. Graph 1 in the Appendix shows a much more detailed breakdown.

BALANCE SHEET FORMAT			
<i>As of period end</i>			
<b>ASSETS</b>		<b>LIABILITIES &amp; EQUITY</b>	
Cash	A	Accounts Payable	J
Accounts Receivable	B	Accrued Expenses	K
Inventory	C	Current Portion of Debt	L
Prepaid Expenses	D	Income Taxes Payable	M
Current Assets	A + B + C + D = E	Current Liabilities	J + K + L + M = N
Other Assets	F	Long-Term Debt	O
Fixed Assets at Cost	G	Additional Paid-In Capital	P
Accumulated Depreciation	H	Retained Earnings	Q
Net Fixed Assets	G - H = I	Shareholder's Equity	P + Q = R
<b>Total Assets</b>	<b>E + F + I =</b>	<b>Total Liabilities &amp; Equity</b>	<b>N + O + R</b>

# Income Statements

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The Income Statement (Profit & Loss Statement) gives one important perspective on the health of a business – its *profitability*. The Income Statement shows revenues, expenses, and profit for a given period of time. The one common misconception is that the Income Statement depicts the financial health of a company. A company can be profitable yet not have positive cash flow transactions. Also, vice versa, just because a company is bringing in cash does not mean it is making a profit.

- *Sales - Costs & Expenses = Income*
- Revenue – Costs & Expenses = Profit

This shows a very general setup of an Income Statement. Graph 2 in the Appendix shows a much more detailed breakdown.

<b>INCOME STATEMENT FORMAT</b>	
<i>Period</i>	
Net Sales	A
Cost of Goods Sold	B
Gross Margin	A - B = C
Sales & Marketing	D
Research & Development	E
General & Administrative	F
Operating Expenses	D + E + F = G
Income from Operations	C - G = H
Interest Income	I
Income Taxes	J
<b>Net Income</b>	<b>H + I - J</b>

## PERTINENT INCOME STATEMENT TERMS

- **Net Sales (Revenue)** -- The total amount the company will ultimately collect from a sale – that is, list price less any discounts offered to the customer to induce purchase.
- **Cost of Goods Sold** – This is a variable expense that is determined by how much is spent on inventory and how much those goods are sold for. This number is typically around 50% of sales.
- **Expenses** – Fixed costs for operating the business. These costs include salaries, rent, marketing, etc.
- **Gross margin** – Amount left over from sales after cost of goods sold are subtracted.
- **Interest Income** – Difference between the interest you are paying on a loan and the interest you are collecting on your cash balances in the bank.

# Cash Flow Statements

The Cash Flow Statement tracks the movement of cash through the business over a period of time. The Cash Flow Statement shows cash on hand at the start of a period, cash received in the period, cash spent in the period and cash on hand at the end of the period.

Cash Transactions:

- Lowering cash
  - Paying Salaries, paying for equipment, paying off a loan
- Raising cash
  - Receiving money borrowed from a bank, receiving money from investors for stock, receiving money from customers.

This shows a very general setup of a Cash Flow Statement. Graph 3 in the Appendix shows a much more detailed breakdown.

CASH FLOW STATEMENT FORMAT	
Period	
Beginning Cash Balance	A
Cash Receipts	B
Cash Disbursements	C
Cash from Operations	$B - C = D$
Fixed Asset Purchases	E
Net Borrowings	F
Income Taxes Paid	G
Sale of Stock	H
Ending Cash Balance	$A + D - E + F - G + H$

## PERTINENT CASH FLOW STATEMENT TERMS

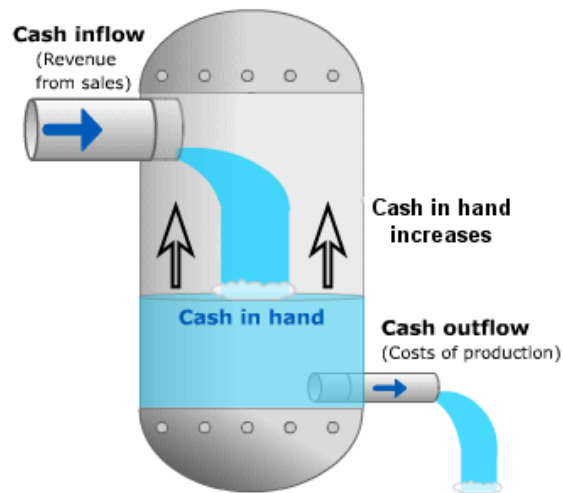
- **Non-Cash Transactions** – Have no effect on the Cash Flow Statement but they can affect the Income Statement and Balance Sheet. Shipping product to a customer, receiving supplies from a vendor, and receiving raw materials required to make the product.
- **Sources of cash** – Cash comes into the business in two major ways: Operating activities such as receiving payment from customers; financing activities such as selling stock or borrowing money. A healthy operating cash flow indicates profitability and the ability to finance growth internally. Financing cash flow indicates the company's level of dependency on outside financing to operate.
- **Uses of cash** – Cash goes out of the business in four major ways: Operating activities such as paying suppliers and employees; financial activities such as paying interest and principal on debt or paying dividends to shareholders; making major capital investments in long-lived productive

# Cash Flow Statements

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assets like machines; paying income taxes to the government. Investment cash flow indicates the company's investment into its future relative to size, industry and position.

- **Fixed Asset Purchases** – Money spent to buy property, plant and equipment; an investment in the long-term capability of the company to manufacture and sell product.
- **Net borrowings** – Borrowing money increases the amount of cash the company has on hand. Paying back a loan decreases the company's supply of cash on hand. Net is the difference.
- **Income taxes paid** – Owing income taxes is different from paying them. The business owes some more income tax every time it sells something for a profit. Only writing a check to the government and thus paying the taxes due actually reduces the company's cash on hand.
- **Sale of stock** – When a company sells stock to investors, it receives money and increases the amount of cash it has on hand.



# Financial Statement Interaction

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When looking at how all three financial statements interact you can see how they work in concert to give a true picture of your company's financial health.

*“Financial statements document the movement of cash and goods and services into and out of the enterprise. That is all financial statements are about. It is no more complicated. Everything else is details.*

*Don't sweat the details.”*

- Balance Sheet Connections
  - Ending *cash* on the **Cash Flow Statement** always equals *cash* on the **Balance Sheet**.
  - For the **Balance Sheet** to stay 'in balance,' when you *subtract* from an asset account, you must also either *add* the same amount to another asset account or *subtract* it from a liability account.
  - *Net income* from the **Income Statement** is added to *Retained Earnings* on the **Balance Sheet** and thus shareholders' equity increases.
- Sales Cycle
  - When a sale is made on credit, net sales increases at the top of the Income Statement and accounts receivable increases on the Balance Sheet by the same amount.
  - When a sale is made, product value is moved from inventory on the Balance Sheet to cost of goods sold on the Income Statement.
  - When the customer pays for products shipped, the account receivable on the Balance Sheet becomes a cash receipt in the Cash Flow Statement.
  - When a sale is entered on the Income Statement net income is generated and is added to retained earnings on the Balance Sheet.
- Expense Cycle
  - Expenses, when incurred and entered on the Income Statement, become accounts payable on the Balance Sheet.
  - Expenses reduce net income on the Income Statement and also in retained earnings on the Balance Sheet.
  - When paid, accounts payable on the Balance Sheet become cash disbursements and lower cash.
- Investment Cycle
  - Net borrowings, when entered on the Cash Flow Statement, increase both cash and debt on the Balance Sheet.
  - Selling stock increases both cash and capital stock on the Balance Sheet.
- Fixed Asset Cycle
  - When equipment (PP&E) is purchased, fixed assets increase and cash decreases.
  - Over time, depreciation expenses on the Income Statement increases accumulated depreciation lowering net asset value.

The graph on the following page shows a quick glance at how all of the statements interact.

# Financial Statement Interaction

<b>INCOME STATEMENT FORMAT</b>	
<i>Period</i>	
Net Sales	3,000,000
Cost of Goods Sold	2,000,000
<b>Gross Margin</b>	<b>1,000,000</b>
Sales & Marketing	350,000
Research & Development	20,000
General & Administrative	200,000
<b>Operating Expenses</b>	<b>570,000</b>
Income from Operations	500,000
Interest Income	(100,000)
Income Taxes	150,000
<b>Net Income</b>	<b>250,000</b>

<b>CASH FLOW STATEMENT FORMAT</b>	
<i>Period</i>	
Beginning Cash Balance	150,000
Cash Receipts	2,600,000
Cash Disbursements	2,900,000
<b>Cash from Operations</b>	<b>(300,000)</b>
Fixed Asset Purchases	1,750,000
Net Borrowings	900,000
Income Taxes Paid	-
Sale of Stock	1,500,000
<b>Ending Cash Balance</b>	<b>500,000</b>

<b>BALANCE SHEET FORMAT</b>	
<i>As of period end</i>	
<b>ASSETS</b>	
Cash	500,000
Accounts Receivable	450,000
Inventory	400,000
Prepaid Expenses	-
<b>Current Assets</b>	<b>1,350,000</b>
Other Assets	-
Fixed Assets at Cost	1,750,000
Accumulated Depreciation	80,000
<b>Net Fixed Assets</b>	<b>1,670,000</b>
<b>Total Assets</b>	<b>3,020,000</b>
<b>LIABILITIES &amp; EQUITY</b>	
Accounts Payable	224,000
Accrued Expenses	25,000
Current Portion of Debt	1,000
Income Taxes Payable	140,000
<b>Current Liabilities</b>	<b>390,000</b>
Long-Term Debt	750,000
Capital Stock	1,550,000
Retained Earnings	330,000
<b>Shareholder's Equity</b>	<b>1,880,000</b>
<b>Total Liabilities &amp; Equity</b>	<b>3,020,000</b>

EQUAL

EQUAL

# Financial Strength Ratios

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The previous sections on Financial Statements deal significantly with the absolute numbers in a business. In order to completely and accurately judge the financial condition of your business, it is imperative to analyze the relationship between the afore-mentioned numbers. Ratio analysis is most useful when you wish to compare year-to-year performance to determine if things are getting better or getting worse for the enterprise or to compare companies in an industry to see which is performing best given common constraints. This section discusses some important ratios that can help evaluate the health of a business:

## LIQUIDITY RATIOS

Liquidity ratios measure the ease with which a company can pay its bills when due. The two ratios discussed will be the Current Ratio and the Quick Ratio. (Using the balance sheet)

- Current ratio
  - The current ratio determines whether current assets are sufficient to pay current liabilities.
  - A ratio of 2 or above designates a big financial cushion; a 1:1 ratio means that a company can *just* pay its bills. A ratio of much higher than 2 means investment should be higher.

$$\text{➤ } \textit{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

- Quick Ratio (Acid Test)
  - The quick ratio is a more conservative measure of liquidity.
  - The quick ratio is the company's "quick assets" divided by current liabilities. The Quick Ratio will always be less than the Current Ratio.

$$\text{➤ } \textit{Quick Ratio} = \frac{\textit{Cash+Receivables}}{\textit{Current Liabilities}}$$

## ASSET MANAGEMENT RATIOS

Asset management ratios measure how effective the company's investment in accounts receivables, inventory and fixed assets is in generating profits. The two ratios discussed will be Inventory Turn and Asset Turn Ratio. (Using the Income Statement and the Balance Sheet)

- Inventory Turn
  - The inventory turn measures the volume of business that can be conducted with a given investment in inventory.
  - If you turn your inventory 5 times a year, then you need to maintain an inventory value level of one-quarter of the total cost of goods in a year.
  - If sales slow down, inventory can balloon and the inventory turn will decrease, a sign of pending trouble.

$$\text{➤ } \textit{Inventory Turn} = \frac{\textit{Cost of Goods Sold}}{\textit{Inventory}}$$

# Financial Strength Ratios

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- Asset Turn Ratio
    - The asset turn ratio is a measure of efficient asset use. It shows the sales volume that a company can support with a given level of assets.
    - A company with low asset turns will require a large amount of capital to generate more sales. A company with high asset turns can expand sales with a low capital investment.
- $Asset\ Turn\ Ratio = \frac{Annual\ Sales}{Assets}$

## PROFITABILITY

Profitability ratios measure some aspects of management's operating efficiency; that is, management's ability to turn a profit given a level of resources. Although the liquidity measures are most important indicators of short-term corporate health, profitability measures are most important in the long term. (Using the Income Statement and Balance Sheet)

- Return on Assets
    - The return on assets ratio measures management's success in employing the company's assets to generate a profit.
- $Return\ on\ Assets = \frac{Net\ Income}{Total\ Assets}$
- Return on Equity
    - The return on equity ratio measures management's success in maximizing return on the owner's investment. "Return on investment".
- $Return\ on\ Equity = \frac{Net\ Income}{Shareholder's\ Equity}$
- Return on Sales
    - The return on sales measures what is left over after all expenses and costs are subtracted from sales. "Profit margin".
- $Return\ on\ Sales = \frac{Net\ Income}{Net\ Sales}$
- Gross Margin
    - The gross margin (gross profit) measures how much it costs to make a company's products and, consequently, how much the company can afford to spend in SG&A and still make a profit.
    - Retail businesses generally have a gross profit of around 25%. That means that for every dollar in sales, the company spends about 75 cents.
- $Gross\ Margin = \frac{Net\ Sales - COGS}{Net\ Sales}$

## LEVERAGE RATIOS

Leverage ratios measure how much of the company's assets are financed with debt. Leverage is the use of other people's money to generate profits for you. Debt thus "leverages" your investment. The leverage ratios measure the extent of this leverage. Too much leverage can be risky and unsafe to lenders. Too little leverage means the company is not reaching its maximum profit potential for its investors. The two leverage ratios are Debt-to-Equity Ratios and Debt Ratios. (Using the Balance Sheet).

# Financial Strength Ratios

- Debt-to-Equity Ratio
  - This ratio shows how much debt the company has relative to its investor equity. Lenders want a low ratio.
    - $Debt\ to\ Equity = \frac{Current + Long\ Term\ Debt}{Shareholder's\ Equity}$
- Debt Ratio
  - This ratio measures the amount of debt relative to the total assets of the corporation. The debt ratio is a measure of operating leverage.
    - $Debt\ Ratio = \frac{Current + Long\ Term\ Debt}{Total\ Assets}$
- Working Capital
  - The amount of money left over after you subtract current liabilities from current assets. This is the amount of money the business has to “work with” in the short-term. (funds)
    - Working Capital = Current Assets – Current Liabilities

Management	Owners	Lenders
<b>Operational Analysis</b>	<b>Profitability</b>	<b>Liquidity</b>
<ul style="list-style-type: none"> <li>■ Gross Margin</li> <li>■ Profit Margin</li> <li>■ Operating Expense Analysis</li> <li>■ Contribution</li> </ul>	<ul style="list-style-type: none"> <li>■ Return on Equity</li> <li>■ Earnings Per Share (EPS)</li> </ul>	<ul style="list-style-type: none"> <li>■ Current Ratio</li> <li>■ Quick Ratio (Acid Test)</li> </ul>
<b>Asset Management</b>	<b>Disposition of Earnings</b>	<b>Leverage</b>
<ul style="list-style-type: none"> <li>■ Asset Turnover</li> <li>■ Working Capital               <ul style="list-style-type: none"> <li>- Accounts Receivable</li> <li>- Inventory Turnover</li> <li>- Accounts Payable</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Cash Flow Per Share</li> <li>■ Dividends Per Share</li> <li>■ Dividend Yield</li> <li>■ Payout/Retention</li> <li>■ Dividend Coverage</li> </ul>	<ul style="list-style-type: none"> <li>■ Debt to Assets</li> <li>■ Debt to Capitalization</li> <li>■ Debt to Equity</li> </ul>
<b>Profitability</b>	<b>Market Indicators</b>	<b>Debt Service</b>
<ul style="list-style-type: none"> <li>■ Return on Assets</li> <li>■ EBIT ROA</li> </ul>	<ul style="list-style-type: none"> <li>■ Stock Price</li> <li>■ Price/Earnings Ratio (P/E)</li> <li>■ Market to Book Value</li> </ul>	<ul style="list-style-type: none"> <li>■ Interest Coverage</li> <li>■ Interest and Principal Coverage</li> </ul>

Source: Financial Modeling Guide ([www.financialmodelingguide.com](http://www.financialmodelingguide.com))

# Profit Margins

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Your profit margin trend is one of the single most powerful indicators of your company's health. As a small business owner, you make several decisions each day that affect your profit margins – price setting, selecting a vendor, or purchasing supplies. Here are some solutions to help increase your profit margins:

1. Set yourself apart – Focus your energy on products that are unique. Focus your sales and development efforts on products that give you a competitive edge. This can result in a rebirth of your company through increasing your profit margin and increasing sales.
2. Passionately reinvent your business– Reinvent your products and industry. Unique products command higher prices and greater profits. This requires that you become genuinely passionate about discovering and developing new ideas, innovations, and inventions for customers.
3. Increase efficiency – Each month take a step back and consider whether you and your employees are spending time on projects that add the most value to your business. What are some things you are doing by hand that you could potentially outsource?
4. Experiment every day – Even if your current strategy is working, developing new strategies could propel your business to new levels of efficiency. If your business is doing a year from now what it is doing today, you're in trouble. When considering possible changes, always remember to manage the risk and be able to combat the downside of a new idea.
5. Offer fair prices – Don't hike up the price of a product or service simply because a temporary situation forces demand. You should always price for the long term. Determine a price that will allow you to make a fair and good margin over the long haul; your customers will reward you for it.
6. Use price-driven costing – Rather than determining the price of your product based on the costs, set a price that you wish to employ and then build your costs around that. Establishing an ideal price first and then creating a cost structure based around that price decreases the chances that you will add unnecessary extras to your product.
7. Keep your eye on the future – Don't invest all resources and people on the present market. You have to look at the future of where the market is going, not where it is.
8. Focus on opportunities rather than past problems. Problems are yesterday's activities, whereas opportunities are avenues for cash, income and margin.

<http://www.mastercard.com/us/business/en/smallbiz/resources/industry/finance-accounting/articles/0925ProfitMargin.html>

# Risk Assessment Calculator

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Answer the following questionnaire for to help determine your financial vulnerability. By focusing on Cash, Sales and Debt, entrepreneurs can gain better financial viability and improve their credit risk, helping them become less averse to bank lending in tough economic times.

## Cash

- 1) How long can you pay your current monthly bills using cash on hand?  
31-60 days (+3)      7-30 days (+1)      Less than 7 days (-3)
- 2) Monthly Cash Flow divided by Interest Expense equals:  
Greater than 2.0 (+3)    1.01 to 1.99 (+1)      Less than 1.0 (-1)

## Sales

- 3) Revenue Growth over the past year:  
Increased (+3)      Held on to customers (+1)      Decreased (-3)
- 4) Percent increase in new customers (from last quarter)  
Greater than 10% (+3)    From 1% to 10% (+1)    Less than 1% (-3)

## Debt

- 5) Debt to Assets Ratio:  
No Debt (+3)      .01 to .79 (+1)      Greater than .80 (-3)
- 6) Business Credit Card Debt  
No Debt (+3)      \$1,000 to \$2,499 (+1)    Greater than \$2500 (-1)

Total your score from answering the previous questions.

**Severe Risk of Failure: Score -11 to -18**

**High Risk of Failure: Score -3 to -10**

**Elevated Risk of Failure: Score -2 to +3**

**Guarded Risk of Failure: Score +4- to +11**

**Low Risk of Failure: Score +12 to +18**

Once you've calculated your score, contact us to discuss how you can strengthen your financial position and reduce vulnerability within your business.

# Appendix

## **GRAPH 1**

Your Company Name

Quarter \_\_\_\_\_ Year \_\_\_\_\_

### **ASSETS**

#### **Current Assets**

Cash	_____	
Accounts Receivable	_____	
Inventory	_____	
Prepaid Expenses	_____	
<b>Total Current Assets</b>		_____

#### **Fixed Assets**

Land	_____	
Facilities	_____	
Equipment	_____	
Computers & Telecommunications	_____	
(Less Accumulated Depreciation)	_____	
<b>Total Fixed Assets</b>		_____

#### **Other Assets**

<b>TOTAL ASSETS</b>	_____	_____
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### **LIABILITIES**

#### **Current Liabilities**

Accounts Payable	_____	
Accrued Payroll	_____	
Taxes Payable	_____	
Short-Term Notes Payable	_____	
<b>Total Current Liabilities</b>		_____

#### **Long-Term Liabilities**

Long-Term Notes Payable	_____	
Other Long-Term Liabilities	_____	
<b>Total Long-Term Liabilities</b>		_____

### **EQUITY**

Paid-In Capital	_____	
Retained Earnings	_____	
<b>TOTAL EQUITY</b>		_____

<b>TOTAL LIABILITIES AND EQUITY</b>	_____	_____
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# Appendix

<u>GRAPH 2</u>	<b>2010 INCOME STATEMENT</b>											
<b>INCOME</b>	January	February	March	April	May	June	July	August	September	October		
<b>Gross Sales</b>												
(Commissions)												
(Returns and allowances)												
<b>Net Sales</b>												
(Cost of Goods)												
<b>GROSS PROFIT</b>												
<b>OPERATING EXPENSES</b>												
<b>General and Administrative Expenses</b>												
Salaries and Wages												
Employee Benefits												
Payroll Taxes												
Professional Services												
Marketing and Advertising												
Rent												
Equipment Rental												
Maintenance												
Depreciation												
Insurance												
Telephone Service												
Utilities												
Office Supplies												
Postage and Shipping												
Travel												
Entertainment												
Interest on Loans												
Other												
<b>TOTAL OPERATING EXPENSES</b>												
<b>Net Income Before Taxes</b>												
Provision for Taxes on Income												
<b>NET PROFIT AFTER TAXES</b>												

# Appendix

<u>GRAPH 3</u>	<b>CASH-FLOW PROJECTION</b>									
	January	February	March	April	May	June	July	August	September	October
<b>CASH RECEIPTS</b>										
Income from Sales										
Cash Sales										
Collections										
<b>Total Cash from Sales</b>										
<b>Income from Financing</b>										
Interest Income										
Loan Proceeds										
Equity Capital Investments										
<b>Total Cash from Financing</b>										
Other Cash Receipts										
<b>TOTAL CASH RECEIPTS</b>										
<b>CASH DISBURSEMENTS</b>										
Inventory										
Operating Expenses										
Commissions>Returns & Allowances										
Capital Purchases										
Loan Payments										
Income Tax Payments										
Investor Dividend Payments										
Owner's Draw										
<b>TOTAL CASH DISBURSEMENTS</b>										
<b>NET CASH FLOW</b>										
<b>Opening Cash Balance</b>										
Cash Receipts										
Cash Disbursements										
<b>ENDING CASH BALANCE</b>										