

BEST PRACTICES WEBINAR

CONFUSION TO CLARITY: MASTERING FINANCIAL STATEMENTS



Presented by Jim Kahrs
President, Founder - Prosperity Plus

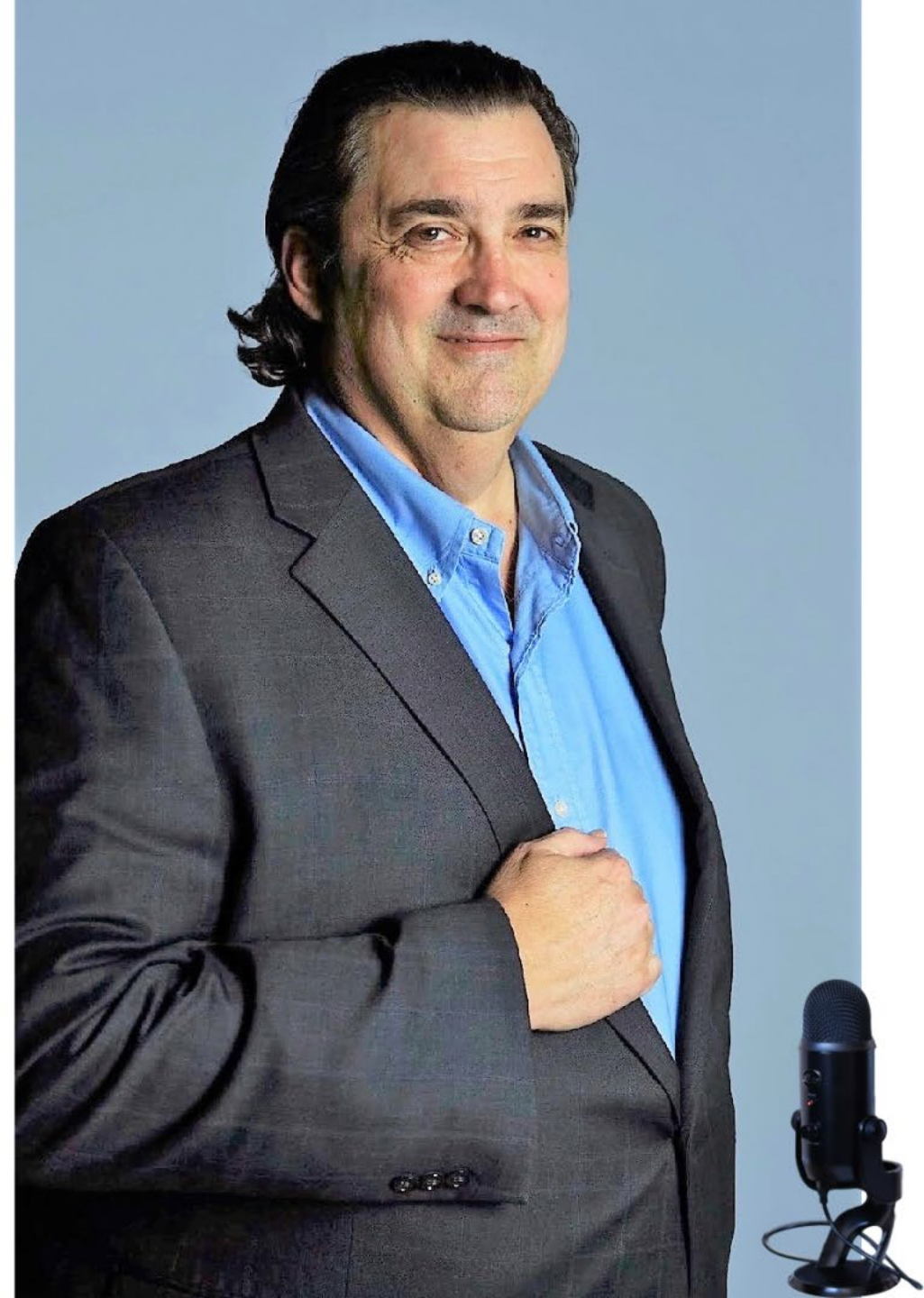
In This Seminar

- Introductions
- The Importance of Financial Statements
- Structure Matters
- Goal Setting
- Decision Making
- Summary
- Questions



Jim Kahrs

- 38 Years in Business Systems
- Started Prosperity Plus in 2001
- Achieve Your Goals by Improving Profit, Cash Flow & Growth
- Marketing Programs
- M&A, Valuations, Succession Planning
 - More than 350 individual transactions
- Consulting based on Experience + highly successful Hubbard® Management System & Value Builder System®



The Importance of Financial Statements

“The power of financial statements lies in their ability to provide a comprehensive view of a company's financial health and performance.”

Warren Buffet



51.4	22.25	-0.36	27.8
156.9	479.50	-0.42	31.2

The Importance of Financial Statements

- The scorecard of the business.
- The roadmap to chart your course.
- Provide insight into all aspects of the business.
- Remove all bias from evaluation.
- Require a high level of understanding **AND** confront.

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Key Financial Statements

- Income Statement

- The income statement shows the company's revenues, cost of goods sold, expenses and net income (loss) over a **period of time**.

- Balance Sheet

- The balance sheet shows the company's assets, liabilities, and equity at a specific **point in time**.

- Statement of Cash Flows

- The cash flow statement shows the company's cash inflows and outflows over a **period of time**.

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Key Financial Statements

- Interconnected and interdependent
 - Invoicing product
 - Increases Revenue and COGS on the Income Statement.
 - Reduces Inventory and increases A/R on the Balance Sheet.
 - Unearned/deferred revenue recognition
 - Reduces the Liability on the Balance Sheet.
 - Increases Service Revenue on the Income Statement.
 - Making loan payments
 - Interest goes to the income statement as an expense.
 - Cash and Loan balance are reduced on the Balance Sheet.
 - Full payment is reflected on the Cash Flow Statement.
 - Net income from Income Statement flows through to equity on the Balance Sheet

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Structure Matters

Accounting Basis : Accrual vs. Cash

- **Accrual Basis** - Accrual accounting records revenue and expenses when transactions occur but typically before money is received or dispensed.
- **Cash Basis** - Cash basis accounting records revenue and expenses when cash related to those transactions is actually received or dispensed.

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Structure Matters

Chart of Accounts: “A chart of accounts (COA) is an index of all the financial accounts in the general ledger of a company. In short, it is an organizational tool that provides a digestible breakdown of all the financial transactions that a company conducted during a specific accounting period, broken down into subcategories.”

Investopedia



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Structure Matters

Having the right general ledger accounts gives insight into different areas of the business.

Examples

- Break out revenue accounts for visibility into different product offerings.
- Match revenue and cost of goods accounts to give insight into gross profit.
- Break out expense accounts for visibility to department level expenses and profit.
- Having too few general ledger accounts doesn't allow for easy analysis.
- Having too many makes review and analysis more cumbersome.



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Setting Goals

- Since financial statements are the score card of the business, they should be used to set goals.
- Our [Budget Process](#) focuses on the Income Statement to set monthly and annual goals for general ledger accounts on the Income Statement.
- Other goals can include specific targets for:
 - Revenue
 - Net Income
 - Cash on Hand
 - Inventory
 - Debt Balances
 - and much more



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Decision Making

- Analyzing Financial Statements
 - Identify trends and make informed decisions.
- Forecasting Future Performance
 - Predict future performance and plan accordingly.
- Identifying Opportunities
 - Leverage statements to identify potential growth opportunities.



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Decision Making

- Examples
 - Should we continue with a product line?
 - What offerings should we focus on growing?
 - How will a large sale affect cash flow?
 - Should we hire additional staff?
 - Can we afford to buy that new truck or tech vehicle we “need”?
 - How do we create incentive programs for employees?
 - Is the advertising or sponsorship we’re doing paying off?

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In Summary

- Winning any game is dependent on knowing what winning looks like.
- The game of business doesn't provide an opponent in a traditional way.
- You win the game by achieving your goals.
- Your opponent is everything that gets in the way of achieving goals.
- Your most powerful weapon against this opponent is understanding and using your financial statements to guide your actions.
- In the end, the financial score card illustrates our victory or defeat.
- Use them to guide your decisions and actions and it will be VICTORY!

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Next Webinar: May 22



BEST PRACTICES WEBINAR

THE BUSINESS SALE BLUEPRINT: NAVIGATING ALL 4 STAGES



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FSPA MAY 5 - 8, GREENVILLE, SC | ISDA MAY 14 - 18 CLEARWATER BEACH, FL.

Questions?



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