
PROPEL BUSINESS LAB

SESSION IX

THE STORY BEHIND THE NUMBERS: UNDERSTANDING FINANCIAL STATEMENTS & FINANCIAL RATIOS



ALLENDALE COHORT

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BARNWELL COHORT

AGENDA

SESSION IX

6:00p.m. - 6:10p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

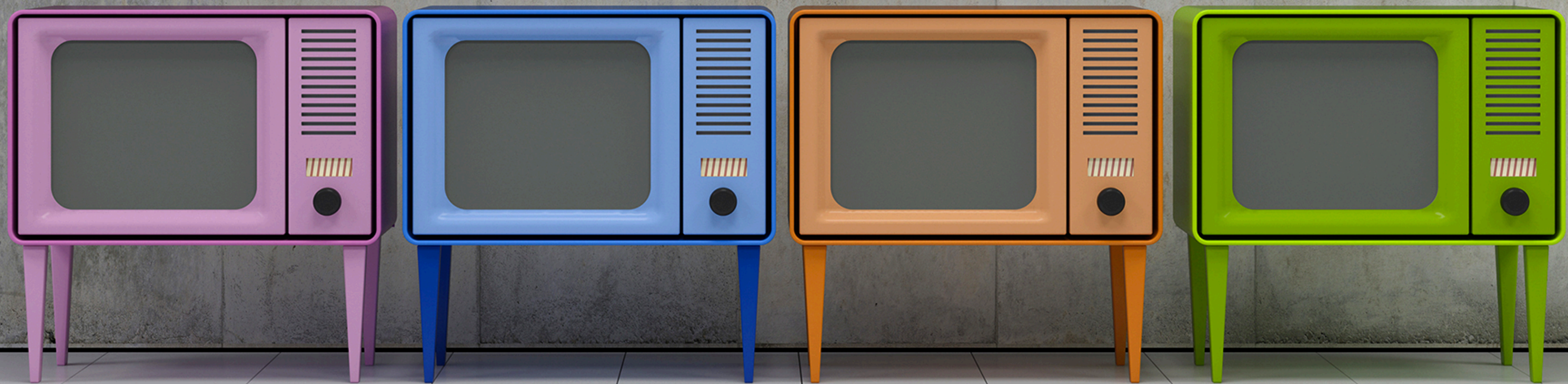
6:15p.m. - 8:00p.m.: UNDERSTANDING THE FINANCIAL STATEMENTS

8:00p.m. - 8:55p.m.: UNDERSTANDING AND INTERPRETING FINANCIAL RATIOS

8:55p.m. - 9:00p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

“The most dangerous poison is the feeling of achievement. The antidote is to every evening think what can be done better tomorrow.”

(Ingvar Kamprad, founder of IKEA)



UNDERSTANDING THE FINANCIAL STATEMENTS



WHAT IS THE REAL PURPOSE?

FINANCIAL STATEMENTS TELL THE STORY OF THE BUSINESS. THEY SHOW PAST PERFORMANCE, PRESENT ACHIEVEMENTS, AND PREDICT FUTURE OUTCOMES FOR:

Management

Investors

Shareholders

Creditors

Commercial Banks & Financial Institutions



THE INCOME STATEMENT

- **Also known as the Profit & Loss Statement or the P&L Statement.**
- **Reports financial performance over a specified period of time.**
- **Includes temporary accounts that close at the end of each accounting period.**
- **Includes all revenues and expenses over a specific period of time.**
- **Shows stakeholders how much money the company made versus how much was spent over a particular period of time.**

Why would this financial statement be important to any stakeholder?

INCOME STATEMENT, CONT'D

Review the Income Statement below. What story does this financial statement tell?

PROPEL LAB INDUSTRIES COMPARATIVE INCOME STATEMENT			
	2021	2022	2023
REVENUES			
SALES	\$7,500	\$6,000	\$10,000
OTHER INCOME	\$3,850	\$3,000	\$5,000
TOTAL REVENUE	\$11,350	\$9,000	\$15,000
EXPENSES			
SUPPLIES EXPENSES	\$3,500	\$4,605	\$1,500
ADVERTISING EXPENSE	\$1,100	\$3,000	\$1,000
MISCELLANEOUS EXPENSE	\$800	\$1,575	\$500
TOTAL EXPENSES	\$5,400	\$9,180	\$3,000
NET INCOME	\$12,150	(\$180)	\$12,000

STATEMENT OF OWNER'S EQUITY

- Also known as the “Statement of Changes in Owner’s Equity” or the Statement of Retained Earnings”.
- Reports financial performance over a specified period of time.
- Includes temporary and permanent accounts
- Shows how the company’s owner equity increased or decreased during the accounting period.

Why would this financial statement be important to any stakeholder?

STATEMENT OF OWNER'S EQUITY, CONT'D

Review the Statement of Owner's Equity below. What story does this financial statement tell?

PROPEL LAB INDUSTRIES STATEMENT OF OWNER'S EQUITY FOR THE PERIOD ENDING DECEMBER 31, 2023		
OWNER'S EQUITY, JANUARY 1, 2023		\$0
PLUS NET INCOME	\$12,000	
LESS: WITHDRAWALS	(\$5,000)	
INCREASE IN OWNER'S EQUITY		\$7,000
OWNER'S EQUITY, DECEMBER 31, 2023		\$7,000

THE BALANCE SHEET

- Also known as the Statement of Financial Position.
- Reports financial performance as of a SPECIFIC DATE.
- Includes permanent accounts that rollover to the next accounting period.
- Includes assets, liabilities, and owner's equity accounts.
- Direct reflection of the basic accounting equation.
- Shows stakeholders where the company stands financially on a specific date.

Why would this financial statement be important to any stakeholder?

BALANCE SHEET, CONT'D

Review the Balance Sheet below. What story does this financial statement tell?

PROPEL LAB INDUSTRIES BALANCE SHEET DECEMBER 31, 2023			
ASSETS		LIABILITIES	
CASH	\$25,000	ACCOUNTS PAYABLE	25,000
ACCOUNTS RECEIVABLE	3,000	NOTES PAYABLE	60,000
SUPPLIES	2,500	TOTAL LIABILITIES	\$85,000
INVENTORY	1,500		
LAND	30,000	OWNER'S EQUITY	
BUILDING	20,000	OWNER'S EQUITY	7,000
VEHICLE	10,000	TOTAL OWNER'S EQUITY	\$7,000
TOTAL ASSETS	\$92,000	TOTAL LIABILITIES & OWNER'S EQUITY	\$92,000

STATEMENT OF CASH FLOWS

- Also known as the Statement of Financial Position.
- Reports the disposition of CASH as of a SPECIFIC DATE.
- Reports how liquid the company is. Does the company have enough cash to operate?
- Ending cash balance equals the cash balance from the Balance Sheet.
- Shows stakeholders how cash is entering and leaving the business within a specific period.

Why would this financial statement be important to any stakeholder?

STATEMENT OF CASH FLOWS, CONT'D

Review the Statement of Cash Flows below. What story does this financial statement tell?

PROPEL LAB INDUSTRIES STATEMENT OF CASH FLOWS FOR THE PERIOD ENDING DECEMBER 31, 2023		
CASH FLOWS FROM OPERATING ACTIVITIES		\$50,000
CASH FLOWS FROM INVESTING ACTIVITIES		(35,000)
CASH FLOWS FROM FINANCING ACTIVITIES		5,000
NET INCREASE (DECREASE) IN CASH		\$20,000
CASH AT THE BEGINNING OF THE YEAR		\$5,000
CASH AT THE END OF THE YEAR		\$25,000

UNDERSTANDING & INTERPRETING FINANCIAL RATIOS



FINANCIAL RATIOS

- **Used to evaluate the overall financial condition of a corporation or other organization.**

- **Examples:**

- Working Capital
- Current Ratio
- Quick Ratio
- Profit Margin
- Asset Turnover Ratio
- Return on Investment
- Operating Margin



FINANCIAL RATIOS, CONT'D

- **Liquidity Ratios: Used to measure working capital performance**
 - Current Ratio: Current Assets / Current Liabilities
 - Quick Ratio (Acid-Test Ratio): (Current Assets - Inventories - Prepaid Assets) / Current Liabilities
 - Cash Ratio: Cash and Cash Equivalents / Current Liabilities
 - **Liquidity Ratios: Used to measure how much debt a company has.**
 - Debt Ratio: Total Debt / Total Assets
 - Debt to Equity Ratio: Total Debt / Total Equity
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FINANCIAL RATIOS, CONT'D

- **Efficiency Ratios: Used to measure how effectively a company uses working capital to general sales.**

- Asset Turnover Ratio: $\text{Net Sales} / \text{Average Total Sales}$
- Inventory Turnover: $\text{Cost of Goods Sold} / \text{Average Value of Inventory}$
- Accounts Receivable Turnover Ratio: $\text{Net Credit Sales} / \text{Average Accounts Receivable}$

- **Profitability Ratios: Used to measure how a company generates profits using available resources over a given period.** *(Higher ratio results are more favorable.)*

- Gross Margin: $\text{Gross Profit} / \text{Net Sales}$
 - Operating Margin: $\text{Operating Income} / \text{Net Sales}$
 - Return on Assets: $\text{Net Income} / \text{Assets}$
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FINANCIAL RATIOS, CONT'D

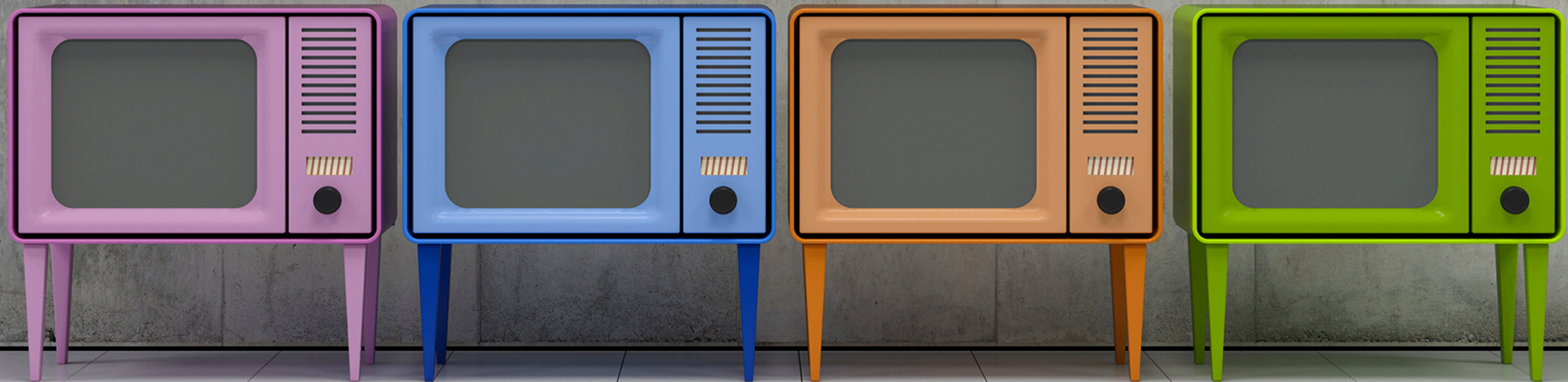
- **Market Value Ratios: Used to measure how valuable a company is and usually used by external stakeholders and internal management.**
- Earnings Per Share Ratio: $(\text{Net Income} - \text{Preferred Dividends}) / \text{End-of-Period Common Shares Outstanding}$



LET'S REFLECT...

Identify at least one concept that was the most relevant to your business.

Please explain.



PRE-WORK FOR SESSION X



ASSIGNMENTS

SESSION IX

1. Read through the Session X Presentation.
2. Read the additional resources provided in the program outline for Week #10.

CONTACT INFORMATION

LET'S
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