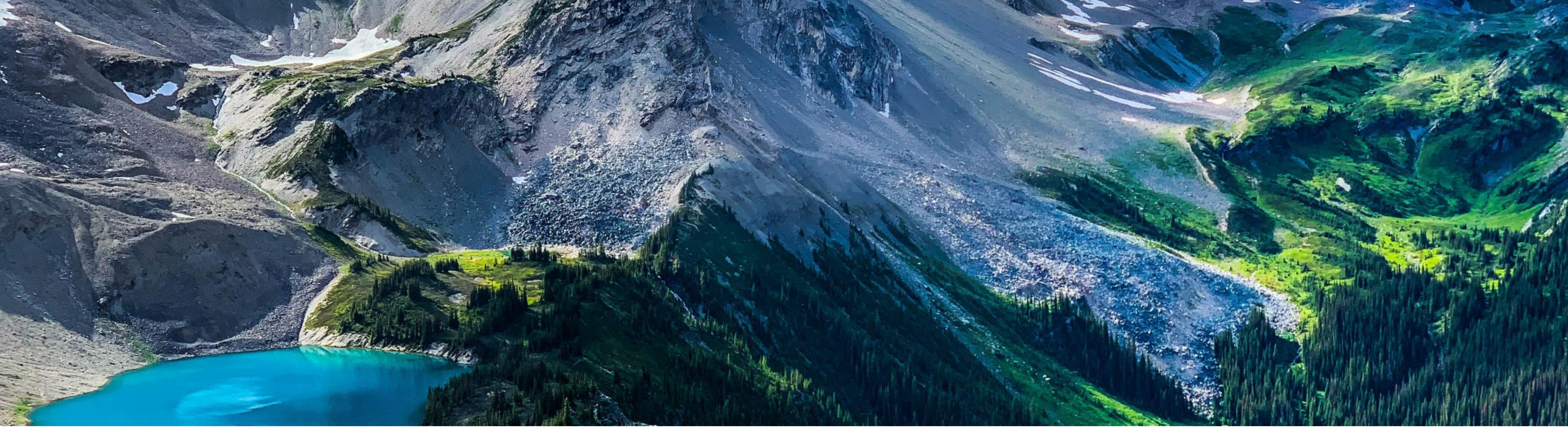

Financial Learning Pathway

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Columbia Basin trust | BASIN BUSINESS ADVISORS

Symptoms we see…

- Lack of Confidence
- Gut based decisions
- Talk about "feelings"
- Check bank balance daily
- Not enough hours in the day
- Have to do it myself
- Take money when needed

Remember!
Profit = Fuel

- Need fuel in the tank
- Can't grow without profit
  - ➢ Growth Eats Cash
- Can't look after team
- Increases Equity on your Balance Sheet
  - ➢ Profits become Retained Earnings

Assets

Current $1000
Fixed $200

Liabilities

Current $700
Long Term $200

Equity $300

$1200 = $1200

The Balance Sheet

Assets = Liabilities + Equity

- **Assets:** What the company owns
- **Liabilities:** What the company owes to a creditor or debtor
- **Owners' Equity:** The Net worth of a company. It's the difference between the assets and liabilities of a company
- **Current:** Can be converted to cash (assets) or will require cash to pay it (liabilities) within one year
- **Fixed/Long Term:** Beyond one year

Balance Sheet: Current Ratio

$$\text{Current ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Balance Sheet: Current Ratio

- Liquidity Measure
- Show ability to pay your bills
- For every $1 owed, shows how many $$ you have available to pay for that $1 owed
- Ideal is between 2 & 5
- <1 = Insolvent
- >5 = Opportunity to invest or take profits

Balance Sheet: Debt to Equity

Who "owns" your company

Debt to equity ratio (D to E) =

$$\frac{\text{Short Term Liabilities + Long Term Liabilities}}{\text{Total Shareholder Equity + Shareholder Loans}}$$

Balance Sheet:
Debt to Equity

Who "owns" your company

- Shows how much you own vs your creditors
- Shows banks if you can handle debt if you're looking for financing
- <1, Low Risk; Between 1-5 is normal
- >5 means high lending risk

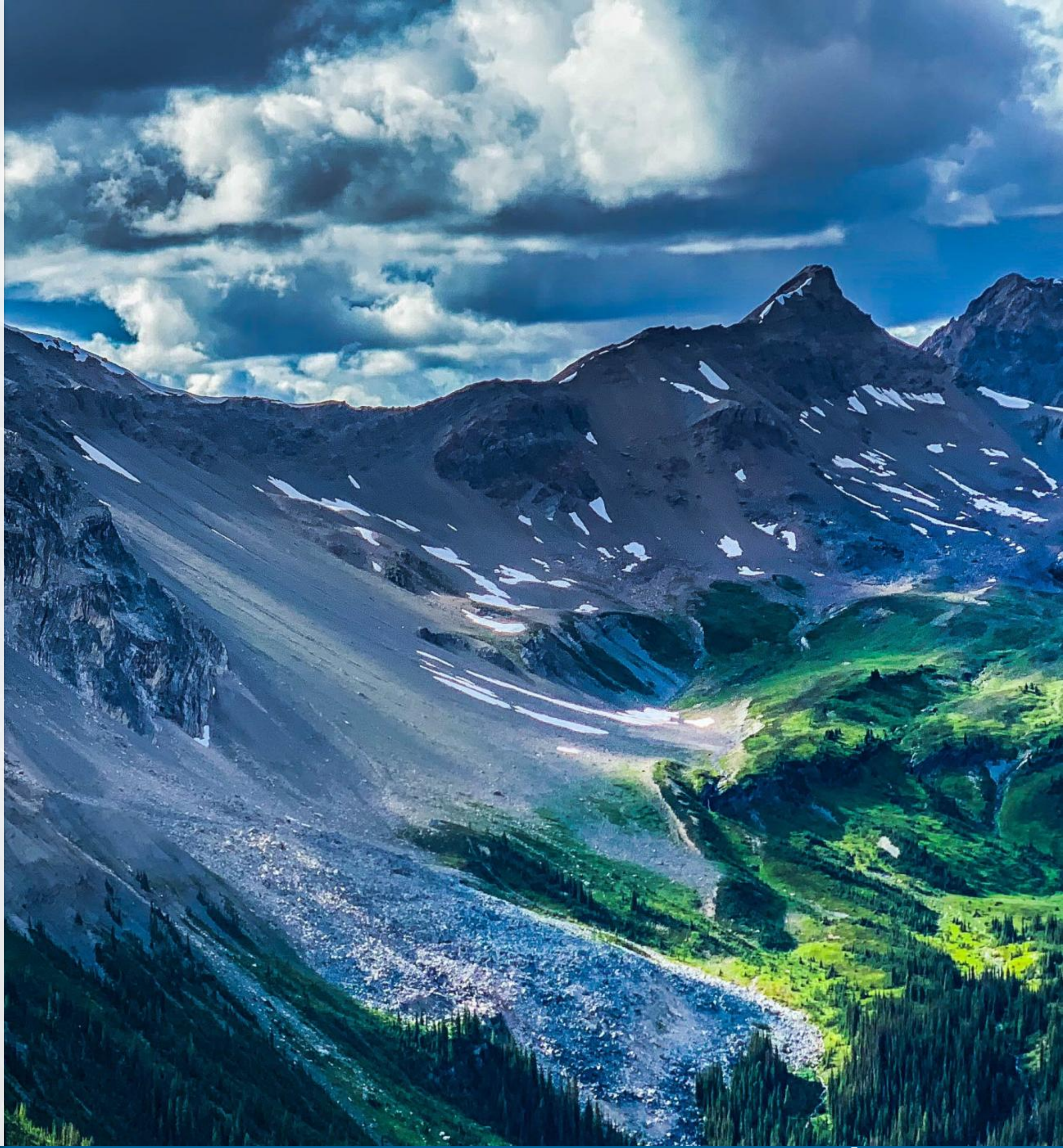
Balance Sheet Example

A Trailing Twelve-Month P&L

This is fundamental to financial analysis:

- Shows trends over time
- Smoother Performance View
- Better Comparisons
- More accurate Financial Health Assessment

Questions?



Homework for Working Group:

- Produce a Balance Sheet, an Annual P&L, and a TTM, **ALL in Excel**

- Calculate the Following:
  - ➢ Current Ratio (Current Assets/Current Liabilities)
  - ➢ Debt to Equity (Total Liabilities/Total Equity + Shareholder Loans)
  - ➢ Gross Profit (Revenues – COGS)
  - ➢ Gross Margin (Total Gross Profit/Total Revenue)
  - ➢ Net Profit Margin (Total Net Profit/Total Revenue)

Thank You

Notes

Notes