

MONTHLY ONLINE EVENT WITH NETWORKING
OPPORTUNITIES

Profit Maximization Strategy Series

Running Your Business by the Numbers



Keep Balanced to Ensure Profitability

(Session #5)

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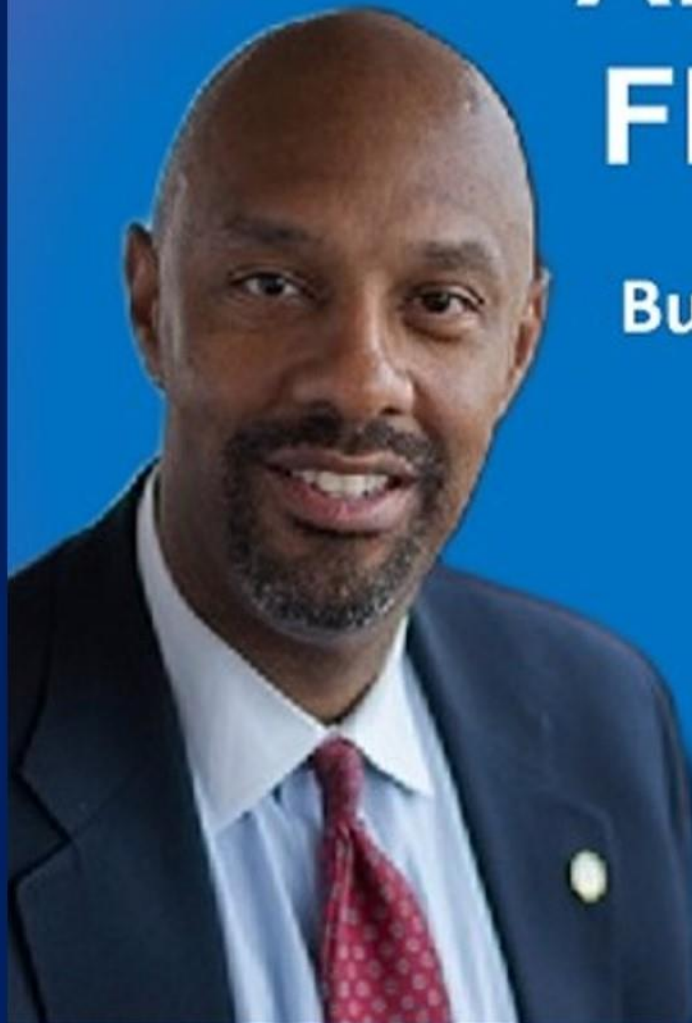
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**Business Growth
Pro and CFO**



- Paperboy
- Entrepreneur
- MIT Engineer
- Navy Supply Officer
- Business Manager
- NYU- Stern MBA
- CFA Designation
- Corporate Executive
- Real Estate Investor
- Non-Profit Leader
- Business Owner
- Coach & Consultant
- Teacher & Trainer
- Outsource CFO
- Author / Speaker

Session #5

Keep Balanced to Ensure Profitability

- Tight-rope walkers carry a pole to keep themselves steady
- Learn to develop aids to maintain balance and reduce risk
- They will also help to fuel your growth and profitability



The Challenge



- Most businesses are less profitable than they should be.
- Many business owners don't know how to maximize their profitability.
- Economics aside, there are proven strategies to maximize your profitability.



Is This For You?



- Business Owners who are:
 - Generating revenue
 - Looking to increase profitability
 - Wanting to create a sustainable business
 - Seeking to Work ON Their Business Not IN It
 - Looking to maximize value of their business





What You'll Learn Today

- Fundamentals of the Balance Sheet
- Working Capital and Liquidity Traps
- Leverage is a Double-Edged Sword



Review

- What are the 3 key financial statements?
- Which one is most important?
- What are the major categories on each?

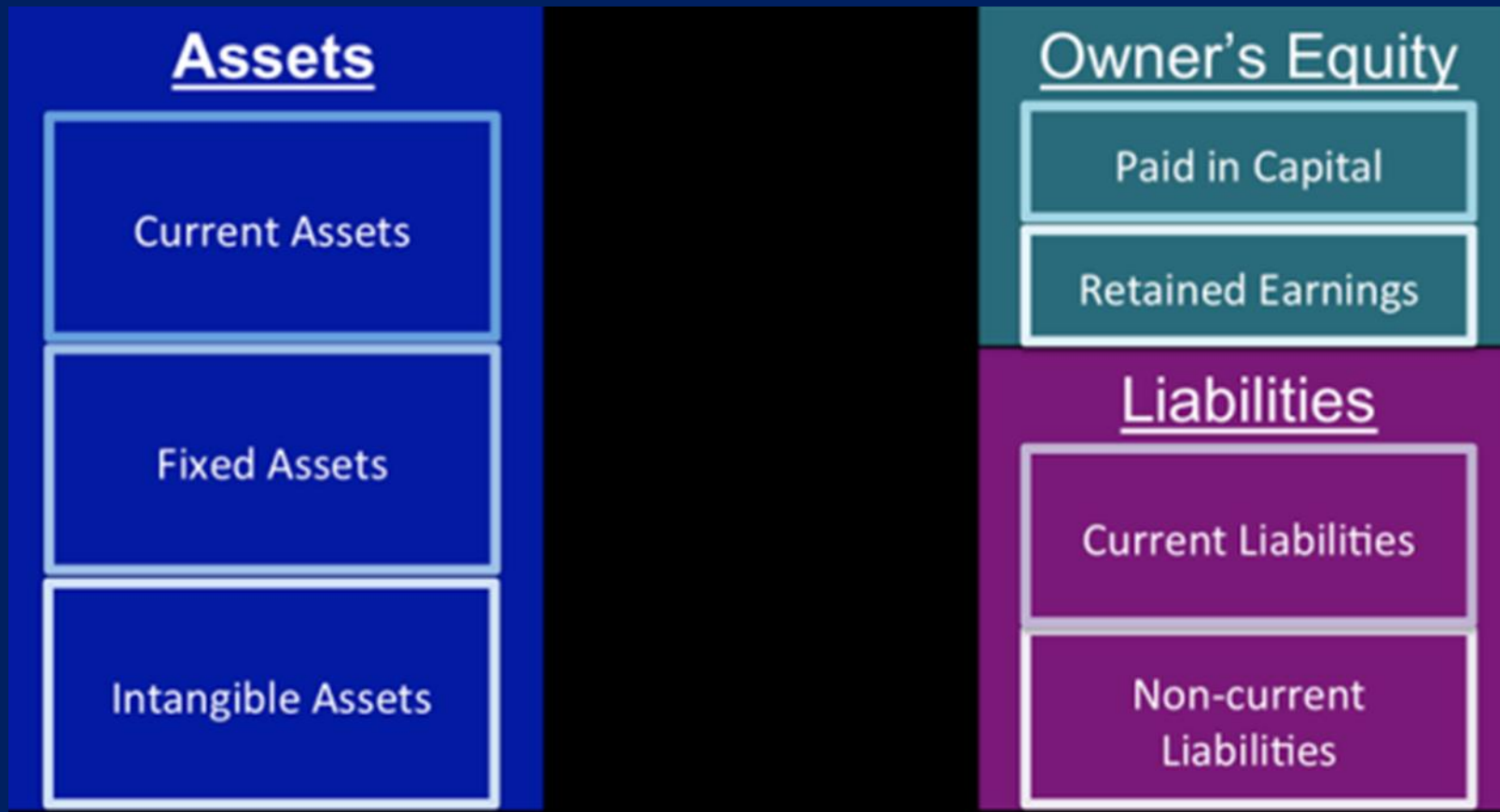


Fundamentals of the Balance Sheet

- Assets
 - Current, Fixed, and Intangible
- Liabilities
 - Current and Long Term
- Equity
 - Retained Earnings and Paid in Capital
- Balancing Equation
 - $\text{Assets} = \text{Liabilities} + \text{Equity}$



Balance Sheet Overview



Sample Balance Sheet

BALANCE SHEET December 31, 2100

ASSETS

Current assets

Cash and cash equivalents	\$ 100,000
Accounts receivable	20,000
Inventory	15,000
Prepaid expense	4,000
Investments	10,000
Total current assets	149,000

Property and equipment

Land	24,300
Buildings and improvements	250,000
Equipment	50,000
Less accumulated depreciation	(5,000)

Other assets

Intangible assets	4,000
Less accumulated amortization	(200)

Total assets \$ 472,100

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 30,000
Notes payable	10,000
Accrued expenses	5,000
Deferred revenue	2,000
Total current liabilities	47,000

Long-term debt 200,000

Total liabilities 247,000

Shareholders' Equity

Common stock	10,000
Additional paid-in capital	20,000
Retained earnings	197,100
Treasury stock	(2,000)

Total liabilities and shareholders' equity \$ 472,100



Sample Transactions

- Invest \$50k check into the business
 - \$50k Cash (Current Asset)
 - \$50k Paid In Capital (Equity)
- Purchase \$20k of inventory on credit
 - \$20k Inventory (Current Asset)
 - \$20k Accounts Payable (Current Liability)
- Pay off accounts payable
 - -\$20k Cash (Current Asset)
 - -\$20k Accounts Payable (Equity)

	Transactions	Balances
Cash	\$50 – \$20	\$30
Inventory	\$20k	\$20
Total Assets	\$50k	\$50k
Accounts Payable	\$20 – \$20	\$0k
Paid In Capital	\$50k	50k
Total Equity & Liab	\$50k	\$50k



Working Capital and Liquidity

- Working Capital

- The money you have available to meet your short-term needs. A measure of a company's ability to pay off short-term expenses or debts.
- Working Capital = Current Assets – Current Liabilities

- Liquidity

- Your ability to exchange an asset for cash. The easier it is to convert an asset into cash, the more liquid it is.
- Liquidity = Current Assets or Current Assets - Inventory



Working Capital and Liquidity Traps

- Insufficient Working Capital
 - $\text{Current Liabilities} > \text{Current Assets}$
- Asset-Liability Mismatches
 - Financing long-term assets with short-term debt
- Inventory Mismanagement
 - Excesses, shrinkage, and obsolescence
- Receivable and Payable Issues
 - Balances and aging



Leverage is a Double-Edged Sword

- Leverage
 - The amount of debt a company has in its mix of debt and equity (its capital structure). A company with more debt than average for its industry is said to be highly leveraged. Leverage is not necessarily bad.
- Double Edged Sword
 - A tool that will magnify your profits (good) or losses (bad).



Leverage Example

Un-Leveraged	Initial Purchase	Scenario #1 - Gain	Scenario #2 - Loss
Cost (Value)	100,000	120000	80,000
Loan	0	0	0
Equity	100,000	120000	80000
Return on Equity		20%	-20%

Leveraged	Initial Purchase	Scenario #1 - Gain	Scenario #2 - Loss
Cost (Value)	100,000	120000	80,000
Loan	80,000	80000	80000
Equity	20,000	40000	0
Return on Equity		100%	-100%



Review

- What are the 3 major categories on the balance sheet?
- What is the balancing equation?
- What is working capital?
- What are the potential dangers of leverage?
- Why is liquidity important?



QUESTIONS

Session #6

How Much Money Are You Really Making?

- How much money is your business making?
 - How much should it be making?
- Learn what is contributing to your profit
 - Identify what is detracting from it
- The first step for maximizing profitability.





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