

Financial Analysis

Balance sheet, income statement, and financial ratios

Balance Sheet

Assets		
Current Assets		
Checking		72,207
Savings		25,000
Crop inventory, winter wheat	2,100	
Crop inventory, hay	5,000	
Livestock inventory, calves	11,250	
Current assets		115,557
Intermediate Assets		
Cows	200,000	
Machinery and equipment	42,000	
Intermediate assets		242,000
Long term Assets		
Buildings and Improvements	100,000	
Land	320,000	
Long term assets		420,000
Total Assets		777,557

Liabilities		
Current Liabilities		
Accounts payable		2,000
Income taxes payable		498
Accrued interest		
Current liabilities		2,460
Intermediate liabilities		548
Long term liabilities		6,787
Current portion of principal due		
Intermediate liabilities		5,483
Long term liabilities		7,664
Operating note, current		41,000
Current liabilities		66,440
Notes payable, current		
Operating		43,460
Equipment		14,451
Land		43,460
Notes payable, non-current		128,086
Total Liabilities		194,526
Total Equity (total assets - total liabilities)		583,031

Ratio Analysis using the balance sheet only

- ▶ First level
 - ▶ Total Assets comparison
 - ▶ Each balance sheet item / Total Assets
 - ▶ Cash / Total Assets
 - ▶ Cash = checking + savings
 - ▶ Calculate
 - ▶ Standard

- ▶ Current Ratio
 - ▶ Can the firm pay its current debts?
 - ▶ Current Assets / Current Liabilities
 - ▶ Calculate

▶ Debt to Net Worth Ratio

- ▶ Can the firm meet its long term obligations (debts)?
- ▶ Total Liabilities / Total Equity
 - ▶ Calculate
- ▶ Standards

▶ Debt to Asset Ratio

- ▶ shows the proportion of a company's **assets** which are financed through **debt**.
- ▶ Total Liabilities / Total Assets
 - ▶ Calculate
- ▶ Standard

Income Statement

Income		
Winter wheat		84,000
Alfalfa hay		30,000
Cows		157,500
Cows		9,600
Total sales		281,100
Expenses		
Car and truck		8,000
Chemicals		30,000
Conservation		4,000
Custom hire		8,000
Feed supplement		4,000
Feed, grain, and roughage		30,000
Fertilizers and lime		30,000
Fuel and tracking		1,000
Gas/oil/diesel		21,000
Insurance		3,000
Labor hired		45,000
Rent - machinery/equipment/vehicles		0
Rent - land/interest		0
Repairs and maintenance		15,000
Seeds and plows		5,000
Supplies		2,000
Taxes - real estate		2,400
Utilities		12,000
Veterinary/breeding/medicine		3,000
Other expenses		1,800
Other - irrigation		0
Depreciation		11,540
Interest		9,247
Total expenses		247,897
Total Profit (before taxes)		33,703

Net Profit is **NOT** Take Home Income

- ▶ Net Profit
 - ▶ Less: Federal and State Income taxes
 - ▶ Less: Social Security and Medicare (112)
 - ▶ Less: Principal payments to lender
- ▶ Take home income (go to spend on household items)

Ratio Analysis using the Income Statement only

- ▶ First Level
 - ▶ Net sales comparisons
 - ▶ Divide each income statement item by total sales
 - ▶ Net Profit / Total Sales (critically important)
 - ▶ Calculate
 - ▶ Standards

Ratio Analysis using both statements

- ▶ Rate of Return on Assets
 - ▶ Is the firm using its assets efficiently?
- ▶ Net Profit / Total Assets
 - ▶ calculate
- ▶ Standards

Purpose of Ratios (Lender benchmarks)

- ▶ Six C's
 - ▶ Character
 - ▶ Capacity to repay
 - ▶ Capital (how much money do you have)
 - ▶ Conditions (local economy)
 - ▶ Collateral
 - ▶ Credit (past credit)
- ▶ Do the ratios answer these questions?

Loan Scoring Methods

- ▶ Fair-Isacs (FICO)
 - ▶ "most" commercial banks
- ▶ Who are the winners and losers?
 - ▶ New businesses
 - ▶ Women-owned business
- ▶ What about family finances?

Summary

- ▶ Financial Statement Analysis
 - ▶ using your financial statements for management
 - ▶ Balance sheet
 - ▶ Compare all balance sheet items to total assets
 - ▶ Current ratio
 - ▶ Debt to net worth ratio

- ▶ Income Statement
 - ▶ Comparison of all income statement items with net sales
 - ▶ Net profit percentage
- ▶ Both Financial Statements
 - ▶ Rate of return on assets
- ▶ Loan Scoring
 - ▶ Fair-Isacs (FICO)
 - ▶ <and> do you know your credit score
 - ▶ Experian / Equifax

Questions?