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Reading and Interpreting Financial Statements

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Small Business & Technology Development Center

The SBTDC is a business and technology extension program of the UNC System and is funded in part by a Cooperative Agreement with the *US Small Business Administration*

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Objectives

- 1.To learn how to analyze a complex P&L and understand the numbers, in English.
- 2.To understand the purpose of the Balance Sheet.

Agenda

1. P&L
2. Balance Sheet
3. Q&A
4. Adjourn

What Story Does the P&L Tell (The Basics)?

- Where my money comes from and where it went, over a defined time period
- Which revenue streams are doing very well (and very poorly)
- Areas where we are bleeding cash, if any
- And a P&L should tell an owner this information *at a glance*, without having to do much mental math

The State of Many P&Ls

1. Audience
2. Too Much Detail = Visual Clutter
3. Order of Expenses

Secret Sauce

- \$\$\$
-
- Account Numbers



Secret Sauce, cont'd

- Reorder
 - Sales
 - CGS
 - Occupancy
 - Labor
 - Operations

Case Study: Semi-Rural Grocery Co-op

1. Approaching \$2.5MM in annual revenues
2. In business since 2006
3. Approximately 10 FT and 11 PT employees
4. NC SBTDC Client since 2020
5. Profitable (but barely!)

	Jan - Dec 22
Ordinary Income/Expense	
Income	
2110000 · Sales	
2110100 · Sales-Grocery	
2110101 · Sales-Grocery-Packaged	641,426.14
2110102 · Sales-Grocery-Frozen	150,599.52
2110103 · Sales-Grocery-Bulk	171,377.33
2110107 · Sales-Grocery-Beer & Wine	163,050.15
2110108 · Sales-Grocery-NonFoods Grocery	58,262.00
2110110 · Sales-Grocery-Refrigerated	293,754.05
Total 2110100 · Sales-Grocery	1,478,469.19
2110200 · Sales-Produce	
2110201 · Sales-Produce	268,156.55
2110202 · Sales-Produce-Plants	12,157.92
Total 2110200 · Sales-Produce	280,314.47
2110300 · Sales-Meat	132,846.53
2110400 · Sales-Deli	
2110401 · Sales-Deli-Prepared Foods	179,225.53
2110403 · Sales-Deli-Bakery	12,388.41
2110405 · Sales-Deli-Juice/Coffee Bar	12,992.64
2110409 · Sales-Deli-Bread	61,851.57
Total 2110400 · Sales-Deli	266,458.15
2110500 · Sales-Wellness	
2110501 · Sales-Wellness-Supplements	70,089.26
2110502 · Sales-Wellness-Body Care	54,605.99
2110503 · Sales-Wellness-Nonfoods	14,886.25
Total 2110500 · Sales-Wellness	139,581.50
2110609 · Sales -- Consignment Sales	4,028.95
2110800 · Sales-Sushi	112,025.20
2110900 · Sales-Specialty Cheese	54,699.41
2110000 · Sales - Other	0.00
Total 2110000 · Sales	2,468,423.40
2110801 · Sales - Intangibles	804.50
Total Income	2,469,227.90

=A36:I51	Cost of Goods Sold	
	2120000 · Cost of Goods Sold	
	2121100 · Purchases-Grocery	
	2121101 · Purchases-Groc-Packaged	384,485.89
	2121102 · Purchases-Groc-Frozen	95,757.96
	2121103 · Purchases-Groc-Bulk	94,173.18
	2121107 · Purchases-Groc-Beer & Wine	110,785.42
	2121108 · Purchases-Groc-NonFoods Grocery	36,894.24
	2121110 · Purchases-Groc-Refrigerated	214,215.51
	Total 2121100 · Purchases-Grocery	936,312.20
	2121200 · Purchases-Produce	
	2121201 · Purchases-Produce	181,795.37
	2121202 · Purchases-Produce-Plants	7,824.10
	Total 2121200 · Purchases-Produce	189,619.47
	2121300 · Purchases-Meat	101,718.78
	2121400 · Purchases-Deli	
	2121401 · Purchases-Deli-Prepared Foods	87,007.22
	2121403 · Purchases-Deli-Bakery	7,205.26
	2121405 · Purchases-Deli-Juice/Coffee Bar	7,598.05
	2121409 · Purchases-Deli-Bread	44,231.87
	Total 2121400 · Purchases-Deli	146,042.40
	2121500 · Purchases-Wellness	
	2121501 · Purchases-Wellness-Supplements	32,867.07
	2121502 · Purchases-Wellness-Body Care	25,820.14
	2121503 · Purchases-Wellness-Nonfoods	7,914.78
	Total 2121500 · Purchases-Wellness	66,601.99
	2121609 · Purchases - Consignment Purchas	2,964.79
	2121800 · Purchases-Sushi	85,259.14
	2121900 · Purchases-Specialty Cheese	34,968.91
	2122000 · Inventory Adjustment	
	2122100 · Inventory adj-Grocery	
	2122101 · Inv adj-Grocery-Packaged	7,530.00
	2122102 · Inv adj-Grocery-Frozen	1,460.00
	2122103 · Inv adj-Grocery-Bulk	2,951.00
	2122107 · Inv adj-Grocery-Beer & Wine	-2,215.00
	2122108 · Inv adj-Grocery-NonFoods Grocer	261.00
	2122110 · Inv adj-Grocery-Refrigerated	1,538.00
	Total 2122100 · Inventory adj-Grocery	11,525.00
	2122200 · Inventory adj-Produce	
	2122201 · Inv adj-Produce-Produce	-521.00
	2122202 · Inv adj-Produce-Plants	-18.00
	Total 2122200 · Inventory adj-Produce	-539.00
	2122300 · Inventory adj-Meat	-1,601.00
	2122400 · Inventory adj-Deli	
	2122401 · Inv adj-Deli-Prepared foods	-686.00
	2122403 · Inv adj-Deli-Bakery	-1,643.00
	2122405 · Inv adj-Deli-Juice/Coffee Bar	-68.00
	2122409 · Inv adj-Deli-Bread	-381.00
	Total 2122400 · Inventory adj-Deli	-2,778.00
	2122500 · Inventory adj-Wellness	
	2122501 · Inv adj-Wellness-Supplements	10,881.00
	2122502 · Inv adj-Wellness-Body care	4,538.00
	2122503 · Inv adj -- Wellness non-foods	1,687.00
	Total 2122500 · Inventory adj-Wellness	17,106.00
	2122900 · Inv Adj-Specialty Cheese	203.00
	Total 2122000 · Inventory Adjustment	23,916.00
	2124000 · Freight	17,526.31
	Total 2120000 · Cost of Goods Sold	1,604,929.99
	Total COGS	1,604,929.99
	Gross Profit	864,297.91

Expense		
2200000 · Operating Expenses		
2210000 · Personnel		
2211000 · Wages		
	2211100 · Wages-Grocery	177,067.71
	2211103 · Wages - Cashier/Front End	71,457.75
	2211400 · Wages-Deli	115,639.83
	2211700 · Wages-Administration	100,152.39
	Total 2211000 · Wages	464,317.68
2213000 · Non-Wage Personnel Expense		
	2213100 · Payroll Taxes	39,513.45
	2213211 · Health Insurance	0.00
	2213212 · Life Insurance	-0.17
	2213213 · Vision-Individual	3.50
	2213214 · Disability Insurance	0.00
	2213216 · Workers Comp Insurance	6,421.64
	2213220 · Paid Time Off	13,991.15
	2213230 · Employee Discounts	15,595.83
	2213240 · Employee Retirement Match	3,352.80
	2216000 · Staff Development and Training	1.40
	2218000 · Staff appreciation expense	7,458.98
	2219000 · Owner appreciation	13.42
	2213000 · Non-Wage Personnel Expense - Other	197.75
	Total 2213000 · Non-Wage Personnel Expense	86,549.75
	Total 2210000 · Personnel	550,867.43
2220000 · Occupancy		
	2220100 · Depreciation Expense	26,656.08
	2220300 · Insurance	8,105.57
	2221000 · Rent	71,499.51
	2221100 · R&M Outside Services	27,744.71
	2221500 · Utilities	33,916.31
	Total 2220000 · Occupancy	167,922.18
2230000 · Operating		
	2230300 · Bank Service Charges	9.00
	2230500 · Merchant credit card fees	43,505.70
	2230800 · Equipment Rental	2,486.40
	2231000 · Laundry service	5,709.81
	2231100 · Licenses and Permits	1,049.40
	2231300 · Over/Shorts	-62.92
	2231500 · Returned checks expense	38.61
	2231700 · IT -- Information Technology	13,808.33
	2231800 · Supplies	
	2231804 · General Maintenance	3,442.00
	2231806 · Supplies - Deli	15,865.64
	2231807 · Supplies - Bathroom	-18.70
	2231808 · Supplies - Non-Deli Store	11,067.68
	Total 2231800 · Supplies	30,356.62
	2231900 · Telephone	2,754.40
	2232000 · Trash service	4,279.95
	2232200 · Wholesaler fees	16.00
	Total 2230000 · Operating	103,951.30

				2240000 · Administration	
				2240100 · Accounting	5,507.79
				2240300 · Contributions	13,590.39
				2240800 · Dues and Subscriptions	3,976.55
				2241000 · Inventory service	2,491.72
				2241600 · Office Supplies	807.41
				2241800 · Other Outside Services	1.17
				2242200 · Postage and Delivery	396.79
				2242600 · Travel & Ent	
				2242601 · Meals	26.00
				2242602 · Travel	496.78
				2242600 · Travel & Ent - Other	16.25
				Total 2242600 · Travel & Ent	539.03
				2242700 · Other Fees	593.46
				2240000 · Administration - Other	49.22
				Total 2240000 · Administration	27,953.53
				2250000 · Marketing	
				2250100 · Advertising/Marketing	8,336.20
				Total 2250000 · Marketing	8,336.20
				2260000 · Miscellaneous	739.46
				2270000 · Owner discounts	16,664.48
				2280000 · Governance	
				2282000 · Board Misc. Expense	6,585.56
				2283000 · Board Discounts	4,214.74
				Total 2280000 · Governance	10,800.30
				Total 2200000 · Operating Expenses	887,234.88
				2323000 · Taxes	
				2323200 · State	230.00
				2323500 · Property	2,570.90
				2323000 · Taxes - Other	3,902.67
				Total 2323000 · Taxes	6,703.57
				Total Expense	893,938.45
				Net Ordinary Income	-29,640.54
				Other Income/Expense	
				Other Income	
				2310000 · Other Income	
				2311000 · Interest Income	17.40
				2313000 · Cash donations	12,015.10
				2310000 · Other Income - Other	13,202.13
				Total 2310000 · Other Income	25,234.63
				Total Other Income	25,234.63
				Other Expense	
				2320000 · Other Expense	
				2324000 · Interest	4,448.07
				2320000 · Other Expense - Other	-125.80
				Total 2320000 · Other Expense	4,322.27
				Total Other Expense	4,322.27
				Net Other Income	20,912.36
				Net Income	-8,728.18

Annual Analysis ('000)					
ABC Rural Grocery					
	2019	2020	2021	2022	2023
Income					
Grocery	1,040	1,440	1,340	1,480	1,430
Produce	200	290	260	280	280
Meat	90	140	130	130	130
Deli	200	160	220	270	320
Wellness	130	150	130	140	140
Consignment	10	-	5	5	-
Sushi	70	70	80	110	130
Specialty Cheese	30	60	55	55	50
Total	1,770	2,310	2,220	2,470	2,480
<i>growth rate</i>		31%	-4%	11%	0%
Expenses					
<i>CGS</i>	670	920	880	935	900
Produce	145	190	175	190	185
Meat	70	100	95	100	100
Deli	90	85	105	145	145
Wellness	80	80	90	70	75
Consignment	-	-	-	-	-
Sushi	55	50	60	85	100
Specialty Cheese	20	40	35	35	30
Inventory Adj.	(20)	-	(45)	25	(15)
Freight	5	5	10	20	20
<i>Subtotal</i>	1,110	1,470	1,400	1,600	1,540
<i>% of sales</i>	63%	64%	63%	65%	62%
Non-Wages	45	105	80	90	110
<i>Labor</i>	350	490	480	550	610
<i>% of sales</i>	20%	21%	22%	22%	25%
Occupancy	190	150	165	170	180
Depreciation	(25)	(20)	(20)	(25)	-
<i>Subtotal</i>	160	130	140	150	170
<i>% of sales</i>	9%	6%	6%	6%	7%
Operations	70	85	85	105	90
Administration	20	25	30	30	20
Marketing	5	10	10	10	10
Owner Discounts	10	15	15	15	20
Governance	-	-	5	10	15
Taxes	5	5	10	5	10
<i>Subtotal</i>	110	140	160	180	170
<i>% of sales</i>	6%	6%	7%	7%	7%
NOI	40	80	40	(10)	(10)
<i>Other Income</i>	15	25	180	25	25
<i>Other Expense</i>	10	10	-	5	-5
Net Income	45	95	220	10	20

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<i>Labor</i>	350	490	480	550	610
<i>% of sales</i>	20%	21%	22%	22%	25%
<i>Occupancy</i>	160	130	140	150	170
<i>% of sales</i>	9%	6%	6%	6%	7%
<i>Operations</i>	110	140	160	180	170
<i>% of sales</i>	6%	6%	7%	7%	7%
NOI	40	80	40	-10	-10

What Story Does the Balance Sheet Tell (The Basics)?

- Reveals the financial position of the company—what the company owns and owes
- It is a “snapshot;” a single point in time
- Some small business owners will ‘monkey’ with the balance sheet to make it appear better than it really is, and sometimes the balance sheet can ‘lie to you’

What is in a Balance Sheet (The Basics)?

- **Assets:** Things that can be converted into cash
- **Liabilities:** Obligations
- **Equity:** What is left over (we hope!) after you subtract what you owe
- **Assets = Liabilities + Equity**

Balance Sheet Deeper Dive

What can we learn if we dig a little deeper?

- Liabilities that in reality are equity?
- ST or LT Debt?
- Is your client using an appropriate method of accounting?
- Hidden cash flow
- Cash flow 'leaks'

Let's Build a Balance Sheet!

Gene takes \$400 cash out of the Duke's mayonnaise jar under his bed and opens a checking account upon launch of Wax & Wick, a home-based candle company.

Voila! We have a Balance Sheet!

Wax & Wick		Wax & Wick	
Assets		Liabilities	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash/Check	\$ 400.00	CC	\$ -
Inventory		Total CL	\$ -
Total Current	\$ 400.00	<i>LT Liabilities</i>	
<i>Long-Term Assets</i>		Term Loan	
FFE	\$ -	Total LT Liab	\$ -
Total LTA	\$ -	<i>Total Liabilities</i>	\$ -
Total Assets	\$ 400.00	Equity	
		Owner Capital	\$ 400.00
		Retained Earnings	\$ -
		Total Equity	\$ 400.00
		Total Liab + Equity	\$ 400.00

Takeaways

- Recast the figures in a form from which you can manage efficiently and effectively
- P&L alone doesn't tell the whole story!
- This sort of analysis can spur questions that reveal deeper operational issues
- Message: “In the end, it is YOUR \$! You owe it to yourself to understand this ‘finance stuff’ to protect yourself!”

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Thank you!