Financials, part 2

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Costs of the location

- Leasing of space
- Renovation costs
- Utilities
- Communications
  - Telephone
  - Internet
- Maintenance
Costs of doing business

- Equipment, furniture
- Supplies
  - Office supplies
  - Supplies specific to production
- Marketing expenses
  - Advertising
  - Entertainment/meals
- Postage and shipping
- Travel

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Costs of staying in business

- Business licenses
- Payroll taxes
- Insurance other than health
  - Key-person insurance
  - Liability insurance (grocery carry-out!)
  - Loss insurance
- Returns
- Planning for future technology
People expenses

- Salaries and wages

- Benefits
  - FICA
  - Health insurance, dental insurance
  - Costs of community involvement activities

- Professional expenses
  - Accounting expenses
  - Design expenses
  - Legal expenses
Cash flow

- First, survival. Then profit.
- Separate operational cash from investment cash
- Be careful of the payable/receivable lag: 35 days in every month
- Basically, can you pay the bills?
- Monthly for at least the first year
Cash flow management

- Determine desired cash balance
- Identify beginning cash
- Forecast receipts (realistically)
- Forecast disbursements (payroll)
- Reconcile ending cash with desired cash balance
Balance sheet

- Snapshot of company’s position
- Assets minus liabilities
- Is net worth distributed or retained to finance growth?
- Elements include
  - Inventory value (raw and finished)
  - Fixtures
  - Accrued payroll
  - Prepaid expenses
Sources and uses of funds

- How much is from principals?
- What is distribution of investors?
- Prototyping, development; or marketing and advertising?
- Debt consolidation (no!) or expansion?
- Rounds of investment? Totals?
- Balance of debt to equity?
Assumption sheet

- Sales by years in units and dollars
- Changes in officers, employees
- Projected gross profit per product
- Timing, cost of key future expenses
- Changes in financing (new rounds, retirement of debt)
Break-even

- Fixed expenses
- Costs of good sold
- Gross margin = sale price – COGS

\[
\text{FE in dollars} = \frac{\text{GPM in } \%}{\text{Sales in } \$ \text{ to BE}}
\]
Liquidity ratios

- Current:  can you cover short-term debts?  
  \[ \frac{\text{Current Assets}}{\text{Current Liabilities}} \]
- Quick ("acid test"):  can you do so without selling inventory?  
  \[ \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}} \]
Debt ratios

- **Debt to assets**: How much borrowing?
  \[
  \frac{\text{Total Debt}}{\text{Total Assets}}
  \]

- **Debt to equity**
  \[
  \frac{\text{Total Debt}}{\text{Total Equity}}
  \]
Profitability ratios

- Return on equity (ROE)

\[
\frac{\text{Net Income After Taxes}}{\text{Total Equity}}
\]

- Return on investment (ROI)

\[
\frac{\text{Net Income After Taxes}}{\text{Total Assets}}
\]
After I PO

- **EPS**
  - Net income / outstanding shares
  - Earnings available to stockholders

- **Diluted EPS**
  - Outstanding shares plus options issued to managers
  - (You hope it gets this large!)