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LEADERSHIP
IN THE CLASSROOM



Perseverance is
steadiness in a course of
action, a purpose, a
state of being, especially
in spite of difficulties,
obstacles, or
discouragement.


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IN THE CLASSROOM

What causes some of us to
bounce back and persevere in
response to failure or
disappointment, while others are
left despairing and defeated?



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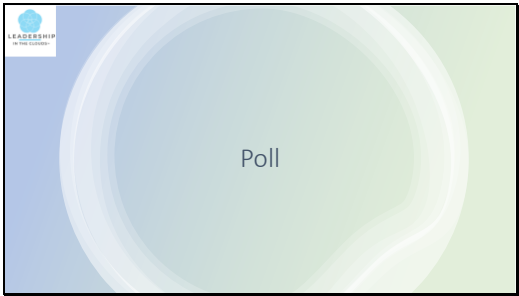


LEADERSHIP
IN THE CLASSROOM

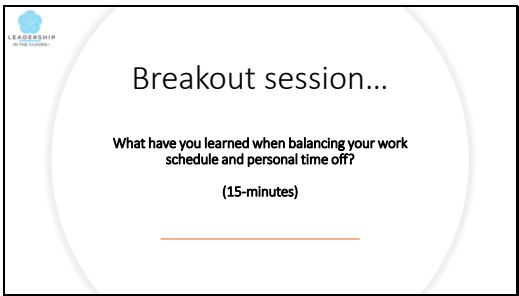
1. The ability to find meaning
2. The ability to be vulnerable, connect, and ask for help
3. A supportive relationship with oneself
4. The ability to surrender and trust in the face of uncertainty
5. A sense of humor
6. Composure
7. The ability to cultivate perspective and gratitude

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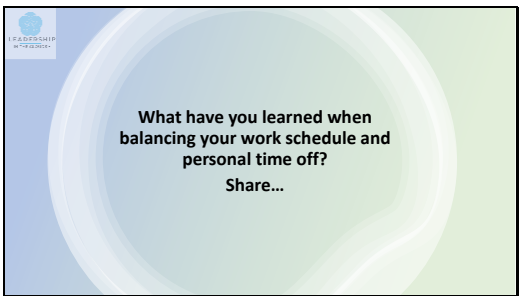
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Do you know your numbers? Why is this important?



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Today our segment speaker will cover:
commonly used terms,
financial statements,
budgets, forecasting, and
financial statements as
tools for business
growth.

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Business Growth Planning

Budgeting and Financial Statements
as tools for growth

EVOLVE© eLearning

Transformational Leader
Carolina Aponte





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Money & Metrics

What does an Entrepreneur need to know about financial statements

- What does an Entrepreneur need to know about finance?
- Which Financial Statements should you use?
- Your Financial History



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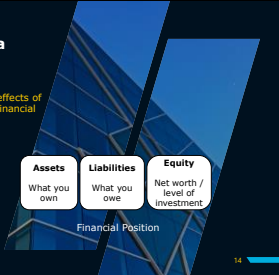
Where does financial data come from?

Accounts are the categories into which the effects of transactions are recorded, and from which financial reports are created.

5 major account categories:

Income Proceeds from sales	COGS Costs Goods Sold	Expenses Costs of operation	Assets What you own	Liabilities What you owe	Equity Net worth / level of investment
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Operations Financial Position




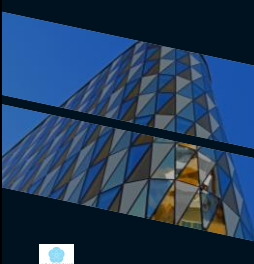
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Income Statement / Profit & Loss Statement (P&L)

What can I find within this statement?

- Shows the performance of your business over a period of time
- Resets at the beginning of each new accounting period
- Summarizes all revenue generated by the business
- Summarizes all expenses incurred by the business (by category)
- Calculates the net profit or loss, or "bottom line" = Income - Expenses
- Tells you how well your business is operated





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Reviewing your income statement

- How is your revenue trending?
 - Month-to-month
 - Against same period last year (considers seasonality)
- How are your expenses trending?
- What are your highest categories of expenses?
- Which expenses are fixed vs. variable?
- What is your cost of goods sold?
- How do your expenses (as a % of sales) compare to others in your industry?




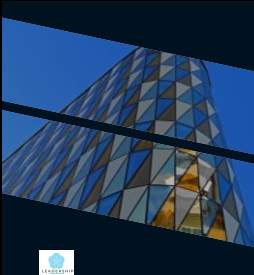
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Balance sheet

What can I find within this statement?

- Shows a snapshot of your business at a point in time
- Accumulates over the lifetime of your business
- Shows the net worth of your business
- The balance sheet always balances
 $ASSETS - LIABILITIES = EQUITY$


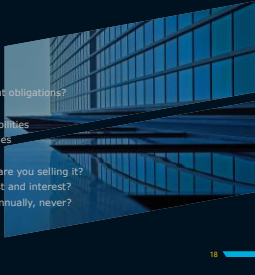


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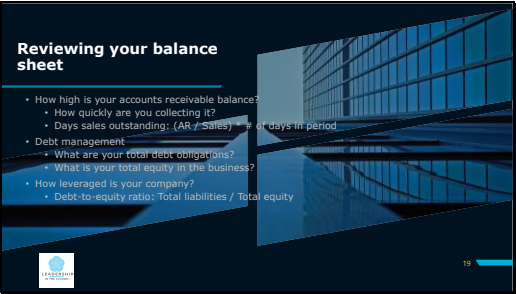
Reviewing your balance sheet

- Liquidity: Can your company meet its payment obligations?
- Cash balance
- Working capital: $Current\ assets - Current\ liabilities$
- Current ratio: $Current\ assets / Current\ liabilities$
- Cash flow management
- How much inventory do you have? How fast are you selling it?
- Is your inventory on the shelf collecting dust and interest?
- Are you doing physical inventories monthly, annually, never?
- Inventory turns: $(COGS / Inventory\ balance)$



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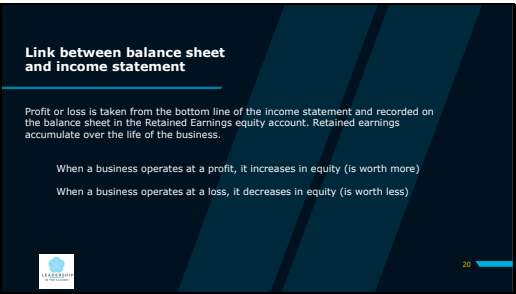
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Reviewing your balance sheet

- How high is your accounts receivable balance?
 - How quickly are you collecting it?
 - Days sales outstanding: $(AR / Sales) \times 365$ or days in period
- Debt management
 - What are your total debt obligations?
 - What is your total equity in the business?
- How leveraged is your company?
 - Debt-to-equity ratio: $Total\ liabilities / Total\ equity$

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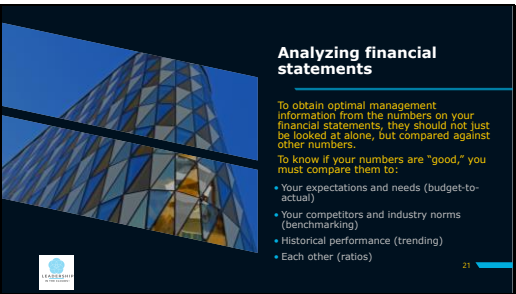
Link between balance sheet and income statement

Profit or loss is taken from the bottom line of the income statement and recorded on the balance sheet in the Retained Earnings equity account. Retained earnings accumulate over the life of the business.

When a business operates at a profit, it increases in equity (is worth more)

When a business operates at a loss, it decreases in equity (is worth less)

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Analyzing financial statements

To obtain optimal management information from the numbers on your financial statements, they should not just be looked at alone, but compared against other numbers.

To know if your numbers are "good," you must compare them to:

- Your expectations and needs (budget-to-actual)
- Your competitors and industry norms (benchmarking)
- Historical performance (trending)
- Each other (ratios)

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Budgets & Projections

"A budget tells us what we can't afford but doesn't keep us from buying it!"

- What is a budget?
- List a benefit of setting up a budget?
- What are the different types of budget that exist?
- What is a Financial Projection?
- Why do you need to setup projections?




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Creating a budget

Some things to think about before you begin setting up your budget:

- ☐ What do you need to open the doors of your business on the first day?
- ☐ What will your fixed and variable costs be on a continuing basis?
- ☐ What can you contribute to keep costs low (furniture, for example)?
- ☐ What can you get as donations from friends and relatives?
- ☐ What can you do without (pictures, decorations)?
- ☐ The less you need for startup, the sooner you can start making a profit.





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Fixed and Variable Expenses

Fixed

- Rent
- Utilities
- Phones (business phones and cell phones)
- Credit card processing
- Website service fees
- Office Supplies
- Dues/Subscriptions
- Advertising, Publicity, social media, online ads
- Business Insurance
- Professional fees (legal and accounting)
- Employee Pay/Benefits

Variable

- Production costs
- Raw material
- Commission on sales
- Wholesale of goods to be re-sold
- Packaging and Shipping Costs
- Sub-Contractors



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ESTIMATE MONTHLY SALES

- Best case scenario, in which you show your most optimistic estimate for first-year sales
- Worst case scenario, in which you show your least optimistic scenario, with very little sales during the first six months to a year
- Likely scenario, somewhere in between. The likely scenario would be the one to show your lender.

- Ex. We have tracked X unique visitors to our website and with an industry averages 2% conversion rate, sales will be Y.
- Ex. Survey revealed customers are willing to pay \$X for a product with Y features.
- Ex. Q4 sales were \$X. With a customer acquisition cost of \$Y, we expect a 20% growth rate as a result of marketing efforts.



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TIPS FOR CREATING YOUR BUDGET

- Use your accounting software program to create your budget, so you can use existing accounts and make changes more easily.
- If you don't have an accounting software program, you can use a spreadsheet program.
- Most lenders require three years of quarterly and annual Income Statements (P&Ls).

	\$K
Revenue	1,200,000
Cost of goods sold	(300,000)
Gross Profit Margin	900,000
Expenses	(450,000)
Wages	(150,000)
Materials	(100,000)
Rent and utilities	(80,000)
Administrative costs	(20,000)
Total fixed costs	(350,000)
Operating Profit Margin	550,000
Depreciation	(50,000)
Interest on debt	(30,000)
Taxes	(20,000)
Net Income	350,000



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FINANCIAL PROJECTIONS

How to Forecast Revenue and Growth

- Start with expenses, not revenues.
- Fixed Costs/Overhead.
- Variable Costs.
- Forecast revenues using both a conservative case and an aggressive case. Check the key ratios to make sure your projections are sound.
- Gross margin.
- Operating profit margin.
- Total headcount per client.



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LEADERSHIP
IN THE CLOUD

Things to remember

- Investors are more interested in the assumptions made when building financial projections, not the exact bottom line.
- Projections that have not been planned properly make investors question your understanding of your business model.

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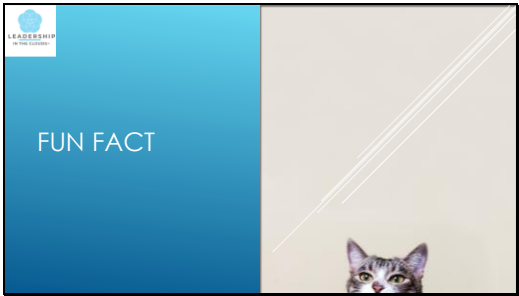
Q&A with Carolina

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LEADERSHIP
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5-MINUTE BREAK

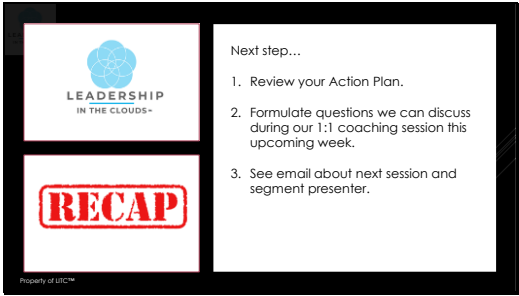
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