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# Financial Acumen to Drive Results

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# Agenda



1 What is financial acumen and why is it important?

2 Financial Statement Basics

3 Budgets

4 KPIs

5 Questions

# What is financial acumen?

# What is financial acumen and why is it important?

- Basic understanding of financial reports and using them to make business decisions.
- Understanding how financial decisions affect your department or business.
- Allows for meaningful conversations and understanding of how departments work together - helps to see the big picture.
- Can help communication of change management.
- Not just managing the numbers. It's important to know goals, products, resources, etc.
- Critical in times of uncertainty.

# What are financial statements?

Let's pretend we're in the travel tumbler business...



Photo credit - Stanley

# What is a balance sheet?

- At a high level – what do I own and what do I owe?
  - Assets - What you own
  - Liabilities - What you owe
  - Shareholder's equity – accumulation of profits/losses, etc.
- Good to compare to prior periods.

# Balance Sheet

## WC Cups

Date: December 31, 2022

### Balance Sheet

#### Assets

Current assets:	
Cash	\$300,000.00
Accounts receivable	\$58,000.00
Inventory	\$75,000.00
Prepaid expenses	\$10,000.00
Other current assets	\$7,500.00

**Total current assets \$450,500.00**

#### Fixed assets:

Machinery & equipment	\$500,000.00
Furniture & fixtures	\$52,000.00
Leasehold improvements	\$20,000.00
Land & buildings	\$1,000,000.00
Other fixed assets	\$10,000.00

**Total fixed assets \$1,582,000.00**

#### Other assets:

Intangible assets	\$22,000.00
Goodwill	\$250,000.00
Deposits	\$23,000.00
Other assets	\$1,000.00

**Total other assets \$296,000.00**

**Total Assets \$2,328,500.00**

#### Liabilities

Current liabilities:	
Accounts Payable	\$41,000.00
Accrued expenses	\$8,000.00
Unearned revenue	\$20,000.00
Notes, short-term	\$50,000.00
Current part of long-term debt	\$100,000.00

**Total current liabilities \$219,000.00**

#### Long-term debt:

Bank loans payable	\$900,000.00
Notes payable to stockholders	-
LESS: short-term portion	-\$100,000.00
Other long term debt	-

**Total Liabilities \$1,019,000.00**

#### Shareholder's Equity

Other assets:	
Invested capital	\$150,000.00
Retained earnings - beginning	\$871,940.00
Retained earnings - current	\$287,560.00

**Total Shareholder's Equity \$1,309,500.00**

**Total Liabilities & Shareholder's Equity \$2,328,500.00**



# What is a profit and loss statement?

- At a high level – how much money did I make?
- Revenue less expenses
- Good to compare month over month, quarter to quarter, and year to year.

# Profit & Loss Statement

## WC Cups

December 31, 2022

### Profit&Loss Statement

2022

#### Revenue

Gross sales	\$2,100,000.00
Less: sales returns	\$21,000.00
Less: Discounts and Allowances	\$33,000.00

**Net Sales** **\$2,046,000.00**

#### Cost of Goods Sold

Goods manufactured: Raw materials	\$689,000.00
Goods manufactured: Direct Labor	\$421,000.00
Direct Overhead	\$72,000.00

**Total Cost of Goods Sold** **\$1,182,000.00**

**Gross Profit (Loss)** **\$864,000.00**

#### Operating Expenses

Advertising	\$50,000.00
Delivery/Freight Expense	\$35,000.00
Depreciation	\$85,000.00
Insurance	\$32,000.00
Interest	\$31,500.00
Office Supplies	\$12,000.00
Rent/Lease	\$5,000.00
Maintenance and Repairs	\$25,000.00
Travel	\$7,500.00
Utilities/Telephone Expenses	\$15,000.00
Wages	\$140,000.00
Other Expenses	\$62,000.00

**Total Operating Expenses** **\$500,000.00**

**Operating Profit (Loss)** **\$364,000.00**

Interest Income	-
Other Income	-

**Profit (Loss) Before Taxes** **\$364,000.00**

Less: Tax Expense **\$76,440.00**

**Net Profit (Loss)** **\$287,560.00**

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# Creating and Utilizing Budgets

- Important tool to gauge how the business or department is doing each month, quarter, year.
- To create a budget:
  - Start with the prior period profit and loss statement.
  - Review for one-off items and adjust as needed.
  - Adjust for known upcoming expenditures or income items.
  - Adjust for production models, pricing changes, labor changes, etc.
  - Seek and obtain input from stakeholders. This is management, department leaders, purchasing, operations and maintenance, etc.
- Budgets help to manage expenses and make decisions. If a line item looks off, ask questions.
- Compare to actual each review period.
- Don't create and then "leave on the shelf." Use it. Budgets are "living" documents that may change during the year.

# What are KPIs?

# KPIs

- Key Performance Indicators – financial metrics
- Determine which are important to your business and/or your department.
- A few examples:
  - Inventory turnover
  - Gross profit margin
  - Work in process
  - Units produced
  - Number of days inventory on hand
  - Shrinkage
  - Maintenance costs to total expenses
  - Manufacturing costs per unit

# KPI Examples

## Inventory Turnover

- Rate inventory is sold or used
- Calculated by dividing COGS by average inventory for same period

## Gross Profit Margin

- Net sales (gross revenue less returns and discounts) less COGS
- Divide result by net sales
- Shown as a percentage
- Know what's common for your product

## Number of Days Inventory on Hand

- Measurement of how long it takes to sell through average inventory stock
- Multiply average inventory for the year by 365
- Divide result by value of COGS

## Manufacturing Costs per Unit

- Helps monitor production expenses
- Direct materials + direct labor + manufacturing overhead
- Divide result by number of units

## Shrinkage

- Helps determine amount of inventory lost due to damage, theft, etc.
- Inventory losses divided by amount of inventory you should have

# Obtaining Financial Acumen

# How do I develop my financial acumen?

- Ask questions!
- Look at your financial statements and use them.
- Pay attention to industry developments/news.
- Research/read.