



DANNIBLE & McKEE, LLP

Certified Public Accountants and Consultants

How to Analyze Your Financial Statements

Presented by

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... How to Analyze Financial Statements - Agenda



Financial Statement
Basics



Financial Statement
Analysis



Utilizing Financial
Statement Analysis
to Track Company
Performance



Financial Statement
Analysis Best
Practices

Financial Statement Basics



Purpose:

Provide critical financial data to stakeholders for assessing a company's health and performance



Stakeholders:

- Owners
- Managers
- Creditors
- Investors
- Government Agency
- Vendors

Financial Statement Basics

For Profit Company

- Balance Sheet
- Income Statement
- Statement of Cashflow
- Statement of Owners Equity

Nonprofit Company

- Statement of Financial Position
- Statement of Activities
- Statement of Cashflow
- Statement of Functional Expenses

Purpose

- Snapshot of assets, liabilities, and equity at a specific date
- Shows financial performance over a period, detailing revenues, expenses, and net income
- Tracks cash inflows and outflows
- Details the change in owner equity
- Details expenses into categories

Financial Statement Basics

- Balance Sheet

<u>CONSOLIDATED BALANCE SHEET - RETAIL/WHOLESALE</u>	
	December 31,
<u>Assets</u>	202X
Current assets:	
Cash and cash equivalents	\$ 2,604
Accounts receivable	7,701
Inventories	92,644
Prepaid expenses and other current assets	1,452
Total current assets	104,401
Investments, at cost	4,663
Real estate, leasehold improvements and equipment, less accumulated depreciation and amortization	10,562
Total assets	<u>\$ 119,626</u>
<u>Liabilities and Stockholder's Equity</u>	
Current liabilities:	
Lines of credit payable to banks	\$ 30,948
Customer deposits	24,181
Current portion of long-term debt	117
Accounts payable	4,526
Accrued and other liabilities	1,374
Total current liabilities	61,146
Long-term debt	9,027
Total liabilities	70,174
Stockholder's equity:	
Retained earnings	49,440
Accumulated other comprehensive income	13
Total liabilities and stockholder's equity	<u>\$ 119,626</u>

<u>CONSOLIDATED BALANCE SHEET - MANUFACTURING</u>	
	December 31,
<u>Assets</u>	202X
Current assets:	
Cash and cash equivalents	\$ 86,120
Accounts receivable	84,783
Inventories, net	106,586
Prepaid expenses and other current assets	4,434
Total current assets	281,923
Property, plant and equipment, net	185,411
Operating lease right-of-use asset	14,809
Goodwill	14,676
Marketable securities	66,093
Total assets	<u>\$ 562,912</u>
<u>Liabilities and Stockholders' Equity</u>	
Current liabilities:	
Lines-of-credit payable to bank	\$ 1,500
Current portion of operating lease liabilities	1,488
Accounts payable	37,798
Accrued wages and other liabilities	24,629
Total current liabilities	65,414
Notes payable	4,507
Deferred grant income	2,000
Operating lease liabilities	13,321
Total liabilities	85,242
Stockholders' equity:	
Common stock	4
Additional paid-in capital	1,460
Retained earnings	473,656
Accumulated other comprehensive income	2,550
Total liabilities and stockholders' equity	<u>\$ 562,912</u>

Financial Statement Basics

- Balance Sheet

CONSOLIDATED BALANCE SHEETS - CONSTRUCTION / A&E

<u>Assets</u>	<u>December 31,</u> <u>202X</u>
Current assets:	
Cash and cash equivalents	\$ 9,701
Contract receivables	35,384
Retainage on contracts	5,612
Costs and estimated earnings in excess of billings on contracts	14,006
Prepaid expenses and other current assets	645
Total current assets	65,348
Property and equipment at cost, net	65,344
Notes receivable	96,034
Other assets	57,478
	<u>\$ 284,204</u>
<u>Liabilities and Stockholder' Equity</u>	
Current liabilities:	
Line of credit payable to bank	\$ 13,723
Current portion of long-term debt	85,842
Accounts payable	84,792
Billings in excess of costs and estimated earnings on uncompleted contracts	2,429
Accrued liabilities and other current liabilities	22,900
Total current liabilities	209,687
Long-term debt	30,437
Total liabilities	240,124
Stockholders' equity	
Stockholders' equity	44,080
	44,080
	<u>\$ 284,204</u>

STATEMENTS OF FINANCIAL POSITION - NONPROFIT

<u>Assets</u>	<u>December 31,</u> <u>202X</u>
Current assets:	
Cash and cash equivalents	\$ 92,842
Accounts and grants receivable	381,204
Prepaid expenses	18,921
Total current assets	492,966
Property, plant and equipment, net	10,843
Operating lease right-of-use assets	94,514
Finance lease right-of-use assets	8,517
Total assets	<u>\$ 606,840</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Current portion of note payable	\$ 52,037
Current portion of operating lease liability	30,548
Current portion of finance lease liability	3,427
Accounts payable	18,814
Accrued expenses	56,166
Deferred revenue	14,665
Total current liabilities	175,656
Note payable	86,688
Operating lease liability	63,966
Finance lease liability	5,163
Total liabilities	331,473
Net assets	
Net assets without donor restrictions	235,300
Net assets with donor restrictions	40,067
Total net assets	275,367
Total liabilities and net assets	<u>\$ 606,840</u>

Financial Statement Basics - Income Statement

CONSOLIDATED STATEMENTS OF INCOME - RETAIL/WHOLESALE

	Year ended December 31, 202X
Net sales	\$ 1,332,864
Cost of sales	<u>1,284,748</u>
Gross margin	48,116
Selling, general and administrative expenses	<u>21,523</u>
Income before other income	<u>26,594</u>
Other income (expense):	
Interest expense	(1,106)
Interest income	348
Investment gain	100
Investment expenses	(26)
Other income	<u>83</u>
	<u>(601)</u>
Net income before pass through entity tax and provision for income taxes	25,993
(Provision for) benefit from income taxes	(40)
New York State Pass-Through Entity Tax, net	<u>(117)</u>
Consolidated net income	<u>25,836</u>

CONSOLIDATED STATEMENTS OF OPERATIONS - MANUFACTURING

	Year ended December 31, 202X
Revenue	\$ 528,246
Cost of goods sold	<u>356,572</u>
Gross profit	171,674
Selling, general and administrative expenses	<u>68,383</u>
Income (loss) before other income (expense)	<u>103,291</u>
Other income (expense):	
Investment income (loss)	(1,531)
Interest income	719
Interest expense	(66)
Contract settlement income	-
Gain on disposal of property and equipment	775
Income tax expense from foreign subsidiary	(1,192)
Other income (expense), net	<u>2,493</u>
	<u>1,198</u>
Consolidated net income (loss) before state pass-through entity tax (PTET)	104,489
State pass-through entity tax (expense) refund, net	<u>312</u>
Net income (loss)	<u>\$ 104,801</u>

Financial Statement Basics - Income Statement

STATEMENTS OF OPERATIONS - CONSTRUCTION / A&E

	Year ended December 31, 202X
Revenue from construction contracts	\$ 727,721
Costs of construction contracts	<u>680,194</u>
Gross profit	47,527
General and administrative expenses	<u>40,651</u>
Loss before other income (expense)	<u>6,876</u>
Other income (expense):	
Gain on sale of property and equipment	6,977
Interest income	422
Other income	28
Interest expense	<u>(7,494)</u>
	<u>(68)</u>
Net income	<u>6,808</u>

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Program service revenue	\$ 134,228	\$ -	\$ 134,228
Government grants	892,592	-	892,592
Grants	11,749	-	11,749
Special events	10,818	10	10,828
Interest income	109	-	109
Assets released from restrictions	<u>1,649</u>	<u>(1,649)</u>	<u>-</u>
Total support and revenue	<u>1,051,144</u>	<u>(1,639)</u>	<u>1,049,505</u>
Expenses:-			
Program services	871,719	-	871,719
Support services:			
Management and general	162,623	-	162,623
Fundraising	<u>7,815</u>	<u>-</u>	<u>7,815</u>
Total support services	<u>170,438</u>	<u>-</u>	<u>170,438</u>
Total expenses	<u>1,042,157</u>	<u>-</u>	<u>1,042,157</u>
Change in net assets	8,988	(1,639)	7,349
Net assets, beginning of year	<u>226,312</u>	<u>41,706</u>	<u>268,018</u>
Net assets, end of year	<u>\$ 235,300</u>	<u>\$ 40,067</u>	<u>\$ 275,367</u>

Financial Statement Basics - Statement of Cashflow

Cash Flow Sections

Operating Activities: Daily business operations

Investing Activities: Purchase and sale of long-term assets

Financing Activities:
Transactions involving equity and debt

CONSOLIDATED STATEMENTS OF CASH FLOWS		Year ended December 31,
<u>Increase (decrease) in cash and cash equivalents</u>		
Cash flows from operating activities:-		
Consolidated net income (loss)	\$	104,801
Adjustments to reconcile consolidated net income to net cash provided by (used for) operating activities:		
Depreciation and amortization		25,252
Gain on disposal of property and equipment		(775)
decrease in provision for obsolete inventory		(14)
Loss from marketable securities		1,681
Increase in accounts receivable		(3,881)
Increase in inventory		(25,394)
Increase in prepaid expenses and other current assets		(906)
Decrease in notes payable		(9)
Increase in accounts payable		8,621
Increase in deferred grant income		2,000
Decrease in accrued wages and other liabilities		(7,170)
Net cash provided by operating activities		104,205
Cash flows from investing activities:		
Purchase of property and equipment		(47,129)
Proceeds from disposal of property and equipment		1,628
Proceeds from sale and maturity of marketable securities		3,007
Purchase of marketable securities		(27,500)
Advances to affiliates		(2)
Net cash used for investing activities		(69,997)
Cash flows from financing activities:		
Distributions to stockholders		(20,513)
Effect on cash of change in exchange rates		(1,575)
Increase (decrease) in cash and cash equivalents		12,120
Cash and cash equivalents, beginning of year		74,000
Cash and cash equivalents, end of year	\$	86,120

Financial Statement Basics - Statement of Owner Equity

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2021	\$ 4	\$ 1,460	\$ 389,367	\$ 4,770	\$ 395,601
Net income	-	-	104,801	-	104,801
Other comprehensive loss	-	-	-	(2,220)	(2,220)
Stockholders' distributions	-	-	(20,513)	-	(20,513)
Balance at December 31, 2022	4	1,460	473,655	2,550	477,669

Financial Statement Basics - Statement of Functional Expenses

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 202X			
	Program	Management & General	Fundraising	Total
Salaries and wages	\$ 398,475	\$ 99,185	\$ 2,724	\$ 500,384
Employee benefits	74,295	18,493	508	93,295
Payroll taxes	34,040	8,473	233	42,745
Total salaries and related expenses	506,810	126,150	3,464	636,424
Professional fees and contract services	33,085	10,771	-	43,857
Office expense	12,294	5,363	210	17,867
Programs	86,801	13,126	377	100,303
Assistance to clients	106,168	16	-	106,183
Telephone and internet	3,588	32	1,186	4,806
Postage	834	155	-	989
Occupancy	39,273	2,049	-	41,322
Equipment purchase and rental	11,473	90	175	11,738
Repairs and maintenance	3,897	478	-	4,375
Conference, meetings and travel	35,427	1,771	-	37,197
Recruitment and advertising	13,642	87	-	13,729
Dues and subscriptions	7,311	1,028	-	8,338
Special events	227	-	2,403	2,629
Insurance	4,703	485	-	5,188
Meetings/volunteer expense	940	245	-	1,185
Interest expense	1,556	-	-	1,557
Miscellaneous	453	66	-	519
Depreciation	3,240	711	-	3,951
Total functional expenses	\$ 871,719	\$ 162,623	\$ 7,815	\$ 1,042,157

SCHEDULES OF OPERATING EXPENSES

	Year ended December 31,	
	2021	2020
Wages and salaries	\$ 389,004	\$ 439,469
Payroll taxes and employee benefits	37,312	48,600
Freight	230,229	229,287
Software fees and support	83,007	129,085
Office rent	70,344	69,805
Professional fees	56,926	47,464
E-Commerce	49,402	41,112
Health insurance	33,762	36,024
Bank charges	29,369	27,122
General insurance	23,639	28,551
Phones	19,087	29,960
Shipping supplies	18,081	9,481
Repairs and maintenance	8,819	7,261
Travel and lodging	8,347	16,471
Vehicles	8,269	24,232
Postage	7,800	5,756
Depreciation and amortization	6,221	7,621
Dues and subscriptions	5,658	9,260
Miscellaneous expense	3,939	3,394
Office expense	3,810	5,787
Meals and entertainment	2,143	3,658
Equipment lease expense	1,390	1,412
Property taxes	1,071	996
Staff meetings	854	423
Equipment expense	682	1,018
Utilities	448	155
Advertising expense	(2,910)	17,468
Bad debt expense	(3,000)	26,331
Commissions	-	66,848
Training	-	99
Total operating expenses	\$ 1,093,703	\$ 1,334,150

••• Financial Statement Analysis

- Basic Financial Statements
- Flux Analysis - YoY
- Flux Analysis - budget vs actual
- Ratio Analysis
- Ratio Flux Analysis - YoY
- Ratio Analysis vs Industry Standards
- KPI Analysis
- KPI Flux Analysis - YoY
- KPI Analysis vs Industry Standards

Financial Statement Analysis – Basic Financial Statements



Purpose: Understanding how to analyze comprehensive financial data to assess company performance and make strategic decisions.



Key Financial Statements:

Balance Sheet: Assesses company liquidity, solvency, and capital structure.

Income Statement: Analyzes profitability, revenue trends, and cost management.

Cash Flow Statement: Evaluates liquidity and financial flexibility.

Financial Statement Analysis - Flux Analysis YoY - Balance Sheet

	Current Year	Prior Year	Inc(Dec)
Assets:			
Cash and cash equivalents	\$ 399,454	\$ 87,625	\$ 311,829
Accounts receivable	1,137,274	762,239	375,035
Inventories	14,141,426	8,759,002	5,382,424
Due from affiliate	493,628	471,058	22,570
Prepaid expenses and other current assets	2,598,127	668,779	1,929,348
Total Current Assets	18,769,909	10,748,703	8,021,206
Net PP&E	105,074	98,020	7,054
Total Assets	\$ 18,874,982	\$ 10,846,722	\$ 8,028,260
Liabilities:			
Customer deposits	\$ 7,357,062	\$ 2,439,495	\$ 4,917,567
Lines of credit payable to banks	3,089,272	3,068,313	20,959
Accounts payable	212,398	532,310	(319,912)
Accrued liabilities	559,510	65,213	494,297
Total Current Liabilities	11,218,241	6,105,330	5,112,911
Pension obligation	-	12,036	(12,036)
Notes payable	547,950	547,950	
Total Liabilities	\$ 11,766,191	\$ 6,665,317	\$ 5,100,875
Stockholder's Equity:			
Common stock	10	10	-
Retained earnings	7,108,781	4,181,396	2,927,385
Total Equity	\$ 7,108,791	\$ 4,181,406	\$ 2,927,385
	\$ -	\$ -	
Total Liabilities & Equity	\$ 18,874,982	\$ 10,846,722	\$ 8,028,260

Financial Statement Analysis - Flux Analysis YoY - Income Statement

	Current Year	PY-1	PY-2	PY-3	PY-4
Net Revenues	1,900,825	1,331,280	562,892	250,502	205,496
Cost of Revenues	1,823,459	1,284,341	544,764	241,822	200,212
Gross margin	\$ 77,366	\$ 46,939	\$ 18,128	\$ 8,679	\$ 5,284
SG&A Expenses	46,051	20,819	7,601	3,332	3,126
Income before other Inc (Exp)	\$ 31,315	\$ 26,120	\$ 10,528	\$ 5,347	\$ 2,159
Other Income (Expense):					
Interest expense	(2,381)	(936)	(323)	(265)	(138)
Other Income (Expense):	232	268	1,033	221	365
Other Income (Expense):	\$ (2,149)	\$ (668)	\$ 710	\$ (44)	\$ 227
Net Income	\$ 29,166	\$ 25,451	\$ 11,238	\$ 5,303	\$ 2,386
Revenue Growth	42.8%	136.5%	124.7%	21.9%	
Cost of Revenue Growth	42.0%	135.8%	125.3%	20.8%	
Gross Margin %	4.1%	3.5%	3.2%	3.5%	2.6%
SG&A as a % of Revenue	2.4%	1.6%	1.4%	1.3%	1.5%
Earnings as a % Revenue	1.5%	1.9%	2.0%	2.1%	1.2%

Financial Statement Analysis - Flux Analysis Budget vs Actual - Income Statement

	Actual	% To Rev	Plan	% To Rev	Prior Year	% To Rev
Sales	16,601		16,550		17,358	
Delivery Income	206		205		302	
Total Revenue	16,807		16,755		17,660	
Cost of Sales	13,649	81.2	13,617	81.3	14,426	81.7
Gross Profit	3,158	18.8	3,138	18.7	3,234	18.3
Product Line Expense	2,308	13.7	2,305	13.8	2,280	12.9
Product Contribution	850	5.1	833	5.0	954	5.4
Interest Expense	105	0.6	113	0.7	181	1.0
Corporate Expense	1,670	9.9	1,620	9.7	1,082	6.1
Pre-Transaction Profit	(925)	(5.5)	(900)	(5.4)	(309)	(1.7)
GAAP Adjustments	0	0.0	0	0.0	108	0.6
Pre-Tax Profit / (Loss)	(925)	(5.5)	(900)	(5.4)	(417)	(2.4)

Financial Statement Analysis - Flux Analysis Budget vs Actual - Expenses

Description	Actual	Plan	Fav (Unfav)
Exempt Labor	1,701	1,593	(108)
Hourly Labor	2,243	2,457	214
Hourly Labor - Direct	187	183	(4)
Fringe	1,312	1,351	39
Fringe - Direct	102	73	(29)
Non-Employee Temp Labor	104	0	(104)
TOTAL PAYROLL & FRINGE	5,649	5,657	8
Direct Labor Charge-Outs	(289)	(256)	33
NET PAYROLL & FRINGE	5,360	5,401	41
Supplies & Forms	34	70	36
Utilities	204	196	(8)
Building Related	83	79	(4)
Computer Costs	296	298	2
Leased Equipment	4	4	0
Media Advertising & Income	56	59	3
Professional Fees	398	378	(20)
Travel & Entertainment	48	61	13
Telephone	16	17	1
Insurance	197	192	(5)
Postage & Freight	16	16	0
Depreciation & Amortization	169	185	16
All Other Expenses	453	256	(197)

	Actual	Plan	Prior Year
Bids	58,538	58,120	56,591
Marketing	77,688	77,380	97,082
L MARKETING	136,226	135,500	153,673
Enterprise Network	130,481	122,352	98,065
IT	347,355	366,373	350,695
L IT	477,836	488,725	448,760
Corp Admin	74,981	39,241	(210,000)
Exec Team	461,842	452,986	463,340
Cafeteria	24,401	24,581	24,488
HR	113,323	111,698	122,905
Benefits	0	0	0
EHS	41,068	40,554	40,901
Finance	223,181	229,258	191,097
AP/AR	52,297	54,978	67,595
Corporate Services	67,093	65,742	75,970
Other (Inc) / Exp	(2,082)	(23,192)	(297,207)
L CORP & OTHER	1,056,104	995,846	479,089
L CORP COSTS	1,670,166	1,620,071	1,081,522

Financial Statement Analysis - Ratio Analysis



Purpose: Utilizes financial ratios to gauge various aspects of a company's performance and health.



Types of Ratios:



Liquidity Ratios: (e.g., Current Ratio, Quick Ratio): Liquidity ratios measure the quality and adequacy of current assets to meet current obligations as they come due.



Profitability Ratios: (e.g., Gross Profit Margin, Return on Equity): Assess efficiency in generating profits from resources.



Solvency Ratios: (e.g., Debt-to-Equity, Interest Coverage): Evaluate long-term financial stability and debt management.



Application: Enables quicker decision-making by highlighting financial strengths and weaknesses through numerical benchmarks.

Financial Statement Analysis - Ratio Analysis - Liquidity Ratios

Liquidity Ratio	Measures	Calculated
Current	Measures a company's ability to meet current obligations as they become due.	= current assets / current liabilities
Quick	Measures a company's immediate ability to pay its short-term (current) obligations in the next 12-month period with cash and the other current assets most readily convertible to cash.	= cash + marketable securities + accounts receivable / current liabilities
Accounts receivable turnover	Measures the number of times trade accounts receivable turn over during the year.	= sales / accounts receivable
Days' receivable	Measures the number of days it takes for trade accounts receivable to turn over.	= accounts receivable turnover / 365 days

Financial Statement Analysis - Ratio Analysis - Profitability Ratios

Operating Ratios	Measures	Calculated
Gross margin	Measures profitability of a company's core operations	$= \text{gross margin (revenue - cogs)} / \text{revenue}$
Operating expenses/sales	Measures of your operation's financial efficiency and shows how much you spend to generate income	$= \text{operating expenses (SGA)} / \text{revenue}$
Operating margin	Measures the profit a company makes on a dollar of sales	$= \text{operating profit (net income)} / \text{revenue}$

Financial Statement Analysis - Ratio Analysis - Solvency Ratios

Debt to Equity Ratio:

Shows the proportion of equity and debt a company is using to finance its assets, providing insight into financial stability.

AMAZON.COM, INC. CONSOLIDATED BALANCE SHEETS (in millions, except per share data)			
	December 31,		
	2022	2023	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 53,888	\$ 73,387	
Marketable securities	16,138	13,393	
Inventories	34,405	33,318	
Accounts receivable, net and other	42,360	52,253	
Total current assets	146,791	172,351	
Property and equipment, net	186,715	204,177	
Operating leases	66,123	72,513	
Goodwill	20,288	22,789	
Other assets	42,758	56,024	
Total assets	\$ 462,675	\$ 527,854	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 79,600	\$ 84,981	
Accrued expenses and other	62,566	64,709	
Unearned revenue	13,227	15,227	
Total current liabilities	155,393	164,917	
Long-term lease liabilities	72,968	77,297	
Long-term debt	67,150	58,314	
Other long-term liabilities	21,121	25,451	
Commitments and contingencies (Note 7)			
Stockholders' equity:			
Preferred stock (\$0.01 par value; 500 shares authorized; no shares issued or outstanding)	—	—	
Common stock (\$0.01 par value; 100,000 shares authorized; 10,757 and 10,898 shares issued; 10,242 and 10,383 shares outstanding)	108	109	
Treasury stock, at cost	(7,837)	(7,837)	
Additional paid-in capital	75,066	99,025	
Accumulated other comprehensive income (loss)	(4,487)	(3,040)	
Retained earnings	83,193	113,618	
Total stockholders' equity	146,043	201,875	
Total liabilities and stockholders' equity	\$ 462,675	\$ 527,854	

Financial Statement Analysis – Ratio Flux Analysis YoY

	PY-4	PY-3	PY-2	PY	CY
Liquidity Ratios:					
Current	1.05	1.07	1.16	1.23	1.11
Quick	0.42	0.40	0.53	0.57	0.35
Accounts receivable turnover	7.97	9.10	8.22	9.11	9.82
Days' receivable	45.80	40.11	44.40	40.07	37.17
Operating Ratios:					
Gross margin	25.57%	27.45%	25.81%	27.39%	28.54%
Operating expenses/sales	22.66%	23.76%	22.03%	22.52%	23.88%
Operating margin	2.91%	3.69%	3.79%	4.86%	4.67%

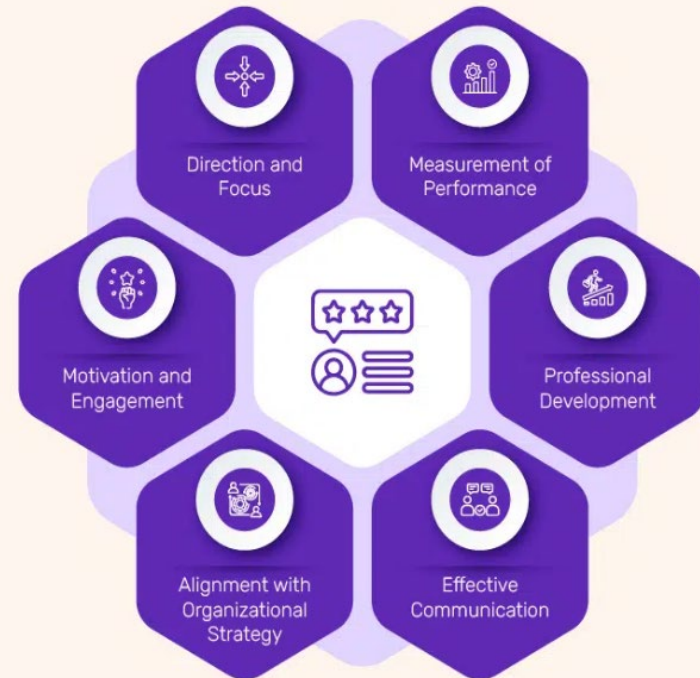
... The Role of Industry Benchmarking

Benefits:

Strategic Insights Identifies best practices and areas needing improvement

Target Setting Helps in setting realistic performance targets based on industry norms

Importance of Goal Setting in Performance Reviews



Financial Statement Analysis – Ratio Analysis vs Industry Standards

	PY-4	PY-3	PY-2	PY	CY	Five-Year Average	Industry Standard
Liquidity Ratios:							
Current	1.05	1.07	1.16	1.23	1.11	1.12	1.87
Quick	0.42	0.40	0.53	0.57	0.35	0.45	0.93
Accounts receivable turnover	7.97	9.10	8.22	9.11	9.82	8.84	8.70
Days' receivable	45.80	40.11	44.40	40.07	37.17	41.51	42.01
Operating Ratios:							
Gross margin	25.57%	27.45%	25.81%	27.39%	28.54%	26.56%	28.57%
Operating expenses/sales	22.66%	23.76%	22.03%	22.52%	23.88%	22.74%	23.13%
Operating margin	2.91%	3.69%	3.79%	4.86%	4.67%	3.98%	5.40%

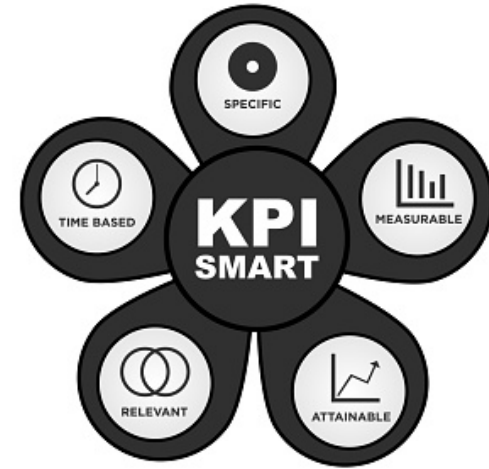
Financial Statement Analysis - Key Performance Indicators (KPIs)

Measurable value that helps you understand how well an organization or **department** is performing

KPIs can help you and your team determine if your strategies are helping you achieve your goals

May or May Not be financial data

“SMART” Criteria



Is your objective Specific? **SPECIFIC** ✓
 Can you Measure progress towards goal?..... **MEASURABLE** ✓
 Is the goal realistically Achievable?..... **ACHIEVABLE** ✓
 How Relevant is the goal to your organization?... **RELEVANT** ✓
 What is the Time for achieving this goal?..... **TIME BASED** ✓

Financial Statement Analysis - Department KPIs



Financial KPIs - liquidity, profitability, solvency



Sales KPIs - customer lifetime value, customer acquisition costs



Marketing KPIs - website traffic, social media traffic, conversion rate content



Employees KPIs - # of overtime hours, turnover rate



Customer KPIs - customer retention rate, customer satisfaction score

Financial Statement Analysis - Financial KPIs



Gross Profit Margin = (revenue – cost of goods sold) / revenue



Net Profit Margin = net profit / revenue



Production Cost Analysis = total production costs / # of units sold



Customer Service Cost = total expense / total customers



EBITDA = net profit + interest, taxes and depreciation

Financial Statement Analysis - Retail/Wholesale KPIs



Inventory Turnover = cost of goods sold / average inventory value



Lead Times = order request date – order delivery date



Shrinkage = inventory book value – inventory actual value



Conversion Rate = (total transactions / total visitors) x 100



Average Transaction Value = total revenue / number of transactions

Financial Statement Analysis - Manufacturing KPIs



Labor Cost per Employee = total labor cost / number of employees



Revenue per Labor Hour = total revenue / total labor hours



Efficiency of Utilization = production hours / total hours



Absorption Costing = (direct labor + direct material costs + variable manufacturing overhead + fixed manufacturing overhead) / # of units produced



Cash Conversion Cycle = avg. days inventory + avg. days receivable - avg. days payable

Financial Statement Analysis - Construction KPIs



Planned Hours vs Actual Hours - by project.



Percentage of Labor Downtime = $\text{downtime hours} / \text{total hours}$



Scheduled Performance - tracks % of projects completed on time



Cost Performance - measures % of projects completed within budget.



Equipment Utilization - $(\text{actual operating time} / \text{available operating time}) \times 100$

Financial Statement Analysis - Not-For-Profit KPIs



Donor Retention Rate = (# of repeat donors CY / # of donors in PY) X 100



Fundraising Efficiency (ROI) = total contributions / total fundraising expense



Overhead Rate = total indirect costs / direct costs



Donor Growth = (CY donors – PY donors) / PY donors



Programing Efficiency - program expenses / total expenses.

... Financial Statement Analysis - To Set Goals and Track Performance - Case Study 1

- In the prior year, the Company obtained a revolving line of credit to build inventory levels as demand for products increased.
- In the next 12 months Management is projecting a slow-down in orders due to lower levels of consumer demand.
- Management wants to track inventory levels to understand if free cash flow should be used to restock inventory or paydown the line of credit.

The Company would create a dashboard tracking the following items:

- Inventory balance by inventory product
- Inventory turnover
- Purchasing lead times
- Rolling sales by inventory product

... Financial Statement Analysis - To Set Goals and Track Performance - Case Study 2

Company A is currently in a marketing campaign to obtain new customers and grow top line revenue. How would the company track the performance of its marketing effort?

The Company would create a dashboard tracking the following items:

- Track advertising costs and sales transactions/dollars (by month)
- Track new customers by month

... Financial Statement Analysis - To Set Goals and Track Performance - Case Study 3

Company X wants to review its operating expenses with the goal of reducing these expenses to increase its profit margin. The owner communicated the plan to Management. How would the Owner track Managements progress?

The Company would create a dashboard tracking the following items:

- Track operating expenses balance by expense category
- Period flux of operating expenses by expense category
- Comparative size analysis (as a % of revenue)
- Track net profit margin

... Financial Statement Analysis - To Set Goals and Track Performance - Case Study 4

Management of Company X wants to perform a study to ensure cashflow is being maximized. One item the company could track is receivable and payable aging:

Average days receivable = (average accounts receivable / net sales) x 365

Average days payable = (average accounts payable / cost of goods sold) x 365

Decrease average days receivable and increase the average days payable

... Best Practices - Generating and Disbursing Financial Statements



Questions





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