INTRODUCTION TO FINANCIAL ANALYSIS

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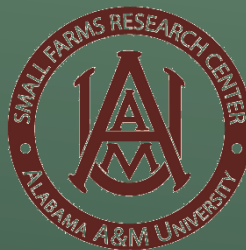
FINANCIAL ANALYSIS

- What is financial analysis?

- What do we need to know?

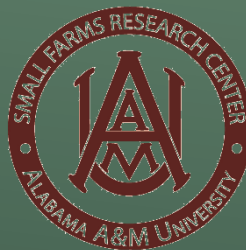- How do we do the analysis?
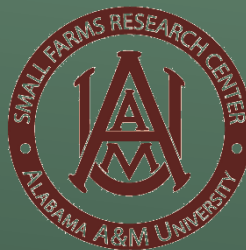
WHAT IS FINANCIAL ANALYSIS

A process to set standards or norms

A means of takin stock of your business

A means of comparing performance to norms
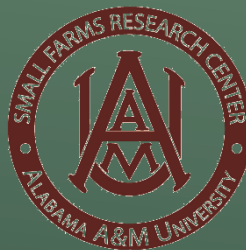
A process for diagnosing problems

WHERE DO WE GET FINANCIAL INFORMATION?

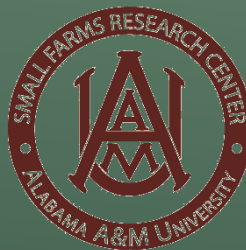**Based on data from financial statements**

- Balance Sheet

- Income Statement (Profit and Loss Statement)

- Cash Flow Statement (Source and Uses of Funds)

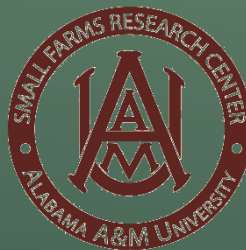**Internal Monthly Statements and Annual Audits**

WHAT DO WE NEED TO KNOW?

- **Liquidity**

- **Solvency**

- **Profitability**

- **Efficiency**

HOW DO WE DO THE ANALYSIS?

- Combine data from balance sheet and income statements
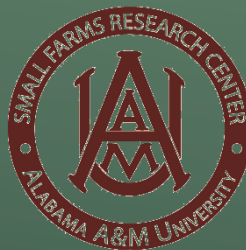
- Calculate ratios to account for size differences

WHAT IS LIQUIDITY?

A measure of he firm's ability to meet short-term liabilities with short-term assets

Key indicators of liquidity include working capital and the current ratio

- Working Capital = Current Assets – Current Liabilities

- Current Ratio = Current Assets / Current Liabilities

WHAT IS SOLVENCY?

It Measures the firm's ability to meet long-term liabilities, preferably with long-term assets

Measures of long-term survivability

Key indicators include the debts to asset and debt to equity ratios

- Debt to Asset Ratio = Total Liabilities / Total Assets

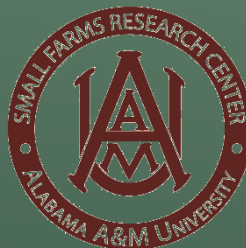- Debt to Equity Ratio = Total Liabilities / Net Worth
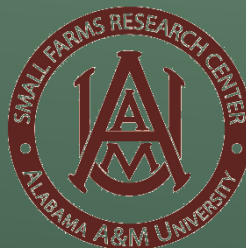
WHAT IS PROFITABILITY?

Measures the ability of the firm to generate profits (savings)

Key indicators of profitability include Return on Assets (ROA) and Return on Equity (ROE)

- ROA = (Net Income + Interest Paid) / Total Assets
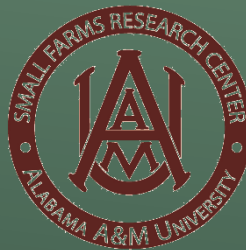
- ROE = Net Income / Net Worth (Total Equity)

WHAT IS EFFICIENCY?

Measures how well we are using our resources top produce results

Key indicators depend upon the business being considered

Some common measures include:

- Sales / Total Salaries

- Sales / Net Fixed Assets

- Sales / Inventory

- Equity Revolved / Local Net Worth

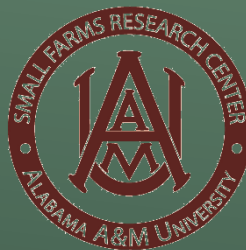- Patronage Refunds/ Gross Margin

EXERCISE #1 : EFFICIENCY MAVENS

Based upon the objectives of your cooperative, what are some useful measures of efficiency?
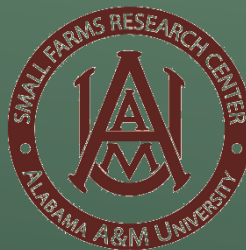
Use a Three-Way Rotation

Can you do it in 20 minutes?!!

EXERCISE #2 : WALKING THE WALK

Please calculate some liquidity solvency, profitability and efficiency measures for "Wilderness Co-op" for the three years shown.
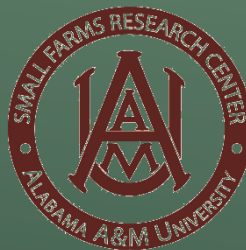
Can you do it in 20 minutes?!!

GOING BEYOND THE NUMBERS

The values for liquidity, solvency and profitability are a staring point, not a destination

The best directions use this "information" to extract "knowledge"

Knowledge comes from understanding why the liquidity, solvency and profitability values are what they are
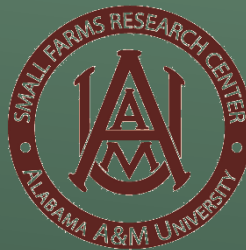
EXERCISE #3 : "TELL ME A STORY"

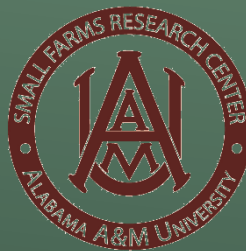Consider the data from Wilderness Co-op and your financial calculations

Come up with a story that could explain the observed trends, or

Come up with a list of questions to pose to management to find out what is going on.

Can you do it in 15 minutes ?!!

CONCLUSIONS

To learn more about managing your finances,

please contacting us

Office: 256/372-4958

Email: elicia.chaverest@aamu.edu

Alabama A&M University Small /Farms Research Center

4900 Meridian Street, James I. Dawson Building Suite #316

Normal, Alabama