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Chartered Professional Accountants

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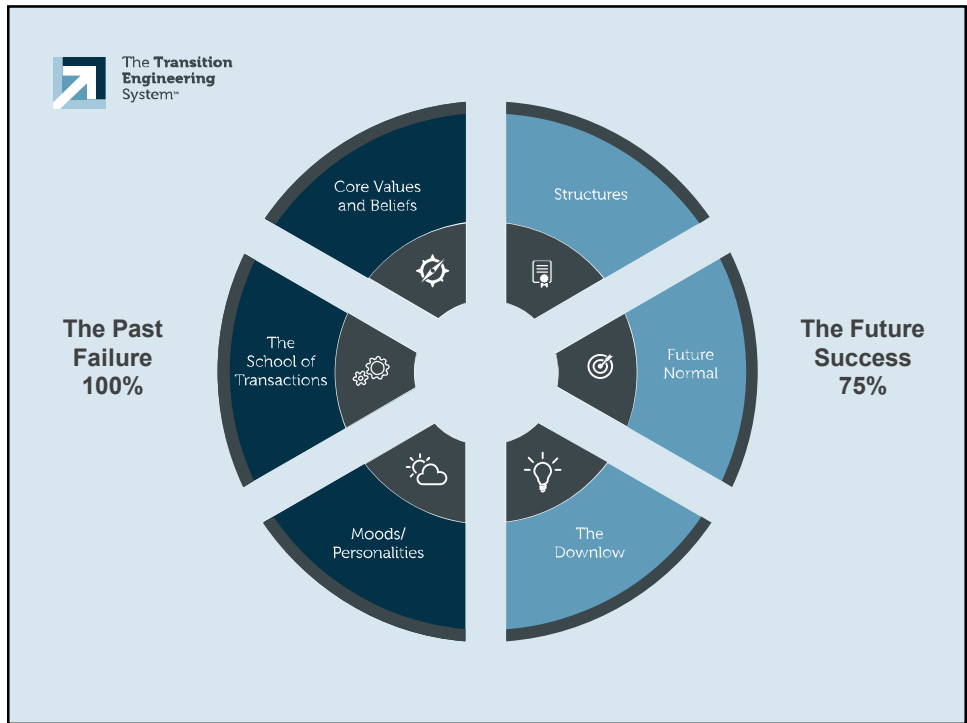
Financial Statement Concepts

December 15, 2022

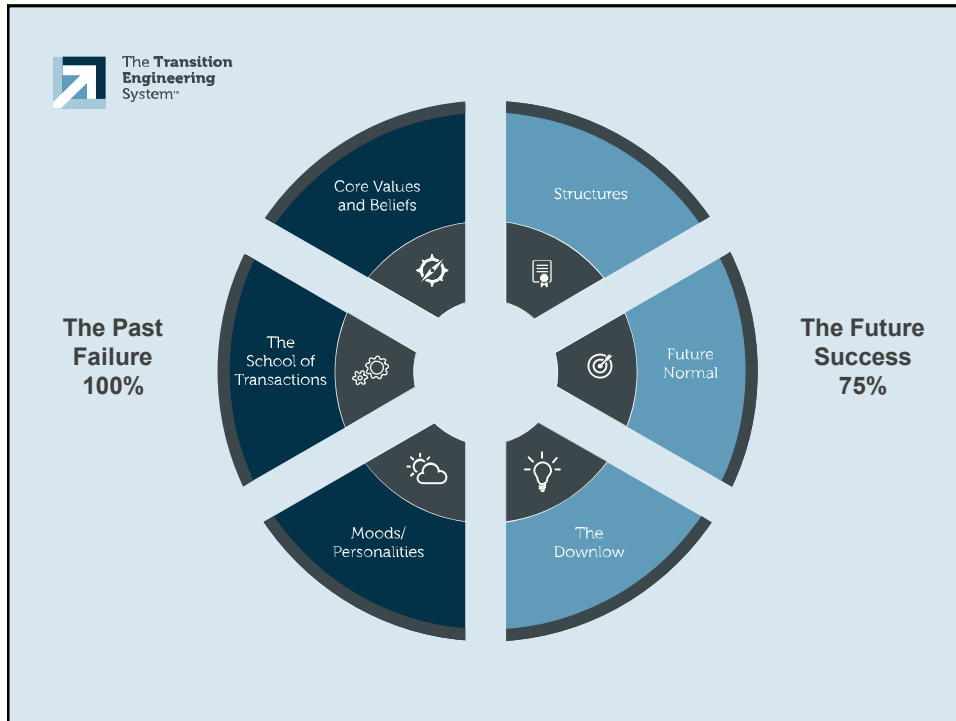
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Knowledge. Clarity. Action.

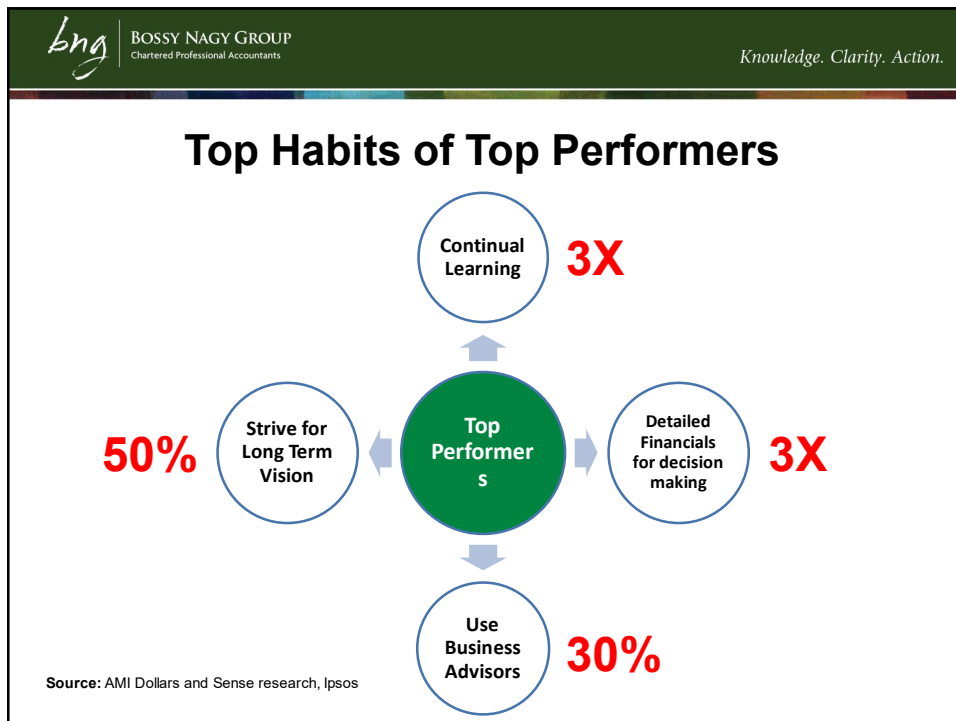
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Which method of accounting?

Cash basis of accounting

- Revenues and expenses are recorded when cash is actually paid or received. A simple method of accounting that is used for tax purposes.

Accrual basis of accounting

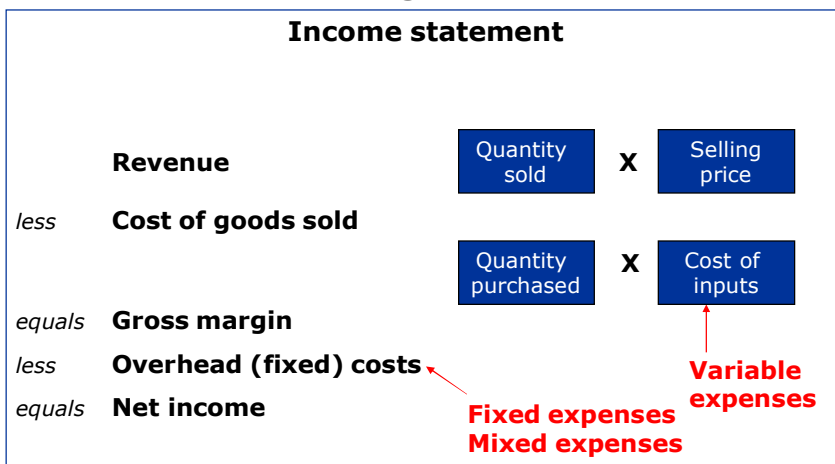
- Revenues and expenses are recorded in the period they are earned or incurred – this method is based on **The Matching Principle**. More complex than cash basis but a more accurate picture of what has happened in your operation.
- * The method you choose can affect the decisions you make**

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Understand Your Operating Expenses

Income statement



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Ratio Analysis

Why bother?

- The trends that these ratios highlight are valuable tools for longer-term analysis
- Trends, comparison and benchmarking
- Lenders use ratios to monitor your financial health
- Assist with decision making on major business transactions
- Financial toolkit

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FINANCIAL Efficiency Formula

Measures how well operations produce capacity (cash). How much does it cost to produce \$1.00 of revenue?

**Operating Costs Divided by Total Adjusted Revenues *
100**

Equals Operating Efficiency Percentage

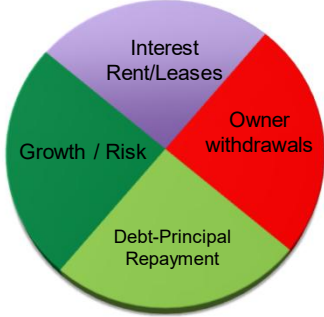
*The lower the percent, the better the financial efficiency.

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Financial Efficiency - An Analysis of Capital

- Capital financial performance analysis measures how operating profit was used.



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Application of the Operating Profit Use Rule

<i>Application of the Operating Profit Use Rule</i>			
<u>Category</u>	<u>Production Expense Percentage</u>		
	30%	40%	50%
Adjusted revenue	300,000	300,000	300,000
Production expenses	90,000	120,000	150,000
EBITDA / Operating Profit	210,000	180,000	150,000
Interest Cost	52,500	45,000	37,500
Living	52,500	45,000	37,500
Principal, leases, rent	52,500	45,000	37,500
Growth/Risk	52,500	45,000	37,500

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EBITDA

What is it?

- Earning Before Interest, Taxes, Depreciation and Amortization
- Leases/Rent
- Family Wages/Draws
- Unfunded capital expenditures

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Calculating debt servicing ratio

- A measure of **debt service capacity** which is a calculated amount that indicates the ability to continually generate cash to repay term debt

debt servicing capacity / annual term principal and interest

 - A linking ratio (links the income statement and balance sheet)
 - A measure of long-term solvency used by lenders
- Health check!
 - Higher ratios are preferable; aim for higher than **1.25**
 - A higher ratio indicates you may commit more to repay term debt

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Eight C's of Credit Matrix

Character	Capacity	Collateral	Capital
Conditions	Compliance	Coverage	Confidence

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Your Financial Statement Scorecard


- Write down 3 – 5 strategies and actions you will take to help achieve your vision

Reach out to your lender

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<h2>Financial Scorecard</h2>							
Scorecard							
Description/Ratio	2016	2017	2018	2019	2020	2021F	2022F
Adjust Total Revenue							
Avg. age of first calf heifers							
Debt load per litre							
Surplus from operation							
Insemination rate							
EBITDA less living							
Operating Efficiency %							
Working Capital Ratio							
Net Worth							

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<h2>Action Plan</h2>					
Item	Today's figure	Target figure	Target date	List tactics	Assign to
Working capital					
Current ratio					
Debt structure ratio					
Operating efficiency					
Debt to asset ratio					
Equity ratio					
Debt servicing ratio					

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Mike Bossy's Top 10

1. Pain vs. Pleasure → Be a star.
2. Read the conditions letter.
3. Ask a different question.
4. 8 C's.
5. The Referability Habits™.

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Mike Bossy's Top 10

6. If you haven't heard from your lender, call him. Take him/her to lunch.
7. Covenants – what are yours?
8. Do business planning, strategies, transition.
9. CANEI.
10. Ratio analysis.


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The Kudu Calf

“Every morning when the sun comes up a kudu calf wakes. The calf knows that he must outrun the fastest lion or he will be eaten. When the sun comes up the lion also wakes. The lion knows that he must outrun the slowest kudu calf or he will starve. The lesson is simple; it doesn’t matter whether you are a kudu calf or a lion, when the sun comes up you had better be running.”



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**For more information, please contact
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