Tame the Financial Report Lion

October 5, 2012

SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Conducted by:
Robert Lapota, MILR, SPHR
Senior Manager, HR Information and Solutions

MRA
Where HR Means Business.

How MRA Serves Its Members

Training is a key focus for MRA, but it's only part of what we do. MRA's HR and business expertise extends to a wide variety of areas. A snapshot of our services is listed below. Members receive these services at a discounted rate. For information, call MRA at 800.488.4845 or visit www.mranet.org.

Affirmative Action/ EEO Services
- Affirmative Action plans
- OFCCP audit assistance
- Employment law compliance

Career Services
- Assessment services
- Coaching
- Succession planning
- Networking/Information Groups: Forums, Roundtables and Discussion Groups
- Society for Human Resource Professionals (SHRP)
- Training (see Institute of Management)

Compensation and Benefits Services
- Job analysis and evaluation
- Performance appraisal design
- Full compensation plan design
- Evaluation of 401(k) plans and health insurance
- Benefits and pension administration

Employee Relations Services
- Employment and labor law issues
- Local and national contract settlement reports
- Discipline and termination issues

Human Resource Services
- Recruiting
- Reference checking
- Exit interviews
- Outplacement
- HR audits
- Handbook development
- HR Professionals for temporary assignments

Institute of Management (Training)
- Training via the Web, at MRA facilities and at company facilities – over 150 programs
- Organization-specific training

Safety and Health Services
- Safety and environmental audits, inspections
- Onsite safety managers
- Development and implementation of OSHA-required programs
- Onsite safety training

Surveys
- Customer surveys
- Employee satisfaction surveys
- Wage and salary surveys – benchmarked data and customized surveys
- Compensation and benefits surveys – benchmarked data and customized surveys

Robert C. Lapota, MILR, SPHR

Senior Manager, HR Information and Solutions

Rob Lapota holds the position of Senior Human Resource Manager, Human Resource Information & Solutions for MRA. Over 23 years of experience in all facets of human resource management has prepared Rob to assist employers in finding workable solutions to real-life human resources issues.

Prior to MRA, Rob worked for a 1000+ employee nonunion, multi-plant, international corporation, where he served as Acting Vice President of Human Resources. He was responsible for overseeing and directing all facets of human resources, including strategic planning, policies and procedures, recruiting, training, safety, worker's compensation, affirmative action, EEOC compliance, employee counseling and disciplinary procedures, benefits, compensation, budgeting, and H1-B/L1 visa applications. Rob's background also includes the development of ISO 9000 and QS 9000 human resource compliance programs. Rob also has extensive experience in the development of human resource systems and metrics for the Malcolm Baldrige National Quality Award. In addition, Rob is a human resources management instructor for a local technical college.

As a nationally renowned speaker, Rob also spearheads the development and presentation of human resource training programs offered at MRA and employer facilities. He has trained thousands of employees and continually develops new programs to respond to the changing needs of employers.

Rob holds a bachelor of business administration in industrial relations and master's degree in industrial and labor relations from the University of Wisconsin–Milwaukee. His training also includes participation in the HR Executive Management Program, University of Michigan, and the Certified Trainer Program through Achieve Global.

MRA helps member companies maximize the performance of their employees and organizations through talent, tools, and training. Founded in 1901, MRA is a not-for-profit employers association that today serves 3000 employers covering close to a half million employees. MRA's HR and business professionals provide expertise in the areas of training and organizational development, recruitment, retention, business research, safety, outplacement, and compliance. MRA conducts more than 1000 training events each year.

Can you help Fred sort the terms on the left with the ones on the right?

A. Profit Margin

B. The "bottom line"

C. Profit and Loss

D. "Rules" of Accounting

E. Current Ratio

F. Cash in, Cash out

G. Assets = Liabilities + Owner's Equity

H. Cost of goods sold

____ Balance Sheet

____ Direct costs related to product or service

____ Statement of cash flow

____ Net Income

____ Profitability

____ Income Statement

____ GAAP

____ Solvency

How Do You Score?

❶ How do you score points in football?

____

❷ How do you score points in soccer?

____

❸ How do you record business financial transactions?

G ____

A ____

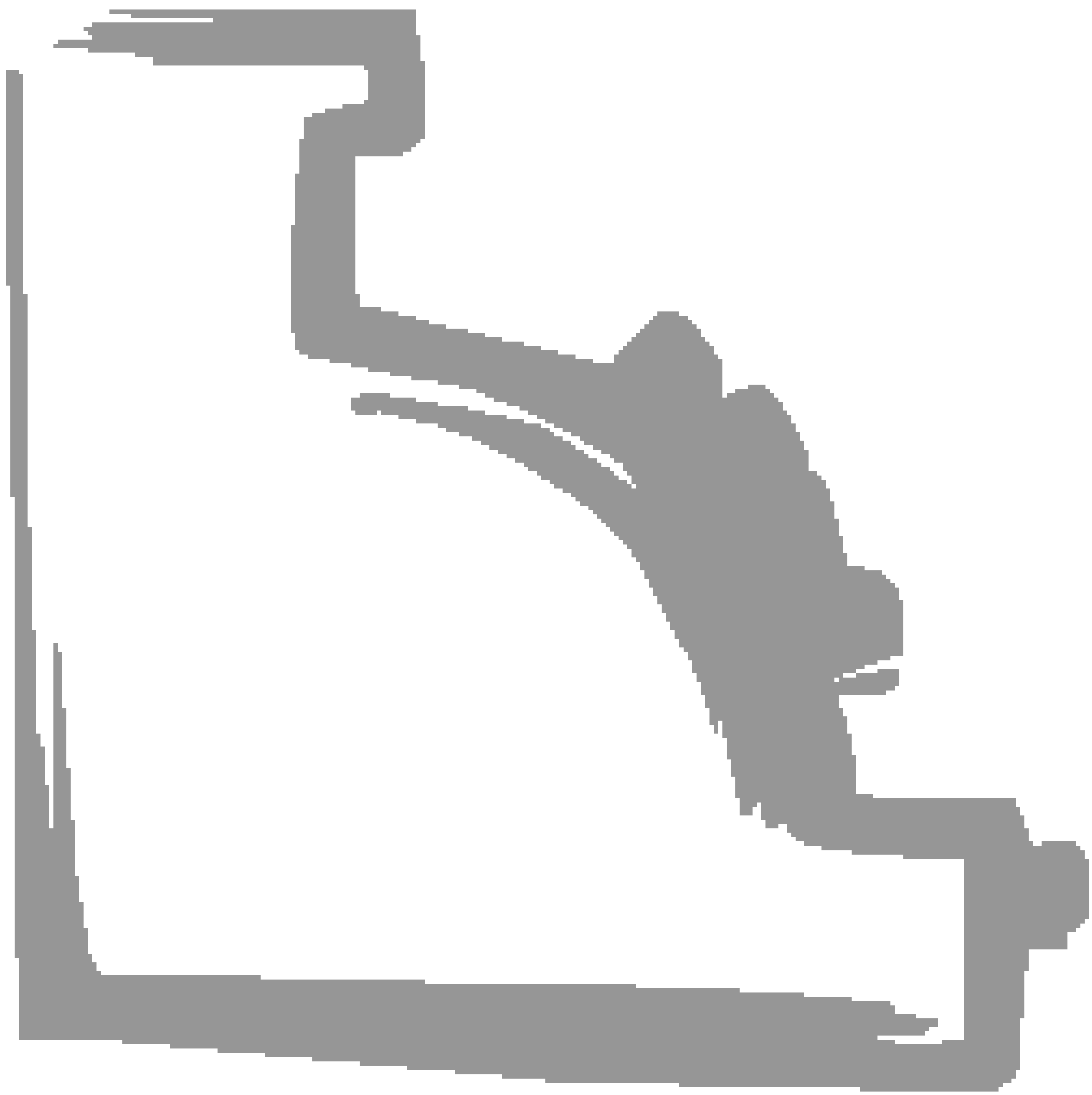
A ____

P ____

It's the written rules of accounting—
so between organizations,
it is an apples-to-apples comparison.

Financial Accounting Standards Board

The Money Machine



Bean Counters
Count Beans, Right?

Financial Accounting

Prepare reports for users.

(to the business)

Goal #1

Report financial condition
at a point in time.

May 31, 2010

Goal #2

Report changes in financial condition
over a period of time.

(Fiscal 2010)

Managerial Accounting

Reports which guide.

(to make business decisions)

Key Financial Accounting Reports

1. Income statement (P&L)

2. Statement of Cash Flows

3. Balance sheet

Objectives:

A. Measure change in financial condition.

B. Measure financial condition.

What is the purpose of financial accounting?

____

____

____

____

____

The Accounting Equation

Assets = Liabilities + Owners' Equity

Own		Owe	
Asset	Double-Entry System	Owners' Equity	Liability

A word from professor I.M. Boring:
"Please note, the left side of the accounting equation must always equal the right side. In addition, the equation, to be of any meaning, must be connected to a specific point in time."

J.P. Trumped, owner of the M.T. Arms Hotel chain wants to know his amount of owner's equity as of July 1, 2010. Assets total $1,000,000,000 and liabilities equal $800,000,000. What is Trumped's owner's equity?

Assets ______________________________

Liabilities______________________________

Owners' Equity ______________________________

Balance Sheet

Own		Owe		
Assets	=	Liabilities	+	Owner's Equity
Current Assets:		Current Liabilities:		Capital stock
Cash and cash equivalents		Accounts payable		Retained earnings
Short-term investments		Debt		
Accounts receivable				
Inventory				
Other				
Long-Term Assets:		Long-Term Liabilities:		
Long-term investments		Debt		
Property, plant, and equipment		Other		
Goodwill				
Intangible assets				

Definition Exercise

What is an asset?

____

____

List 2 assets in HR:

1. ___________________________________
2. ___________________________________

What is a liability?

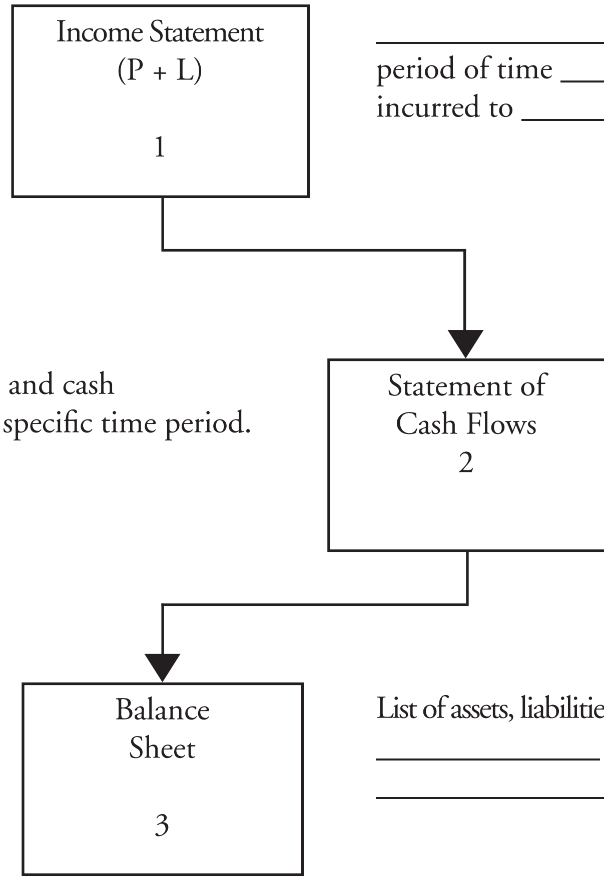
____

____

List 2 liabilities in HR:

1. ___________________________________
2. ___________________________________

The Big Three Reports



1. Income Statement (P + L)

Change in Financial Condition

________________ earned during a specific period of time ________________ expenses incurred to ________________ the revenue.

2. Statement of Cash Flows

Cash ________________ and cash ________________ for a specific time period.

Change in Financial Condition (Direct or Indirect Method)

3. Balance Sheet

Financial Condition

List of assets, liabilities, and ________________ ________________ as of a specific ________________.

Don’t Forget!

A=L+E

Goodnite Manufacturing Company

INCOME STATEMENT

Sales	$2,000,000
Materials	$800,000
Labor	$200,000
Overhead	$600,000
Cost of Goods Sold (COGS)	$1,600,000
Gross Margin	$400,000
Operating Expenses	$200,000
Operating Margin (EBIT)	$200,000
Interest	$20,000
Taxes	$68,000
Net Margin	$112,000

CASH FLOW STATEMENT

Beginning Cash Balance	$500,000
Cash from Operators	
Net Income	$112,000
Increase in inventory	($20,000)
Decrease in A/P	($15,000)
Increase in A/R	($15,000)
Cash from Investing	$0
Cash from Financing	$0
Ending Cash Balance	$592,000

BALANCE SHEET

Assets	
Cash	$592,000
Accounts Receivable	$50,000
Inventory	$100,000
PPE	$500,000
Fixed Assets	$800,000
Total Assets	$2,042,000
Liabilities	
Accounts Payable	$65,000
Notes Payable	$20,000
Accrued Expenses	$10,000
Long-Term Debt	$650,000
Total Liabilities	$745,000
Stockholders' Equity	
Retained Earnings	$1,297,000
Total Liabilities and Stockholders' Equity	$2,042,000

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Depriciation and Amortization

Depreciation:
The change in a company's accounts which reflects the reduction in value of a <u>tangible</u> asset over time as its usable life is exhausted.

> Example: A delivery truck is purchased for $36,000.00 using straight-line depreciation. Tax law permits writing down the value of the van over five years, or, $7,200.00 per year.

Depreciation is charged as an expense on the income statement. The asset can continue to be used, even if fully depreciated.

Amortization:
Same concept as depreciation, except for <u>intangible</u> assets.

> Example: A patent on a new machine may last 15 years. The cost of building the machine is spread out over the 15 year patent life.

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Let's Look at the Current Financials

Income Statement

Period Ending	9/30/12	6/30/12	3/31/12	12/31/11
Total Revenue	$135,435,000	$120,712,000	$120,863,000	$73,713,000
Cost of Revenue	$112,383,000	$100,767,000	$122,484,000	$66,123,000
Gross Profit	$23,052,000	$19,945,000	($1,621,000)	$7,590,000
Operating Expenses				
Research and Development	$2,242,000	$1,706,000	$1,441,000	$1,440,000
Selling General and Administrative Expenses	$13,568,000	$13,038,000	$13,065,000	$22,935,000
Nonrecurring	N/A	N/A	$5,420,000	N/A
Other Operating Expenses	N/A	N/A	$1,502,000	$1,284,000
Operating Income	$7,242,000	$5,201,000	($23,049,000)	($18,069,000)
Total Other Income and Expenses Net	$874,000	$216,000	($5,638,000)	$3,683,000
Earnings Before Interest and Taxes	$8,116,000	$5,417,000	($28,687,000)	$143,876,000
Interest Expense	$2,755,000	$3,025,000	$2,820,000	$3,020,000
Income Before Tax	$5,361,000	$2,392,000	($31,507,000)	($17,406,000)
Income Tax Expense	N/A	N/A	N/A	N/A
Equity Earnings or Loss Unconsolidated Subsidiary	N/A	N/A	N/A	N/A
Minority Interest	N/A	N/A	N/A	N/A
Net Income From Continuing Operations	$5,361,000	$2,392,000	($31,507,000)	($17,406,000)
Nonrecurring Events				
Discounted Operations	N/A	N/A	($164,000)	$23,022,000
Extraordinary Items	N/A	N/A	N/A	N/A
Effect of Accounting Changes	N/A	N/A	N/A	N/A
Other Items	N/A	N/A	N/A	N/A
Net Income	$5,361,000	$2,392,000	($31,671,000)	$5,616,000

Cash Flow

Period Ending	9/30/12	6/30/12	3/31/12	12/31/11
Net Income	$5,361,000	$2,392,000	($31,671,000)	$5,616,000
Depreciation	$3,461,000	$4,024,000	$9,135,000	$5,319,000
Adjustments to Net Income	N/A	N/A	$126,386,000	($25,929,000)
Changes in Operating Activities				
Changes in Accounts Receivables	N/A	N/A	($39,500,000)	N/A
Changes in Liabilities	N/A	N/A	$1,023,000	$40,012,000
Changes in Inventories	N/A	N/A	$12,600,000	N/A
Changes in Other Operating Activities	($12,945,000)	($24,858,000)	(68,896,000)	($81,247,000)
Cash Flows From Operating Activities	($4,123,000)	($18,442,000)	($33,304,000)	($56,229,000)
Cash Flow Investing Activities				
Capital Expenditures	($4,588,000)	($4,144,000)	($2,076,000)	$4,472,000
Investments	N/A	N/A	N/A	($155,037,000)
Other Cash Flows From Investing Activities	N/A	N/A	$238,000	$247,391,000
Cash Flows From Investing Activities	($4,588,000)	($4,144,000)	($1,838,000)	$96,826,000
Cash Flow Financing Activities				
Dividends Paid	N/A	N/A	N/A	N/A
Sale Purchase of Stock	$5,412,000	$408,000	$1,000	($686,000)
Net Borrowings	($465,000)	$20,007,000	($816,000)	($54,161,000)
Other Cash Flows From Financing Activities	N/A	N/A	N/A	($4,450,000)
Cash Flows From Financing Activities	$4,947,000	$20,415,000	($815,000)	($59,297,000)
Effect of Exchange Rate	N/A	N/A	N/A	N/A
Change in Cash and Cash Equivalents	($3,764,000)	($2,171,000)	$30,651,000	($18,700,000)

Balance Sheet

Period Ending	9/30/12	6/30/12	3/31/12	12/31/11
Current Assets				
Cash and Cash Equivalents	$67,569,000	$71,591,000	$74,030,000	$44,752,000
Short Term Investments	N/A	N/A	N/A	N/A
Net Receivables	$126,075,000	$128,079,000	$125,538,000	$143,986,000
Inventory	$18,164,000	$20,931,000	$21,627,000	$39,328,000
Other Current Assets	$3,735,000	$4,135,000	$3,403,000	$5,017,000
Total Current Assets	$215,543,000	$224,736,000	$224,598,000	$223,083,000
Long Term Assets				
Long Term Investments	N/A	N/A	N/A	N/A
Property Plan and Equipment	$90,052,000	$89,204,000	$88,795,000	$90,437,000
Goodwill	$109,088,000	$109,088,000	$109,088,000	$110,544,000
Intangible Assets	N/A	N/A	N/A	N/A
Accumulated Amortization	N/A	N/A	N/A	N/A
Other Assets	$11,914,000	$13,091,000	$10,253,000	$11,019,000
Deferred Long Term Asset Charges	N/A	N/A	N/A	N/A
Total Assets	$426,597,000	$436,119,000	$432,734,000	$445,083,000
Current Liabilities				
Accounts Payable	$103,339,000	$129,845,000	$160,386,000	$160,322,000
Short Term and Current Long Term Debt	$101,861,000	$101,845,000	$103,710,000	$4,345,000
Other Current Liabilities	$32,487,000	$26,761,000	$23,886,000	$23,127,000
Total Current Liabilities	$237,687,000	$258,451,000	$287,982,000	$189,794,000
Long Term Debt	$28,694,000	$29,172,000	$4,665,000	$105,211,000
Other Liabilities	$4,547,000	$45,490,000	$5,216,000	$3,965,000
Deferred Long Term Liability Charges	N/A	N/A	N/A	N/A
Minority Interest	N/A	N/A	N/A	N/A
Negative Goodwill	$40,586,000	N/A	$40,586,000	$40,181,000
Total Liabilities	$311,514,000	$333,113,000	$338,449,000	$339,151,000
Stockholders' Equity				
Misc. Stocks Options Warrants	N/A	N/A	N/A	N/A
Redeemable Preferred Stock	N/A	N/A	N/A	N/A
Preferred Stock	N/A	N/A	N/A	N/A
Common Stock	$446,000	$428,000	$412,000	$386,000
Retained Earnings	($437,832,000)	($443,193,000)	($445,585,000)	($413,914,000)
Treasury Stock	N/A	N/A	N/A	N/A
Capital Surplus	$552,469,000	$545,771,000	$539,458,000	$419,460,000
Other Stockholder Equity	N/A	N/A	N/A	N/A
Total Stockholder Equity	$115,083,000	$103,006,000	$94,285,000	$105,932,000
Net Tangible	$5,995,000	($6,082,000)	($14,803,000)	($4,612,000)

Finance Statement Analysis

Using data from the income statement, balance sheet, and cash flow statement, the following analysis can be performed to see how well things are going and to compare your results to similar organizations. This list is not all-inclusive, but some of the more common measurements you will encounter.

Solvency Measures—Ability to pay ____________________________

⇧+ Working Capital
⇧>1 Working Capital (Current) Ratio
⇧ Acid-Test Ratio (Quick Ratio)

Profitability Measures—Ability to make __________________________

⇧ Return on Sales (Profit Margin)
⇧ Return on Assets

How to affect results

⇧ = A ⇧
B ⇩ to get higher number

⇩ = A ⇩
B ⇧ to get lower number

Solvency Measures

+ ⇑ WORKING CAPITAL—Ability to meet current debt obligations.

CURRENT ASSETS - CURRENT LIABILITIES

Calculate using September 30, 2012 data.

$_________________ - $_________________ = $_________________

⇑ > 1 WORKING CAPITAL (CURRENT) RATIO—Working capital expressed as a ratio

$$\frac{\textbf{CURRENT ASSETS}}{\textbf{CURRENT LIABILITIES}}$$

Calculate using September 30, 2012 data.

$$\frac{\$\qquad\qquad}{\$\qquad\qquad} = \underline{\qquad\qquad\qquad}$$

⇑ ACID TEST (QUICK) RATIO—Instant debt paying ability

$$\frac{\textbf{QUICK ASSETS}}{\textbf{CURRENT LIABILITIES}}$$

(Quick Assets = Cash + Marketable Securities + Receivable)

Calculate using September 30, 2012 data.

$______________ + $______________ + $______________

$$\frac{\$\qquad\qquad}{\$\qquad\qquad} = \underline{\qquad\qquad\qquad}$$

Profitability Measures

⇑ RETURN ON SALES—Commonly referred to as "Profit Margin"

$$\frac{\text{NET AFTER-TAX PROFIT}}{\text{ANNUAL SALES}}$$

(Net After-Tax Profit = Income Before Income Tax - Income Tax Expense)

Calculate using September 30, 2012 data:

$$\frac{\$\_\_\_\_\_\_\_\_\_\_}{\$\_\_\_\_\_\_\_\_\_\_} = \_\_\_\_\_\_\_\_\_\_\ \%$$

⇑ RETURN ON ASSETS—Commonly referred to as Return on Investment, or "ROI"

$$\frac{\text{NET AFTER-TAX PROFIT}}{\text{TOTAL ASSETS}}$$

Calculate using September 30, 2012 data.

$$\frac{\$\_\_\_\_\_\_\_\_\_\_}{\$\_\_\_\_\_\_\_\_\_\_} = \_\_\_\_\_\_\_\_\_\_\ \%$$

Business Proposal

I. Business Problem

1. Discuss with your boss or the management team
2. Work on issues relevant to your customers
3. Data sources: Interviews, questionnaires, observations, investigation of records

II. Cost of Business Problem

1. Review available data
2. Make friends with accounting/finance

III. Proposed HR-Oriented Solution

1. Involve managers/ee's directly involved with the issue
   Make the solution "their" idea

IV. Estimated Cost of Solution

Look at all related expenses (some aren't so obvious!
-Your CEO or CFO will point these out to you during your proposal presentation!)

V. Estimated/Actual Benefit

Error on the side of conservancy. Be sure to have data to prove your findings. Again, your CEO or CFO will point out your errors.

VI. Cost-Benefit Ratio

Follow up and Report on Actual Results!

MRA
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Basic Example

I. Business Problem

Accounting work not being completed on time
Average Accounts Receivable day increasing (from 30 to 50) 40% turnover in accounting department

II. Cost of Business Problem

Exempt: 3 x $50, 000 c 1.4 x 1.5 = $315, 000
Net Expense: 7 x ($13.00hr x 2080) x 1.4 x .75 = $198,744
Increase in Receivable days: $500,000

Total: $1,013.744

III. Proposed HR-Oriented Solution

1. Interview remaining accounting department employees to determine job satisfiers/dissatisfiers
2. Implement exit interviews
3. Implement new employee surveys

IV. Estimated Cost of Solution

1. 4 hours x 16 staff members x $18.75/hr = $1,200
2. 20 quits per year x 1 hour x $18.75/hr = $375
3. 20 new hires x 1 hour x $18.75/hr =$375
4. HR Managers time: 44 hours x $20/hr = $880

Total Estimated Cost: $2,830

V. Estimated Benefit

Goal: Reduce turnover by 50% ***$256,872 Savings***
Receivables back to 30 days ***$500,000 Savings***

Estimated actual benefit: $756,872

VI. Cost-Benefit Ratio

$756,872: $2830 or 267:1

Notes

Notes