**Financial Statement Review (and KPIs)**

**Backgrounder**

Financial statements are not just numbers.

They also are not just numbers bunched into presentation mode based on Generally Accepted Accounting Procedures.

***Financial Statements are much, much more!***

When looking and reviewing financial statements we need a Paradigm shift. This review is NOT just about number crunching!

It’s about seeing the operations and people behind and in front of the numbers; Prospects, Clients, Partners, Staff, and needed Resources.

**The numbers represent every activity done or not done; your hopes and plans to reach them; and every person related the organization being presented in any way!**

**Watching the financials over time gives a great view of rate and rhythm of change.**

Financial statements represent a snapshot across a great time continuum of all the people and activities; of all the hopes and dreams; of all the good and bad ideas; of the value offered and received; of success and failure.

And what a snapshot it is!

**KPIs**

Besides financial statements, we also look at metrics, Key Performance Indicators (KPIs) that are both leading and lagging indicators or how we are doing in reaching our Heroic Hopes. These should be presented over time to see the rate and rhythm of change.

Each business is a bit unique and may have specialty KPIs, but the major ones we will concentrate on are:

**Balance Sheet**

* **Liquidity**- Cash, accounts receivable, prepaid expenses & short term investments less current liabilities. (note- we do not include inventory since this is more of a capital requirement of running the business)
* **Return on Assets- Net income plus depreciation divided by Total Assets**
* **Return on Equity- Net Income divided by Total Equity**

**Income Statement**

Leading Indicators

* ROI on marketing- cost per lead and cost per sale
* Proposals given - number and %
* Sales close rate – by salesman

Lagging indicators

* Sales – a daily, weekly and monthly rhythm
* Cost of Sales – dollars and percentage
* Sales, marketing, and overhead – dollars and percentage

**Financial Statement Review**

**Reasons to review FS**

Business Planning

 What is our Business Model and do we need to pivot?

Where have we been, what is the rhythm of change, and where are we headed?

Credit Analysis

 How will financing institutions view the credit worthiness of the business?

 How are we financing our capital & operational needs?

Investment & Value Analysis

 What is the business value?

How is it changing?

Continuous Improvement Process

 How do we improve?

Risk Analysis

 What can happen to us?

Performance Review

 How are we doing?

**Financial Statement Review**

**12 Questions to ask**

Product or Service:

1. What is your product or service?
2. Customer Segments- What customer groups are you serving?
3. Value Proposition – How are you solving your Customer Segments Felt or Unfelt Needs in a unique way?
4. Revenue Streams- How do you price and successfully offer your value proposition to customers?

Development:

1. How do you Find leads from the marketplace?
2. What are your marketing Channels?
3. How do you move leads through your sales funnel as quickly as possible?
4. How do you communicate your unique value proposition to prospects to get a new customer; and then how do you sell more to these customers?

Infrastructure:

1. How do you get important things done in an efficient manner?
2. How do you report results in a way to make decision making EASY?
3. How are you developing your inspired workforce?
4. How do you handle all the regulatory issues?