Workbook
for
The Fiscal Fitness System

Understanding Balance Sheets, Income Statements and Cash Flow

by Gary W. Patterson
The Fiscal Doctor
Hello! I’m Gary Patterson, and first of all, I want to say thanks for purchasing my program, The Fiscal Fitness System - Understanding Balance Sheets, Income Statements and Cash Flow. You’re going to love the ideas you encounter in my audio and in the pages of this workbook. Better still, you’re going to love the results you get when you apply these principles! Here is how you can make the most of this program and get real value from the proven practices contained in the material.

First, listen to the audio portion of the program and become familiar with the content. This will expose you to the material and give you an idea of what to look for.

Next, jot down any questions you have about your business or problems you want to solve. Decide ahead of time what you intend to get out of my training.

Now remove all distractions, sharpen your pencil, start the audio and crack open this workbook. (Printing it out will make it so much easier to work with.) Treat this study time with all the seriousness it deserves. Adopt the attitude that you’ve paid for my time as a consultant. After all - you have! Take this opportunity seriously, and you will be richly rewarded by your sincere commitment.

Finally, head to my website at www.FiscalDoctor.com. Take advantage of the resources I offer there. Contact me with your questions and feedback. I welcome the opportunity to hear from you.

Remember that this program is a great start and will point you in the right direction. For deeper insight and further expertise, you’ll want to contact me to arrange a consultation.

You’ll be amazed by what you can achieve when you solve those problems that you didn’t even know existed!

All the best,
Gary
Gary W. Patterson
The Fiscal Doctor

M A S T E R   W O R K B O O K

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Page 2.
www.FiscalDoctor.com
The Financial Statement

Balance Sheet + Income Statement + Cash Flow Statement

Financial Statement Interrelationship

Balance Sheet

Income Statement

Cash Flow Statement

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Section 1:
The Balance Sheet
It is critical that you and your executive team fully understand the information that is available inside the company’s “financial package.” This includes the balance sheet, the income statement, and the cash flow statement. The cost of not knowing can cost you your business or job.
What is a balance sheet?

What does your company’s balance sheet tell you about the health of the business?

What is the single biggest “plus” in your balance sheet? Or
What is working in your organization?

What is the single biggest “minus” in your balance sheet? Or
What are your biggest potential problems?
Five Fundamental Premises

It’s important to understand the five fundamental premises to enhance your understanding of how your company’s balance sheet can give you insight into the health of your company.

Fundamental Premises:

1) Cash Rules
2) Fortress Balance Sheets
3) Reserves are Best Guesses
4) Historical Numbers Are Not Always Current Indicators of Value
5) Stay Current on your Contingent Asset Upsides and Liability Downsides

Premise #1: Cash Rules!

Cash is King, especially in an economy where lending and credit lines are extremely tight. Cash is not King if he’s locked in the dungeon. If you can’t write a check on all of your cash, your Cash King (or King Cash) is in the dungeon.

How Much Useable Cash Does Your Company Have?
(It needs to be immediately available to you today.)

What Steps Did Your Organization Take So There Would Be Available Cash?

Where is Your Organization's King Cash Locked in the Dungeon?)
What Steps Can You Take to Unlock Cash in Your Organization?

Premise #2: Fortress Balance Sheets

Fortress Balance Sheets are a move toward a more conservative balance sheet with substantial amounts of equity in the business.

Has your organization properly reviewed possible risks to your company’s health?

What types of risks might jeopardize your company’s future?

How well do you understand the risks you and your management team are taking?

Premise #3: Reserves are Best Guesses

Organizations often rely on gut instincts when determining reserves. It’s important to make sure reserves are validated with good analysis.

What processes or lines item require more detailed analysis and qualitative review?

How do your reserves compare to your best competitors?
Premise #4: Historical Numbers are Not Always Current Indications of Value

In accounting, book value or carrying value is the value of an asset appears in balance sheet account balance. For assets, the value is based on the original cost of the asset less any depreciation, amortization or impairment costs made against the asset. The amount someone would pay for that balance sheet asset or liability can be dramatically different.

What are the areas or processes where you and your company can not “see” major risks?

What asset would you be better off selling today, regardless of the balance sheet balance to reinvest in a better long term opportunity?

Premise #5: Stay Current on Your Contingent Assets Upsides and Contingent Liability Downsides

Most organizations do well with managing good news. The real test is how well bad news is handled within an organization. Does your organization foster open communication no matter what the issue is? Or are employees fearful to bring forth what might be considered bad news?

What steps can your organization take to foster an environment where employees openly share both good and potentially bad news?

What steps can you personally take to foster an environment where employees openly share both good and potentially bad news?
Ten Key Definitions
Balance Sheet Terms and Definitions

**Assets** are described as economic resources you own, which can be specifically quantified today. If it cannot be quantified precisely, it will be classified as a contingent asset.

**Liabilities** are described as your legal obligations to pay others specific quantified amounts today. Again, if this liability cannot be precisely quantified today, it will be classified as a contingent liability.

**Accumulated depreciation** is an account that reveals how much cumulative depreciation expense has been provided on your property, plant and equipment investment balance. Often people think of this as how much of the money that has been spent on fixed assets has been recovered through ongoing operations.

**Intangible assets** are identifiable non physical assets, such as Goodwill or trademarks. There is nothing to touch or see here.

**Goodwill** is often the largest dollar value intangible asset on your balance sheet. It is a non-cash accounting concept relating to assets and liabilities purchased in the past. Most people do not know Goodwill can be either positive or negative and that its value must be tested annually for impairment.

**Deferred revenue** is considered a liability until specific issues are completed or resolved. Do some research later on this term and the dreaded phrase “revenue recognition problems.” Companies much smaller than Enron have run into enormous problems on this issue. In fact, small companies can sometimes be hit the hardest of all on this issue.

**Stockholders equity** is equal to total assets less total liabilities. This also is called equity,
shareholders equity or net worth. This can be a proxy for the salable equity you have built up in your business since the beginning of time.

**Restricted cash** is cash that is not available for general use due to specific legal agreements of your business. Remember the statement that King Cash can be locked in the dungeon by loan covenants which prevent you from being able to write checks on the full cash balance you see on your balance sheet?

**Contingent assets** are assets described as economic resources you own that can NOT be specifically quantified. Therefore, these are NOT recorded on the balance sheet, but may be recorded in footnotes. Think of these assets as your friends.

**Contingent liabilities** are described as your legal obligations to pay others that can NOT be specifically quantified at the present point in time. Therefore, these are NOT recorded on the balance sheet, but may be recorded in footnotes. Think of these liabilities as your enemies.
Action Plan

What 3 action steps does your organization need to take in the next 90 days to protect the company’s assets?

1) 

2) 

3) 

Is your company still growing, shrinking, or staying the same?

What steps can you personally take to ensure your company’s success over the long term?
Section 2: 
The Income Statement
The Income Statement

It’s critical that you and your executive team fully understand the information that is available in your financial package. This includes the balance sheet, the income statement, and the cash flow statement. The goal of this program is to help you increase your understanding of the income statement and what it tells you about the financial health of your company.
The income statement is a standard financial document that summarizes your company's revenue and expenses for a specific period of time, usually one quarter or an entire fiscal year.

The important thing to remember about an income statement is that it represents a period of time. This contrasts with the balance sheet, which is more like a snapshot of the company at a particular moment in time. The purpose of the income statement is to show managers and
investors whether the company made or lost money during the period being reported.

Take a look at your income statement and answer the following questions:

#1: Where Is Your Gross Margin Not Large Enough?

#2: What are your keystone products?

A: When you’re counting on development of high-margin products to increase your company’s profits, how well are you meeting the time frame and requirements that these products need?

B: Are your people comfortable telling you the truth about possible problems in bringing out new products?
#3: Where Can You Better Optimize Your Operating Income?

A: For example how would you take advantage of a major new opportunity To grow your business 10, 20 or 30 percent?

#4: Who are your 10 most profitable customers? Also, what makes them so profitable for you?

#5: Which areas of your business processes, accounting systems and financial statements will have to change to comply with recent changes to the International Financial Reporting Standards (IFRS)?
Five Fundamental Premises

#1: Sooner or later you must make real profits to stay in business, hire great people, or create the resale value you want from your business or product.

A: What is your business's primary goal to create success?

B: How will you know when you have achieved it?

#2: Attracting the wrong type of customers or continuing serving customers who are no longer profitable will wreak havoc on your income statement.

A: Do you have any favorite customers who, like your favorite food, may not be good for you? Are there any customers who are actually a drain on your business?

B: Who is the ideal customer for your business? Clearly define their demographics, including gender, age, industry, level of education, and savvy within your marketplace.
#3: Know what is crucial in your company. An excellent process to do that involves some kind of summary financials or a flash report (see Definitions at the end of this section).

A: Where are you encountering lack of financial transparency or willingness to face up to problems at your own company? What issues are you deceiving yourself about?

B: What are the five to seven key performance metrics of your company?

C: Do your vendors welcome you with open arms and confidence, or do they run and hide?

#4: About 80 to 90% of CEOs or CFOs recognize the need for an effective Enterprise Risk Management (ERM) program for their business, but only 25 to 30% actually have that process in place.
A: What issues are potential doomsday scenarios for your company?

B: How can you develop a “beer budget” approach to managing risk in your operations? That is, how can you make ERM economical to implement?

C: How committed are you, your executive team, and your board of directors to executing the risk strategy you’ve come up with?

#5: Your aim should be to develop a risk management program you can expand over time. The answers to the following questions can help provide continued benefits for up to three years:

A: What are your top three concerns that keep you awake at night?

B: What three actions are you willing to take to address these concerns?
C: What are your top three longer-term concerns that keep popping up after you’ve identified your immediate problems?

D: Now that you’ve identified these longer-term concerns, what three actions are you willing to take to solve them?

E: After you’ve addressed these issues, take a look at your upcoming opportunities. What are your three best opportunities for next year that you know are not adequately funded in this year’s plans?

F: How can you best pursue these opportunities?
G: How can you create a laser-like focus on a single issue that could miraculously lead you to your desired opportunity?
Key Definitions

Income Statement: A standard financial document that summarizes revenue, costs and expenses for a specific period of time, usually one quarter or an entire fiscal year. Together with a company's Balance Sheet, they comprise a business's Financial Statement.

Balance Sheet: A report representing a snapshot of the company at a particular moment in time.

Flash Report: A report that's prepared quickly before full financial data is available, tracking key items such as those related to cash and working capital.

Customer Relationship Management (CRM): 1) The process of maintaining high quality interactions with existing customers and keeping them satisfied; 2) The department of a company responsible for CRM, formerly referred to as Customer Service.

Budget Projection: Estimate of revenue and expenditures for a specified period in the future.

Cash Flow Projection: An analysis of all the changes that affect a business's cash account during an upcoming accounting period.

Breakeven Point: The point at which sales equal costs.

Cost of Goods Sold (COGS): A figure that represents the cost of buying raw materials and producing finished goods.

Net Income (or Net Earnings): The amount remaining after all expenses have been met or deducted.

Net Sales: A figure that represents gross sales less returns and allowances, freight out, and cash discounts.

Profit Center: A segment of a business or organization that is responsible for producing profits on its own.

Contingent liabilities: liabilities waiting on a future event, a better ability to estimate, or specific accounting criteria.

Flex budget: A flex budget help when a possible wide variations of income or expense limit the value of traditional budgets.

Key metrics: a term often used for measuring 5 to 7 key results which best forecast future results.
Action Plan

Action 1: What is the first action you plan to take?

Why is this action important?

What is the first step to accomplishing this?

When will you take this first step?

Who will help you with this action?

When does the action need to be completed?

How will you know the process was successfully completed?

What is your revenue goal for this action?

What other tangible benefits do you expect to receive?
Action 2: What is the second action you plan to take?

Why is this action important?

What is the first step to accomplishing this?

When will you take this first step?

Who will help you with this action?

When does the action need to be completed?

How will you know the process was successfully completed?

What is your revenue goal for this action?

What other tangible benefits do you expect to receive?
Action 3: What is the third action you plan to take?

Why is this action important?

What is the first step to accomplishing this?

When will you take this first step?

Who will help you with this action?

When does the action need to be completed?

How will you know the process was successfully completed?

What is your revenue goal for this action?

What other tangible benefits do you expect to receive?
Section 3:
The Cash Flow Statement
Cash Flow Statement

When you go for your annual check-up, your doctor examines you to get to the root of your health issues that you may not even be aware of. You may feel that you are fine, but your doctor may discover an underlying health problem (for example, a heart murmur) that only an expert can detect.
A company’s cash flow statement contains critical information that can make you aware of potentially harmful business issues. Those issues can get you and your company in serious trouble if you do not take the time to learn what they are and address them before they grow like a cancer in your company, department, or life. You need to know what you do not know is wrong in time to save your job or business. With that understanding you can recognize alternatives that you did not know existed before you gained a new level of understanding.
Key Questions

A cash flow statement provides three types of information about how cash is captured or used throughout your business for the time period measured: They are: (1) operating activities, (2) investing activities, and (3) financing activities.

#1: The difference between cash collections and accrual basis books can cause a major impact on the price you would sell your company for.

#2: Why is deferred revenue considered a liability?

#3: “Cash basis taxpayers include income when cash is received, and claim deductions when expenses are paid. “ True or False?

#4: In accrual-basis accounting, do uncollected invoices count as cash income?
Five Fundamental Premises

#1: The difference between cash-basis accounting and accrual-basis accounting has a material impact on tax reporting from year to year and on a company’s daily financial operations.

   A) How can a company change from cash basis to accrual basis accounting (or vice versa) when reporting to the IRS?

#2: The Cash Flow statement provides summary information on cash deposits and cash expenditures.

Complete these statements. A cash flow statement shows:

   A: How changes occur in each of the ______________________________

   B: How changes occur in _________________ and _________________

   C: Breaks the analysis down to ________________, ________________, and ________________ activities.
#3: Cash flow provided from operations enables your long term goals.

A: What can you do to help your business generate more operating cash flow?

B: What more can you do in terms of reviewing your inventory items and gross profit margins?

C: Which items or services should you not be selling?

D: Which of your customers really do not pay their own way?

E: What more can you do to free up some cash for running the business or to build reserves for a rainy day?
#4: Cash flow provided from financing creates resources for obtaining your long term goals.

A: Why is prior planning essential for managing growth?

B: What insider information is sitting in your cash flow statement waiting for you to unlock it?

#5: Cash equivalents are the quickest way to cash.

A: What can you do to accelerate your cash flow and ensure a smooth cash conversion cycle?

B: Can you put your finger on pertinent facts and figures you need to manage your business and accomplish strategic objectives immediately?
10 Key Definitions

**Operations:** The department of a company that is concerned with the day-to-day functions of a business.

**Investment:** The use of capital to create more money.

**Financing:** Capital raised for the purpose of running a business.

**Positive Cash Flow:** The condition that exists when a company's revenue exceeds its requirements.

**Balance Scorecard:** When strategic non-financial performance measures are balanced against traditional financial matters.

**C-Level:** A term used to refer to the suite of corporate offers, usually Chief Executive Officer, Chief Financial Officer and Chief Operations Officer.

**Carbon Taxes:** Levied on a business for its pollution factor

**Enterprise Resource Planning (ERP):** The forecasting of resource requirements at the enterprise level.

**Infrastructure:** The skeletal make up of a business that includes human resources, systems and facilities.

**Metrics:** Critical factors used in measuring the success of a business project.
Action Plan

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Section 4:

QuickBooks Tips
QuickBooks Tips

The Fiscal Doctor’s top seven accounting reports hold the keys to your company’s survival and profitability. Here are tips for accessing them using Checkbooks accounting software. These key accounting reports focus on cash position, receivables, payables, and profit and loss. They will help you spot trends, help you understand where you are today, and guide you toward where you want to be tomorrow.

If you use another software program, whether it’s basic like Peachtree or sophisticated like SAP, look for a slightly different title for the desired accounting report. The key concepts, however, remain the same.
#1: Rolling Previous 12-Month Expense Recap Report

This report is important for two reasons:

6) Expenses represent cash going out the door.

7) The Recap Report allows you to spot trends and aberrations in these expense items.

A: Does your Expense Recap report reflect past business decisions such as changes in payroll or sales?

B: Are there trends in expenses which do not make sense or you did not anticipate?

C: Which expenses are the same each month, and which expenses are seasonal?

#2: Cash Flow Projection Report

Sales without the timely collections of cash from your customers can be a critical stumbling block for both companies in rapid growth mode as well as those in decline.

The Cash Flow Projection Report forecasts your cash flow in future periods. It will give you advance warnings and insight into how your business operations will impact the amount of cash coming into and going out of your business for the period. Sales without the timely collections of cash from your customers can be a critical stumbling block for both companies in rapid growth mode as well as those in decline.
How much do you expect your company to make during the projected period?

#3 Profit and Loss versus Budget Report

In this report, revenue minus expenses equals net profit (or earnings).

As you grow to appreciate this report more, circle back. How can you improve your budgeting process?

#4 Sales Summary by Customer Report

This report that allows you to see total sales for each individual customer during a given period.

Who are your top ten customers?

What percent of total sales do they account for?

Are sales well distributed among many customers?

#5 Aged Receivables Trial Balance Report

What is the aging point where the company should start making collection calls?
Is there an aged category, for example over 90 days, when you should send the receivable to a collection agency?

#6 Aged Payables Trial Balance Report

Accounts payable are payments due to vendors for goods and/or services that the company has bought but not yet paid for. A decrease in accounts payables is cash flow negative because you are paying off a debt. An increase in payables is cash flow positive because you are delaying payment. Payables in the older columns could indicate that you did not take advantage of a discount or are slow to pay. The Aged Payable Trial Balance Report will flag the following important questions for you:

Are you taking advantage of vendor discounts?

Are there suppliers that have not been paid on time?

What is the reason?

Is there a problem the company has with that supplier?

#7 is the Report Capability created with the Export to Excel Feature
Excel’s capabilities for data manipulation enable further research, and analysis. Excel also allows you to present information in unique and interesting ways.

How can you use Excel to get a clearer picture of your periodic financial standing?

What pitfalls do you need to avoid when using Excel for this periodic reporting?

What is your most efficient distribution channel for these reports to ensure that key decision makers are included in sharing this information?
3 Bonus Reports

#1: Balance Sheet vs. Budget

The Balance Sheet is a snapshot of your company’s assets, liabilities and owners’ equity – what you own and what you owe with owners equity making up the difference. The report helps you answer the question, “Are we on target or not?”

#2: Profit and Loss vs. Budget by Product Line Report

In this report, you can see how each product line is contributing to the bottom line – net earnings- and whether or not there are any material budget variances by product line in sales and expense categories that need follow-up.

#3: Largest Vendors Year-to-Date

This report captures the companies your company has purchased the most from for the
financial year to date. This report is important because identifying your top vendors allows your company to focus on those which have the biggest dollar impact on its supply chain.
Here is the method to Stop Making Excuses about the Economy! Take Control of Your Company’s Destiny.

1. The sooner you adapt to today’s economic reality, the sooner your company will be poised to grow. How can you seize new opportunities and create new revenue streams?

2. Stop Manipulating the Numbers. Where is your company playing financial games instead of providing quality financial information?

3. The Cash King is not powerful if he is locked in the dungeon. How opportunistic can your company be today and six months into the future?

4. Put Your Money into Resources That Create New Opportunities. Major initiatives for new opportunities only get off the ground with adequate resources and effective strategic planning. Where should you reallocate resources today so that next year’s revenues and net income levels will bring about new opportunities?

5. Don’t Let Yesterday’s Business Model Dictate Your Financial Decisions of Tomorrow. From a financial perspective, is your business model still relevant? Is it time for a business model overhaul?
6. **Discard Data Minutia and Focus on Your Company’s Five Critical Success Factors.** What are five areas of your operations that are absolutely essential to the health and well-being of your business?

7. **Fire Customers Who No Longer Support Your Company’s Financial and Strategic Goals.** Aren’t you tired of hearing your accounting people complain about how certain customers are costing you money, or worse, how they’re abusing your employees? *Shed that dead weight to create company-wide goodwill and increase your company’s profits.*

8. **If You Don’t Think You Need a Contingency Plan, Think Again.** Create a contingency plan, whether it’s as simple as a crisis communication plan, or as complex as preventing possible worst-case scenarios from becoming a reality. *Would you rather be a success or a disaster story?*

9. **Join the Modern Era.** Stop using budgetary constraints as an excuse for not investing in the latest technologies, including safety systems. *What outmoded systems does your company need to upgrade for greater efficiency and profitability?*

10. **Create a Fiscal Vision.** The goal of every company is to be financially solvent, and the only way to achieve solvency is to have a fiscal vision. Your strategy must be connected to your company’s financial performance. *What is your long term business vision?*
Conclusion:

As these points suggest, business leaders who have the courage to face the numbers squarely and create a growth strategy driven by the (financial) facts will not only survive but will thrive despite these uncertain, economic times.
Observations & Comments:
Observations & Comments:
Observations & Comments:
Remember that this program is a great start and will point you in the right direction. You’ll be amazed by what you can achieve when you solve those problems that you didn’t even know existed!

For deeper insight and further expertise, you’ll want to contact me to arrange a consultation.

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