

EXCEL TOOL N°01

Understanding Financial Statements

User's Manual

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SENBUMO - 3 tools to understand Financial Statements

SENBUS has developed 3 tools designed to help social entrepreneurs better understand their Financial Statements and to develop their own Financial Projections. This set of tools includes:

- EXCEL TOOL N° 01: understand Financial Statements
- EXCEL TOOL N° 02: convert Financial Statements (SME & MFI).
- EXCEL TOOL N° 03: develop Financial Projections (SME & MFI).

These 3 tools are designed for practitioners who are not financial analysts or accountants, but who need to reach a professional level of understanding, particularly when it comes to attracting new shareholders, to obtain a bank loan or simply to project its activities in the future.

The Financial Statements' elements considered here are:

1. The Profit & Loss (P&L).
2. The Cash Flow (CF).
3. The Balance Sheet (BS).

These tools are suitable for not-for-profit / for-profit enterprises.

The term *enterprise* is used as a generic term.

EXCEL TOOL N° 01: understand Financial Statements

For social entrepreneurs and practitioners of Social and Solidarity Economy, understanding Financial Statements is often a source of confusion. For example, a bank loan is considered as a source of income or an investment is considered as an operating expense.

The objective of this first tool is to provide the analytical needed skills to understand all types of financial statements.

EXCEL TOOL N° 02: convert Financial Statements

Financial Statements' formats may be different depending on the type of enterprise or country and are sometimes difficult to understand.

The objective of this second tool is to convert any type of Financial Statements in an easy to understand standard format. In addition, this standard format can be presented in the original currency or converted into hard currency (USD / EUR / CHF).

EXCEL TOOL N° 03: develop Financial Projections

To establish sound Financial Projections, a social entrepreneur must combine the above 3 elements.

The objective of this third tool is to enable social entrepreneurs to develop Financial Projections in the same standard format. Moreover, previous financial statements can easily be merged with these Financial Projections.

This set of 3 tools exists in 4 versions: English/French; MFI/SME.

Colors & graphic conventions

All the EXCEL files follow the following graphic rules:

| | | | |
|----|-------------------|------------|--|
| 10 | Period | 1 | <p>The cells with a light yellow background are cells that the user can freely change.</p> <p>Cells with blue numbers contain an Excel formula.</p> <p>These cells must <u>not be changed</u> by the user.</p> |
| 11 | Type of data | REAL | |
| 12 | Start date | 2012-01-01 | |
| 13 | End date | 2012-12-31 | |
| 14 | Duration (months) | 12 | |
| 15 | Label (linked) | déc2012 | |

Enter data

The User may, in a cell with a yellow background, either TYPE data (ex. type data into a cell) or SELECT data in a drop list.

Understand Financial Statements

Manual's objectives

In the field of Social and Solidarity Economy (ESS), main stakeholders (General Manager, Board members) find it hard to accurately understand the Financial Statements of their enterprise. Donations or bank loans are mistaken as an income; an investment (fixed asset) is considered as an operating expense. Moreover, the interaction between the 3 basic elements of the Financial Statements (Balance Sheet, Profit & Loss, Cash Flow) is usually not considered. Finally, when it comes to present the Financial Statements of previous year, most frequently P&L's operating expenses are presented in *grocery mode* without putting them in relation with the Balance Sheet or the Cash Flow.

The purpose of this manual is to provide the basic knowledge necessary for a sound understanding of the Financial Statements of any Social and Solidarity Economy enterprise.

Definition of Social and Solidarity Economy¹

Private not-for-profit economy or with limited for-profit, in various legal forms, the SSE includes a variety of local economic initiatives, participating in the construction of a new way of living and thinking the economy. The SSE respects ethical, social and ecological criterias and puts people before profit. Despite a wide range of actors and activities as well as specific territories' features, the SSE economic sector can be defined as follow:

- Private (meaning generating most of its income²).
- A not-for-profit or with limited for-profit.
- Whose purpose is to serve the community (public's interest).
- Incorporating values, such as participatory governance, respect for the environment, social well-being and diversity, solidarity, coherence and self-management.

Distinction: not-for-profit - for-profit

The majority of SSE supporters consider (only) not-for-profit enterprises and reject unconditionally for-profit enterprises. It must be known that the main difference is more about the ownership of the equity rather than on the purpose (making profit)³:

- With a not-for-profit enterprise, the equity doesn't belong to anyone. This means that in case of bankruptcy or cessation of activities, the remaining net assets may not be distributed to members but must be handed over to a enterprise engaged in similar activity.
- With a for-profit enterprise, the equity belongs to shareholders who may require (but it is not an obligation) to receive a dividend.

¹ Source: www.apres-ge.ch/node/33038

² Our input.

³ Historically, for-profit enterprises (Limited Liability Companies) were created to allow shareholders to (maximize) profit. If one decides to operate within the ESS values, maximizing profit is no more a goal. What matters is the ability to raise equity.

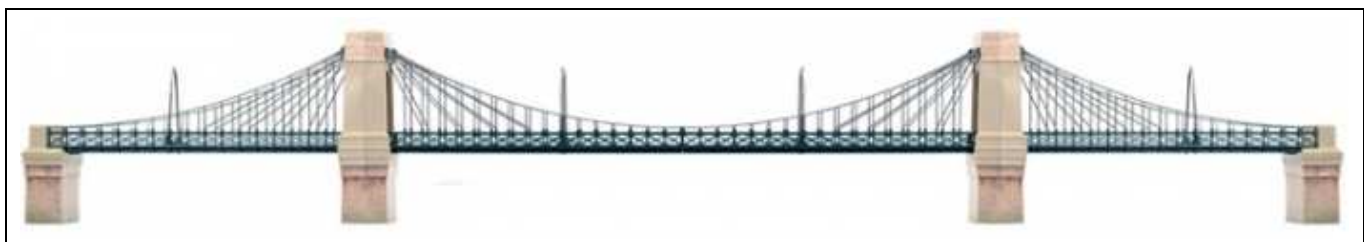
In accordance with the SSE principles, the choice of a specific legal form will be mainly determined by the nature of the forecasted activity. If to launch a cheese factory, it is needed to invest more than CHF 100'000, a not-for-profit association may not be the good choice as it will be very difficult to collect the necessary equity. Opposite, if the project is to open a legal consulting firm, a not-for-profit legal form may be appropriate. Nevertheless, when starting a business, one must first rely on its own equity. Therefore, it may be necessary to establish a for-profit enterprise (with differentiated shareholders' contributions), but this doesn't necessary mean having to maximize profit.

The cooperative model lies between the two as the social share is nominal but without profit sharing. The refund paid back at the end of the year is related to extra money left over after the cooperative covered all its operational expenses.

Financial Statements basic elements

All enterprises (for / not-for-profit profit) have financial statements with at least the following 3 elements:

1. The Balance Sheet (BS).
2. The Profit & Loss (P&L).
3. The Cash Flow (CF).


|  | | |
|---|--|--|
| Balance Sheet | Profit & Loss | Cash Flow |
| <p>The Balance Sheet is like a still photography of the company's assets.</p> <p>The Balance Sheet at time t, will differ from the Balance Sheet at time $t + 1$.</p> <p>The Balance Sheet is the pillar of the suspended bridge.</p> | <p>The Profit & Loss adds/subtracts the revenues/expenses over a given period (i.e. a year).</p> <p>The Profit & Loss is the deck of the suspended bridge.</p> | <p>The Cash Flow considers all the cash flows in and out of the enterprise. It includes revenues and expenses as well as bank loans, subsidies or capital increases.</p> <p>The Cash Flow is the carrying cable of the suspended bridge.</p> |

The financial statements include stock indicator (the balance sheet) and flow indicators (P&L, Cash Flow).

In a first step, each element will be presented separately. Then their interactions will be addressed and finally case studies will be proposed to enhance the User's analytical skills.

Harry & Co

To illustrate the Financial Statements elements, we will use the example of Harry & Co's enterprise whose main is to purchase and sell white beans.

| | |
|---|--|
| <p>Harry & Co's enterprise</p> <p>Bean purchases & sales: purchase, 1 CHF/kg ; sale, 2 CHF/kg.</p> <p>Expenses: Salary (1x) + expenses (shop rent, electricity, etc.).</p> <p>Fixed assets: pickup truck purchased for CHF 10'000.</p> <p>Harry's equity: CHF 30'000.</p> <p>Debt : CHF 10'000 (borrowed from his brother).</p> |  |
|---|--|

The Balance sheet

| | | |
|--------------------------------------|--|--|
| <p>Assets: CHF 40'000</p> | <p>Liabilities & equity: CHF 40'000</p> | <p>Assets are always equal to liabilities & equity. In this case, it is equal to CHF 40,000</p> <p>The asset are divided into 3 parts:</p> <p>Cash: it is the money that is immediately available for Harry.</p> <p>The stock: is the value of the beans purchased by the enterprise.</p> <p>Fixed assets: is the value of the pickup truck.</p> <p>The liability & equity are divided into 2 parts:</p> <p>Debts: it is money borrowed from his brother.</p> <p>The equity: is his own contribution (his savings).</p> |
| <p>Cash: CHF 8'000</p> | <p>Debts: CHF 10'000</p> | |
| <p>Stock: CHF 22'000</p> | | |
| <p>Fixed assets: CHF 10'000</p> | <p>Equity: CHF 30'000</p> | |

The above picture shows the opening Balance Sheet (i.e the Balance Sheet of the first day of activity).

On the liabilities & equity side, Harry put CHF 30,000 *on the table* and borrowed CHF 10,000 from his brother.

On the assets side, he bought a CHF 10,000 pickup truck and beans worth CHF 22,000 that are stored in his shop.

Attention!

The top of the Balance Sheet shows resources *immediately* receivable. Harry can withdraw CHF 1'000 from his account any time. He will have to first repay his brother's loan before he can recover his equity.

The bottom of the Balance Sheet shows resources not immediately receivable. To reallocate the fixed assets (the pickup truck), Harry should first sell it (at a lower price) before he reallocate the resources recovered.

Balance Sheet summary

| | | |
|------------------------------------|--|---|
| Assets: where is the money? | Liabilities & equity: where does the money come from? | <p>The balance sheet is a photo of your company at time t. It was different the day before; it will be different the next day.</p> <p>The total assets are always equal to total liabilities and equity.</p> <p>Illiquid amounts appear at the bottom of the Balance Sheet, highly liquid amounts appear at the top of the Balance Sheet.</p> <p>Here, it is the opening balance sheet of Harry & Co.</p> <p>Le bilan est une photographie de votre entreprise à l'instant t.</p> |
| Assets: CHF 40'000 | Liabilities & equity: CHF 40'000 | |
| Cash: CHF 8'000 | Debts: CHF 10'000 | |
| Liquide Receivable | | |
| Stock: CHF 22'000 | Equity: CHF 30'000 | |
| Fixed assets: CHF 10'000 | | |
| | Not liquide Not receivable | |

In the EXCEL files, assets and liabilities are presented in one same column to facilitate the calculations on a time basis (monthly or annual).

| | | | | | |
|----|-------------------------------------|---------------|---------------|----------------|--|
| 47 | BALANCE SHEET | 2016 | 2017 | 2018 | <p>This screen shot belongs to the DASHBOARD presenting on one page, the consolidated Financial Projections.</p> <p>See Tool 3: develop Financial Projections.</p> |
| 48 | ASSETS | | | | |
| 49 | Cash & bank | 30'683 | 16'117 | 183'024 | |
| 56 | Net fixed assets | 8'571 | 7'143 | 5'714 | |
| 58 | TOTAL ASSETS | 39'255 | 23'260 | 188'738 | |
| 59 | | | | | |
| 60 | EQUITY & LIABILITIES | | | | |
| 63 | Liabilities | 10'000 | 60'000 | 50'000 | |
| 69 | Equity | 29'255 | -36'740 | 138'738 | |
| 70 | TOTAL EQUITY & LIABILITY | 39'255 | 23'260 | 188'738 | |

The Profit & Loss

Harry & Co's activity: bean purchase 1 CHF/kg | bean sale 2 CHF/kg

| | A | B | C | D | E | F | G | H | I | J |
|----|---|-------|---|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1 | Harry & Co SARL Monthly financial projections (CHF) | | | | | | | | | |
| 9 | PROFIT & LOSS | | | | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 |
| 11 | Sales income 1 | 2.00 | | | 10'000 | 13'000 | 16'000 | 20'000 | 38'000 | 10'000 |
| 12 | Sales income 2 | | | | | | | | | |
| 13 | Sales income 3 | | | | | | | | | |
| 14 | S/total sales income | | | | 10'000 | 13'000 | 16'000 | 20'000 | 38'000 | 10'000 |
| 15 | Input expense 1 | 1.00 | | | 7'000 | 10'000 | 12'000 | 2'000 | 20'000 | 25'000 |
| 16 | Input expense 2 | | | | | | | | | |
| 17 | Input expense 3 | | | | | | | | | |
| 18 | S/total input expenses | | | | 7'000 | 10'000 | 12'000 | 2'000 | 20'000 | 25'000 |
| 19 | GROSS MARGIN | | | | 3'000 | 3'000 | 4'000 | 18'000 | 18'000 | -15'000 |
| 20 | Personnel expenses | | | | 6'000 | 6'000 | 6'000 | 6'000 | 8'000 | 10'000 |
| 21 | Admin expenses | | | | 1'500 | 1'500 | 1'500 | 1'500 | 1'500 | 1'500 |
| 22 | Financial expenses | | | | 100 | 100 | 100 | 100 | 100 | 100 |
| 23 | Depreciation | | | | 119 | 119 | 119 | 119 | 119 | 119 |
| 24 | TOTAL OPERATIONAL EXPENSES | | | | 7'719 | 7'719 | 7'719 | 7'719 | 9'719 | 11'719 |
| 25 | OPERATIONAL RESULT | | | | -4'719 | -4'719 | -3'719 | 10'281 | 8'281 | -26'719 |
| 26 | Non operational incomes | | | | | | | | | |
| 27 | Non operational expenses | | | | | | | | | |
| 28 | RESULT BEFORE TAX | | | | -4'719 | -4'719 | -3'719 | 10'281 | 8'281 | -26'719 |
| 29 | Profit tax | 25.0% | | | 0 | 0 | 0 | 2'570 | 2'070 | 0 |
| 30 | Dividends | | | | | | | | | |
| 31 | PROFIT OF THE PERIOD | | | | -4'719 | -4'719 | -3'719 | 7'711 | 6'211 | -26'719 |
| 32 | Retained profit | | | | -4'719 | -9'438 | -13'157 | -5'446 | 764 | -25'446 |

The Profit & Loss, registers the (non) operating revenues and expenses during a given period (month, year). Here are the first months of Harry & Co.

In January, he buys for CHF 7'000 of beans and sells for CHF 10,000. This generates a gross margin (line 19) of CHF 3'000. The Gross margin determines the gross income of the business that will cover the other (non)-operational expenses related to his activity.

Operational result indicates if Harry & Co's business is sustainable. Here we see that his activity is profitable only in April and May.

Non-operating Income/expenses are not directly related to the activity (ex. Harry receives a price, he must pay a fine). This is why we include them after operating result.

Net income for the period tells us if Harry & Co loses or makes money (on a monthly basis).

Retained earnings show if the activity is profitable from day one. We see that in May 2016, it is above zero but falls again below zero in June 2016.

Note ! It is not surprising that his first months of activity result in a loss. Harry just started his activity, he has yet to develop his customer base, rationalize his distribution methodology, etc. This highlights the importance of having sufficient equity to cover the first months' operational expenses.

Depreciation

| | A | B | C | D | E | F | G | H | I |
|----|---|---|--------------|----------|----------|----------|----------|----------|----------|
| 1 | Harry & Co SARL Fixed Assets (CHF) | | | | | | | | |
| 2 | | | | | | | | | |
| 3 | Sales of fixed assets | | | | | | | | |
| 4 | | | | | | | | | |
| 5 | | | | | | | | | |
| 6 | | Monthly Fixed Assets investments | | 10'000 | 0 | 0 | 0 | 0 | |
| 7 | | Monthly Fixed Assets investments (cumul.) | | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 |
| 8 | | Total monthly amortization | | -119 | -119 | -119 | -119 | -119 | -119 |
| 9 | | Total monthly amortization (cumul.) | | -119 | -238 | -357 | -476 | -595 | -714 |
| 10 | | Total net value | | 9'881 | 9'762 | 9'643 | 9'524 | 9'405 | 9'286 |
| 11 | | | | | | | | | |
| 14 | N | Investments | Amortization | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 |
| 18 | 1 | Vehicule | 10'000 | 10'000 | | | | | |
| 19 | | 7 years | 84 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 |
| 20 | | | 119 | 119 | 119 | 119 | 119 | 119 | 119 |
| 21 | | | | 119 | 238 | 357 | 476 | 595 | 714 |
| 22 | | Net value | | 9'881 | 9'762 | 9'643 | 9'524 | 9'405 | 9'286 |

Explanation: the book value of fixed asset (here his pickup truck), should be gradually reduced to reflect the progressive loss of value of the fixed assets.

Here, the pickup truck is amortized over seven years (cell B19), a CHF 119 monthly decrease in value. $119 = 10,000 / (7 \text{ years} \times 12 \text{ months})$.

Harry & Co's pickup truck, bought new for CHF 10,000, will only be worth CHF 8'571 after one year, CHF 7'143 after 2 years, etc.

There are several methods to calculate the depreciation of fixed assets. We chose the easiest one.

Note ! The annual decrease of the book value of a fixed asset doesn't involve any cash movement. It is only a book transaction between 2 accounts. That's why it does not affect the cash flow.

The Cash-Flow

| | A | B | C | D | E | F | G | H | I | J |
|----|--|---|---|----------|----------|----------|----------|----------|----------|----------|
| 1 | Harry & Co SARL Monthly financial projections (CHF) | | | | | | | | | |
| 34 | CASH FLOW | | | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 |
| 35 | Cash beginning of period | | | 0 | 25'400 | 20'800 | 17'200 | 25'030 | 31'360 | 37'690 |
| 36 | <u>Cash Flow from operating activities</u> | | | | | | | | | |
| 37 | CASH IN/OUT profit of the period (without depr.) | | | -4'600 | -4'600 | -3'600 | 7'830 | 6'330 | -26'670 | -26'670 |
| 38 | | | | | | | | | | |
| 39 | <u>Cash flow from investing activities</u> | | | | | | | | | |
| 40 | CASH OUT Investments (purchase of fixed assets) | | | -10'000 | | | | | | |
| 41 | CASH IN Investments (sale of fixed assets) | | | | | | | | | |
| 42 | | | | | | | | | | |
| 43 | <u>Cash flow from financing activities</u> | | | | | | | | | |
| 44 | CASH IN Financing (equity & loans) | | | 40'000 | | | | | | |
| 45 | CASH OUT Financing (equity & loans) | | | | | | | | | |
| 46 | Cash end of period | | | 3'252 | 25'400 | 20'800 | 17'200 | 25'030 | 31'360 | 37'690 |

Line 35 - Cash beginning of period: EXCEL shows the total amount of available cash at the beginning of the month. Note that the value in cell F34 is equal to the value in cell E46 (previous column).

Cell E35: in the case of a start-up, cash available at the beginning of the period is equal to zero (since the first donors/investors have not yet paid their financial contributions).

Line 37 - CASH IN/OUT income for the period: This line simply shows the monthly profit (line 30), but doesn't include the amount of the monthly depreciation (as there is no cash movement linked to depreciation).

Line 39-41 - Cash Flow from investing activities: EXCEL retrieves data from the *Fixed-Assets* sheet. Here we see the purchase of the pickup truck (CHF 10'000).

Line 43-45 - Cash flow from financing activities: EXCEL collects data on financing (see below). The CHF 40'000 entry equals the CHF 30'000 equity of Harry and the CHF 10'000 loan from his brother.

Line 46 - Cash end of period: EXCEL calculates the cash at the end of the period.

Cell D46: EXCEL calculates the minimum amount of Cash over the 60 months period. Here, this minimum value relates to a month that doesn't appear on the screen shot.

Warning! The value in cell D46 must always be greater than or equal to zero.

The cash flow is an important tool because it help view the *liquidity* of the enterprise. By liquidity, we mean the ability to meet operating expenses payment deadlines as salaries, rent, etc. or a bank loan repayment.

In the example above, Harry manages to pay his operating expenses (he increases his salary in May and June), but his available cash decreases sharply in June. As a result, he must sell his stock of 22,500 kg of beans to generate cash again.

Interaction between the 3 elements

We will now see how the 3 elements of the Financial Statements interact between each other. In the example below, the net result for the period⁴ is CHF 2,500.

Therefore, the balance sheet at $t + 1$ will have increased by CHF 2'500 because the equity will have increased by CHF 2'500 and, as assets always equal to liabilities and equity, the cash increases by CHF 2'500 also.

⁴ No matter whether it is monthly, quarterly or yearly results. The interaction will be the same.

Note !

- Do not have a too formal way of reading your ratios. The operating expenses/revenues ratio may deteriorate because you decided to hire a new employee who will later be involved in the expansion of your activities. It is therefore normal that the increase in operational expenses takes place before this new activity generates its expected income.
- The user is invited to create his own set of ratios keeping in mind that too many ratios is not useful.

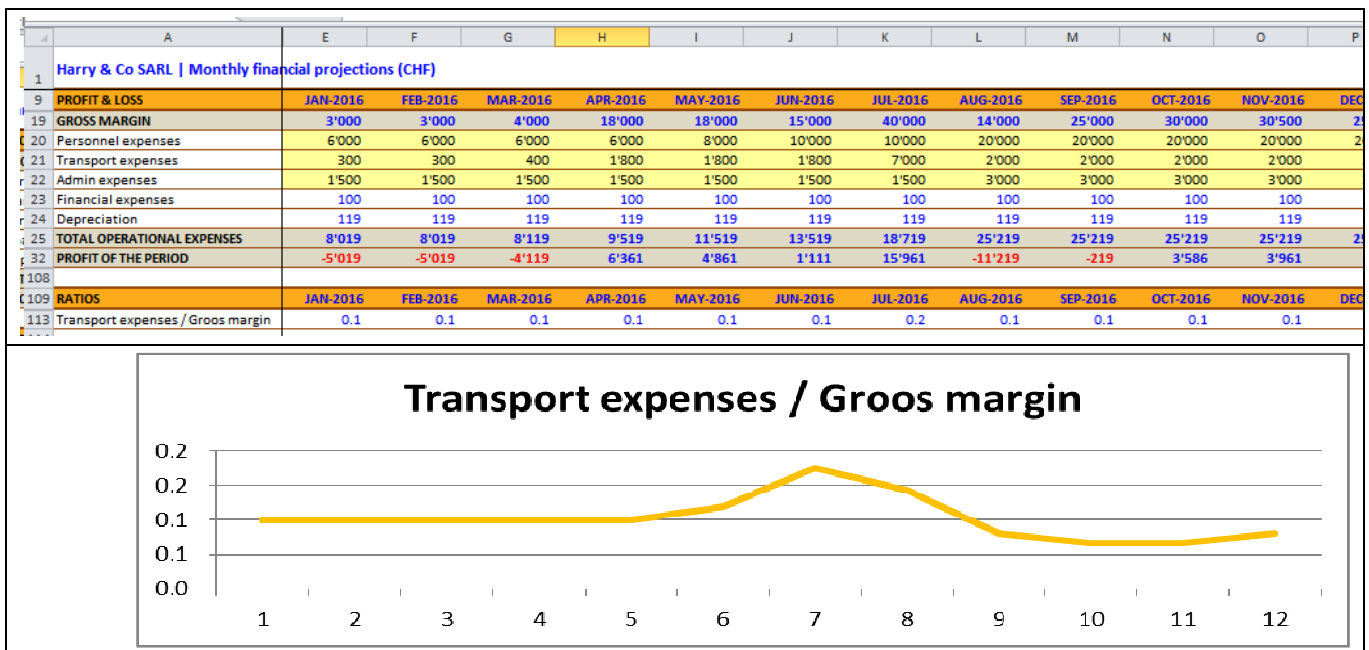
Case studies: ratios & charts

The examples presented below have been *exaggerated* in order to better underline the issues addressed.

Charts were inserted to better visualize the fluctuations over the months.

Profit & Loss ratios

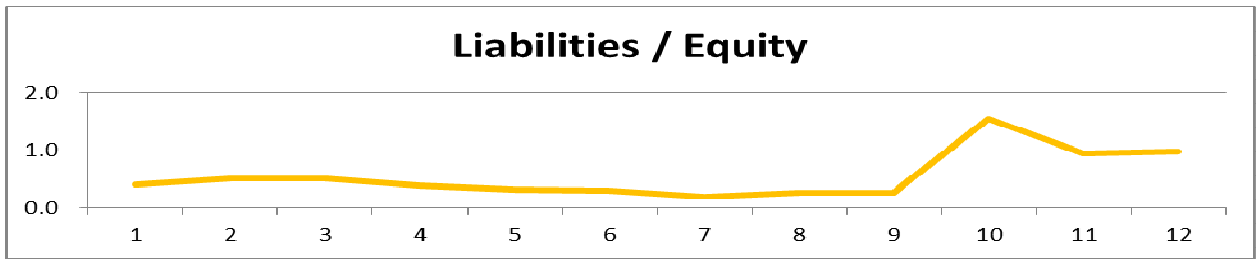
Profit & Loss ratios are useful to visualize the importance of an income or expenditure towards another value. The choice of the values to compare depends on the activity. If transport expenses are important, it may be useful to build a ratio that compares transport operating expenses with gross margin or volume of beans sold in the month.



The above example is interesting. At first glance, it is not immediately apparent that transportation costs have greatly increased in July 2016. Neither the nominal values, or the ratios puts it clearly in evidence. On the opposite, the chart is obvious. It is then up to the General Manager to understand the reason of this sudden and brief rise.

Balance Sheet ratios

| | A | E | F | G | H | I | J | K | L | M | N | O | P |
|-----|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1 | Harry & Co SARL Monthly financial projections (CHF) | | | | | | | | | | | | |
| 49 | BALANCE SHEET | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC-2016 |
| 62 | EQUITY & LIABILITIES | | | | | | | | | | | | |
| 66 | TOTAL LIABILITIES | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 | 10'000 |
| 72 | TOTAL EQUITY | 24'981 | 19'962 | 19'843 | 26'204 | 31'064 | 32'175 | 48'136 | 36'917 | 36'698 | 6'479 | 10'439 | 10'439 |
| 73 | TOTAL EQUITY & LIABILITY | 34'981 | 29'962 | 29'843 | 36'204 | 41'064 | 42'175 | 58'136 | 46'917 | 46'698 | 16'479 | 20'439 | 20'439 |
| 108 | | | | | | | | | | | | | |
| 109 | RATIOS | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC-2016 |
| 110 | Liabilities / Equity | 0.4 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 1.5 | 1.0 | 1.0 |

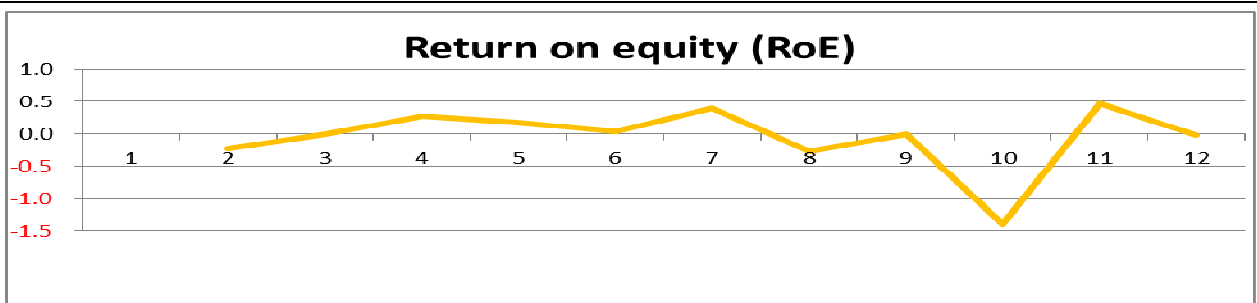


In this example, the user immediately sees that something happened in October 2016. In this case, it is a significant non-operating expense, which greatly reduced the equity.

P&L and Balance Sheet ratios

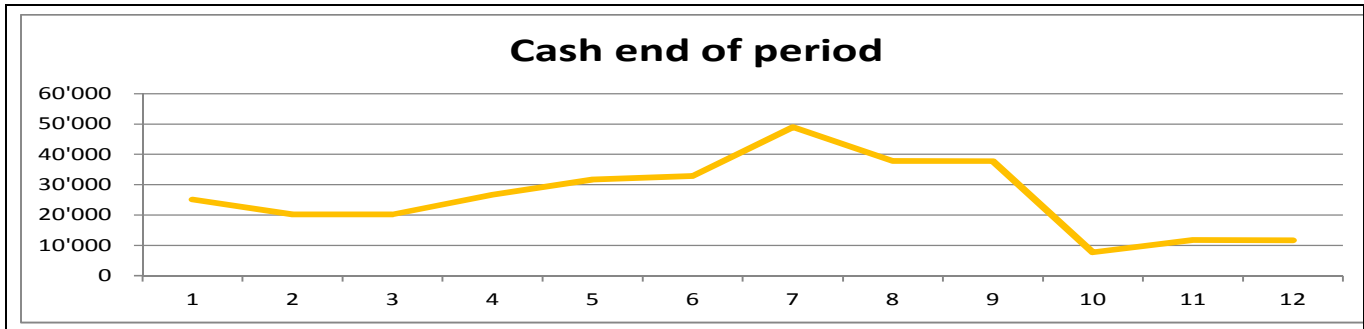
Some ratios are built with data from two elements of the Financial Statements.

| | A | E | F | G | H | I | J | K | L | M | N | O | P |
|-----|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1 | Harry & Co SARL Monthly financial projections (CHF) | | | | | | | | | | | | |
| 9 | PROFIT & LOSS | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC-2016 |
| 32 | PROFIT OF THE PERIOD | -5'019 | -5'019 | -119 | 6'361 | 4'861 | 1'111 | 15'961 | -11'219 | -219 | -30'219 | 3'961 | 3'961 |
| 48 | | | | | | | | | | | | | |
| 49 | BALANCE SHEET | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC-2016 |
| 72 | TOTAL EQUITY | 24'981 | 19'962 | 19'843 | 26'204 | 31'064 | 32'175 | 48'136 | 36'917 | 36'698 | 6'479 | 10'439 | 10'439 |
| 108 | | | | | | | | | | | | | |
| 109 | RATIOS | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC-2016 |
| 114 | Return on equity (RoE) | | -0.2 | -0.0 | 0.3 | 0.2 | 0.0 | 0.4 | -0.3 | -0.0 | -1.4 | 0.5 | 0.5 |



In the example above, the return on equity ratio considers the profit for the period divided by the average amount of equity for the current month and the previous month. Therefore, the ratio cannot be calculated in January 2016 because there is no equity in December 2015.

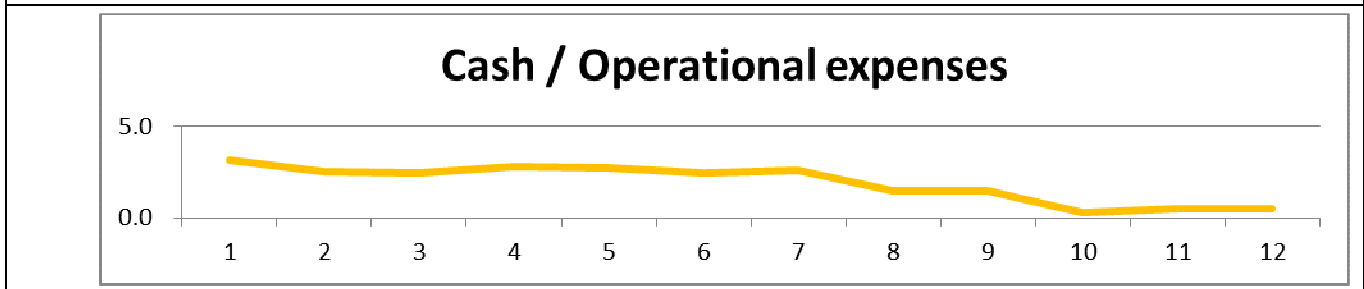
P&L and Cash Flow ratios



It is not, strictly speaking, a ratio but it is interesting to follow the monthly changes in the cash flow of the enterprise. Keeping too much cash can be a loss if part of this cash is originated from a bank loan. Keeping too little cash may create difficulties if the enterprise cannot meet certain operational costs (salaries, rent).

Choc resistance

| | A | E | F | G | H | I | J | K | L | M | N | O | P |
|-----|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----|
| 1 | Harry & Co SARL Monthly financial projections (CHF) | | | | | | | | | | | | |
| 9 | PROFIT & LOSS | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC |
| 25 | TOTAL OPERATIONAL EXPENSES | 8'019 | 8'019 | 8'119 | 9'519 | 11'519 | 13'519 | 18'719 | 25'219 | 25'219 | 25'219 | 25'219 | 2 |
| 34 | | | | | | | | | | | | | |
| 35 | CASH FLOW | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC |
| 47 | Cash end of period | 25'100 | 20'200 | 20'200 | 26'680 | 31'660 | 32'889 | 48'969 | 37'869 | 37'769 | 7'669 | 11'749 | 1 |
| 108 | | | | | | | | | | | | | |
| 109 | RATIOS | JAN-2016 | FEB-2016 | MAR-2016 | APR-2016 | MAY-2016 | JUN-2016 | JUL-2016 | AUG-2016 | SEP-2016 | OCT-2016 | NOV-2016 | DEC |
| 112 | Cash / Operational expenses | 3.1 | 2.5 | 2.5 | 2.8 | 2.7 | 2.4 | 2.6 | 1.5 | 1.5 | 0.3 | 0.5 | |



Here, we evaluate the number of months that the enterprise could cover with its available cash. We see that from September, the available cash cannot cover even one month of operating expenses. This is not necessarily alarming if Harry & Co manages well his clients, distribution and doesn't face the risk of not selling his beans.

Conclusion

The understanding of Financial Statements is often blurred obscured by an accounting wording that only accountants understand. But it is important to be able to understand its Financial Statements without having to become an accountant. This tool provides the technical basis to master this understanding.

The use of the 2 next tools (convert Financial Statements, Develop Financial Projections) will help the SSE's stakeholders to get familiar with Financial Statements.