



# Evaluating the health of your client's business

Geni Whitehouse, CPA.CITP, CSPM



A black kitten and a beagle puppy are sitting on a wooden fence, looking at each other. The background is filled with green foliage. The text "Take a minute to connect with your neighbor" is overlaid in white.

Take a minute to connect  
with your neighbor

#QBConnect | WiFi: QBConnect

# CPE Process

## In order to receive CPE credit

- Be sure to sign in or scan your badge for this session
- You must stay in the session for the duration of the training
- This session is eligible for **1 hour of CPE**
- CPE certificates are emailed directly to you within 4 weeks of the conference date to the same email address you used to register

# About today's speaker



## **Geni Whitehouse, CPA.CITP, CSPM** **Countess of Communication**

Part-time work with wineries at BDCoCPA in Napa Valley

Co-Founder of Solve Services, bookkeeping

Speaker the rest of the time



# Agenda

## Business health

- What is it?
- How to measure it
- How to improve it



Health is a relative term.



# Perspectives to consider



**Business Owner**



**Banker**



**Accountant**

# Business owner



Can I pay my bills?



# Business owner

- Cash in the Bank
- Net Income
- Cash on the Balance Sheet



CashFlowTool.com



What does a healthy  
business look like to you?

## Business Stages of Development / \$COPE Matrix

	<b>\$</b> <i>Financial</i>	<b>C</b> <i>Customers</i>	<b>O</b> <i>Operations</i>	<b>P</b> <i>People</i>	<b>E</b> <i>End in Mind</i>
<b>Infancy</b>	Plan and establish: Accounts & Order Bank Reconciliation Financial Statements A/R & A/P Financial Fluency Training Define Break-Even Define Income Sources Technology Training Accounting Systems Other Tax Planning Tax Preparation	Plan and establish: Marketing Plan Client/Customer Segmentation Analysis Identify/Target Ideal Customer Establish Contact Database Customer Service/Sales Training Systems Development Sales Protocol Non-beneficiary Relationships Guarantees & Warranties Customer Complaint Protocol	Plan and establish: Production Systems Delivery Systems Workflow Mapping Facilities Planning Technology Space Technology Integration Disaster Planning	Plan and establish: Basic Goal Setting Vision/Mission Development Core Values Development Role Organization Structure Hiring/Recruiting Team Motivate/Educate Team Basic OHR & HR Requirements/Compliance Compensation Planning Strategic Planning Processes	Plan and establish: Personal Tax Preparation Personal Tax Planning  Personal Financial Planning
<b>Adolescence</b>	Develop and Document: Basic Cash Reporting System Business Performance Reviews Budgeting - Forecasting Ratio Analysis Banking/Financing Shorten Accounting Cycle Trend Analysis Industry Comparisons Cash Flow Analysis Accounting Systems Review Accounting Personnel Recruiting & Training	Develop and Document: Pricing Analysis Feedback Systems Customer Advisory Boards Surveys On-site Feedback Program Marketing Review/ROI Basic KPI Monitoring Conversion Rates Cost of Acquisition Attrition Rate Lifetime Value of a Customer Average Sale Frequency Product Mix Analysis	Develop and Document: Quality Control Systems Inventory Control Systems Vendor Relationship Review Technology Review - Upgrade Basic KPI Monitoring Quality Productivity Utilization Capacity Cycle Time	Develop and Document: HR Systems Job Descriptions Procedures Manual Performance Reviews Employee Benefit and Compensation Planning & Analysis Bonus/Motivator Programs Team Building Activities Performance Standards Development Training - Education Management Team Development & Training Programs Develop Company I.G. Programs	Develop and Document: Wills, Trusts, etc. Personal Financial Planning Estate Planning Retirement Planning Investment Planning
<b>Maturity</b>	Enhancements: Advanced Financial Modeling Economic Value Added Balanced Scorecard Review Portfolio Management Succession Strategy Activity-Based Costing Capital Expenditure Analysis Advanced Financial Management Training Tracking the Life Cycle of Cash Target, Acquisition, Joint Venture Planning	Enhancements: New Product Development Back-End - Ancillary Product Strategies	Enhancements: Reduce Product/Service Cycle Time Expansion Planning Facilities Investment Planning Resource Allocation Reviews Equipment Human Resources Facilities Enhancement Feasibility Studies	Enhancements: Board of Directors Meeting Facilitation Retreat Facilitation Equity & Profit Sharing Plans ESOOP Planning/Execution Activity-Based Management Open Book Management Preparing the Business for Sale Business Valuation Transition Management	Enhancements: Personal Tax Planning Personal Financial Planning Estate Planning Gift Planning Succession Planning Retirement Planning Wills, Trusts, etc. Portfolio Management



***How far along is your business?  
Highlight those areas where your company is the strongest.***

**Banker**



Can you repay my loan?



# Banker

- Profit
- Operating cash flow
- Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- Quick Ratio =  $\frac{\text{Cash and Equivalents} + \text{AR}}{\text{Current Liabilities}}$
- AR Days Sales Outstanding
- Inventory Days
- Debt to Equity Ratio



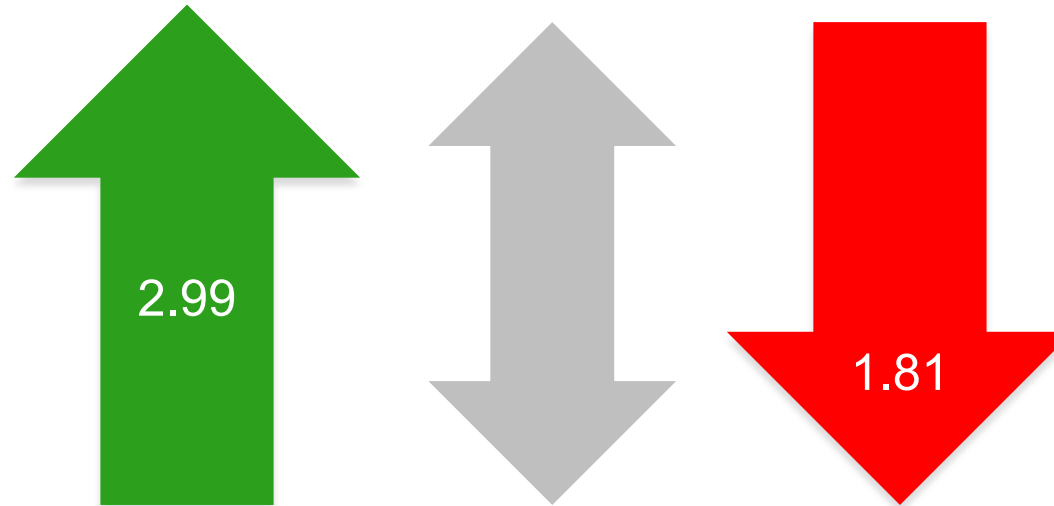
# Altman Z score

$$\text{Altman Z Score} = (1.2 \times A) + (1.4 \times B) + (3.3 \times C) + (0.6 \times D) + (0.999 \times E)$$

Financial ratio used	Formula for the financial ratio
A	$(\text{Current Assets} - \text{Current Liabilities}) / \text{Total Assets}$
B	Retained Earnings/Total Assets
C	Earnings Before Interest and Taxes / Total Assets
D	Book Value of Equity/Total Liabilities
E	<u><a href="#">Sales/Total Assets</a></u>

# Altman Z score

$$\text{Altman Z Score} = (1.2 \times A) + (1.4 \times B) + (3.3 \times C) + (0.6 \times D) + (0.999 \times E)$$



# Bookkeeper



Is it right?

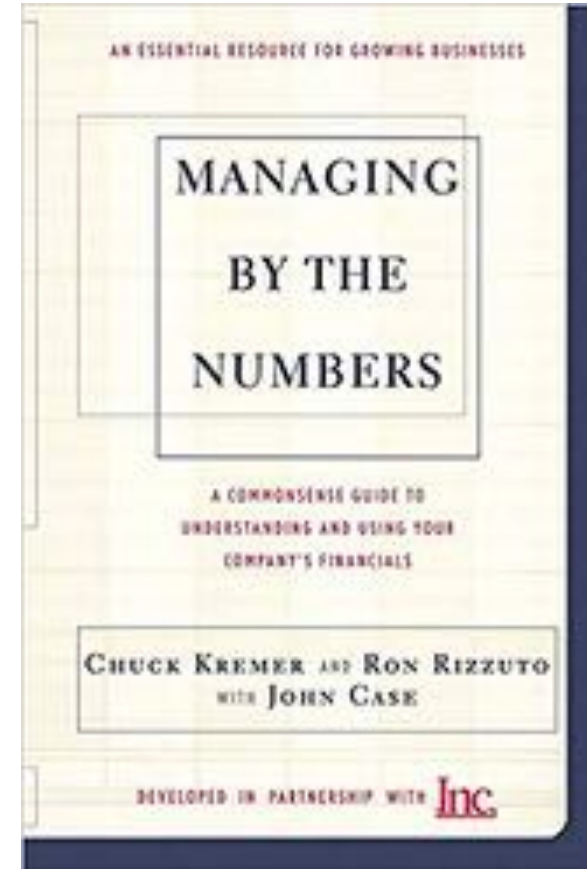
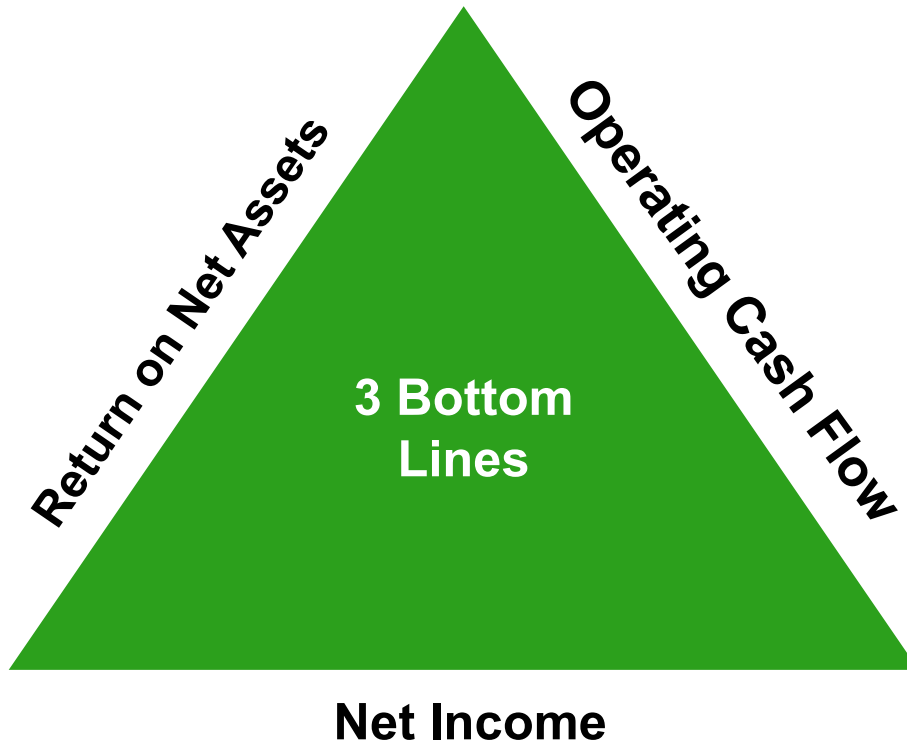
## CPA (Auditor)

Can I certify that you are  
a viable business?

Financial Statements  
conform to GAAP?

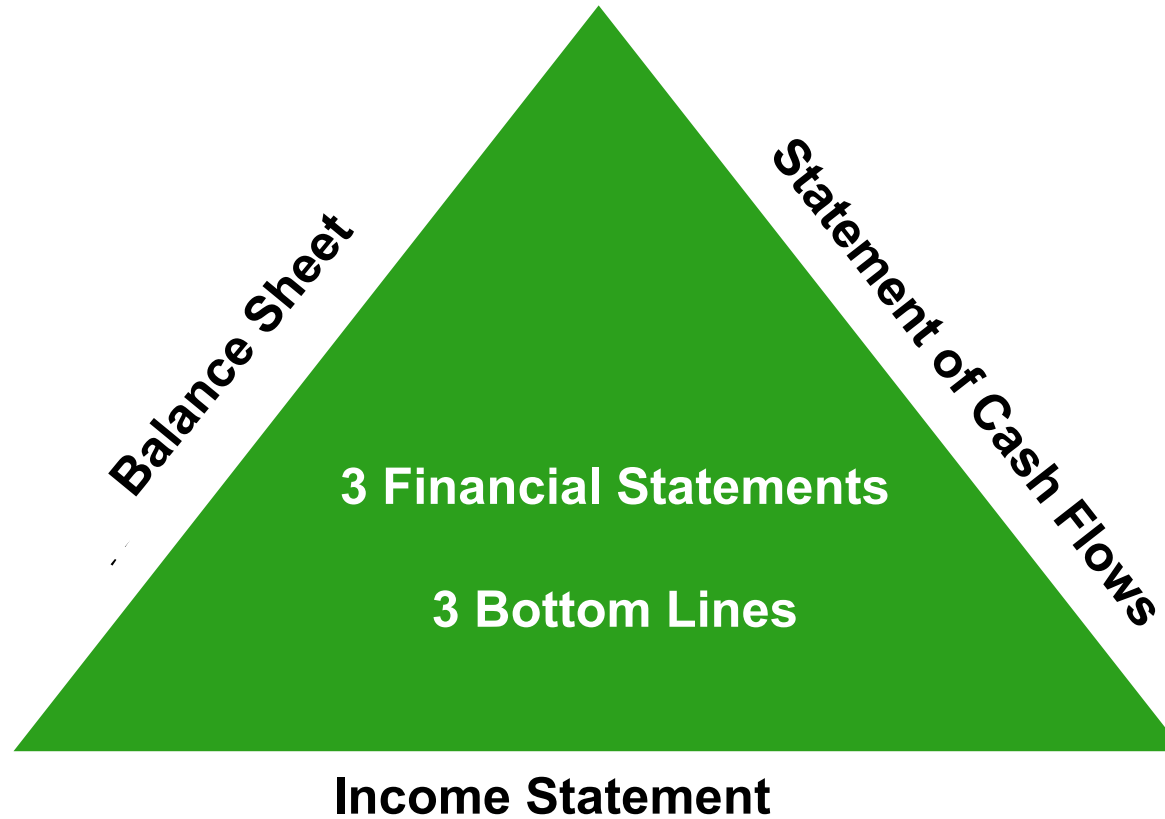


# We need to tell the full story





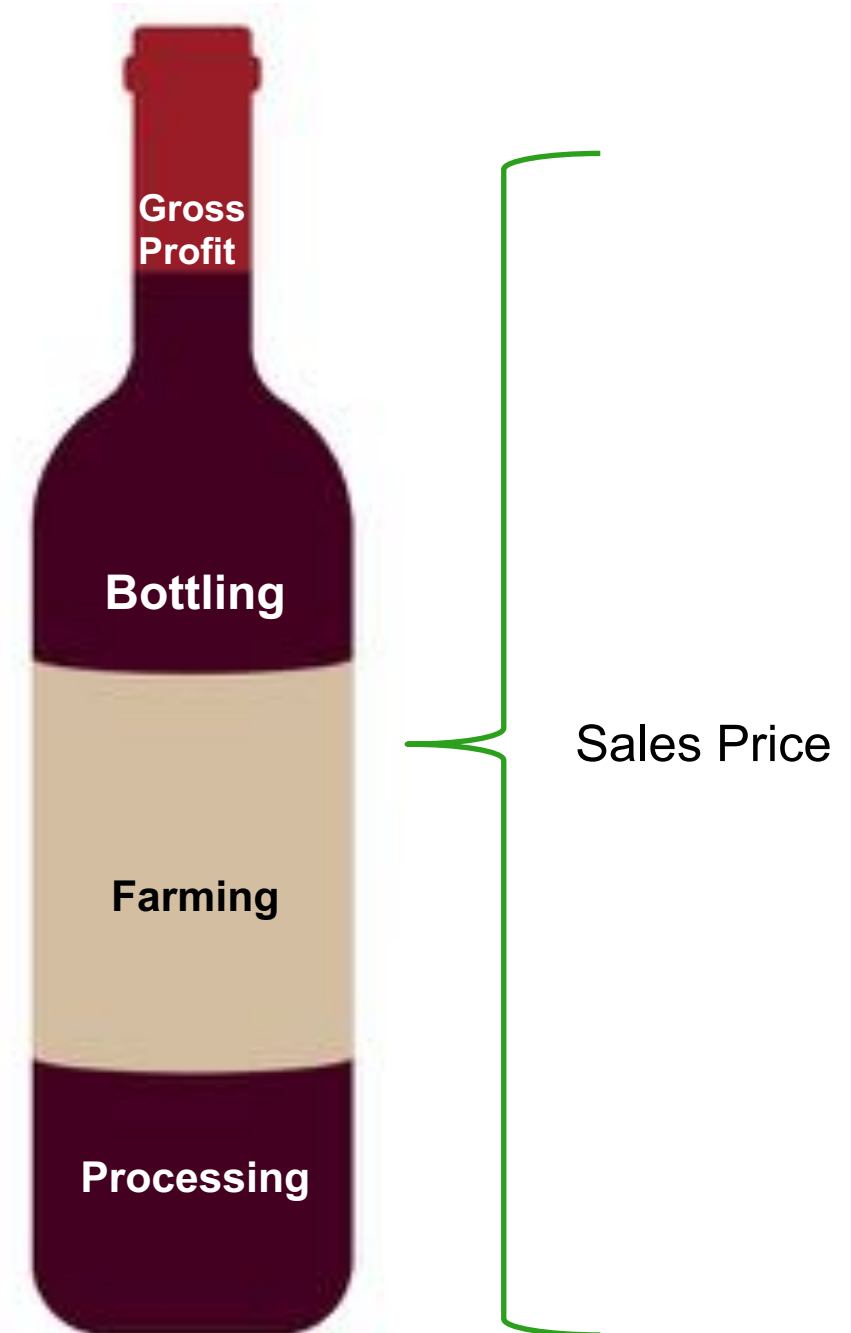
# Three financial statements



# Income statement

Did I sell goods or services for more than they cost?

**NET INCOME = first bottom line**



# Net Income versus EBITDA

Sales	100,000
Cost of Goods Sold	37,500
Gross Profit	62,500
Operating Expenses	
G&A	10,000
Sales & Mktg.	12,312
Operating Income (EBITDA)	40,188
Interest	1,250
Depreciation	2,500
Net Income	36,438

**Managerial Earnings**

# Statement of cash flows

If I made a profit, where's my cash?

**OPERATING CASH FLOW = second bottom line**

## Le Cou Rouge Winery (for class)

STATEMENT OF CASH FLOWS  
January - December 2018

	TOTAL
<b>OPERATING ACTIVITIES</b>	
Net Income	486,679.54
Adjustments to reconcile Net Income to Net Cash provided by operations:	
1100 Accounts Receivable	674,877.07
Accounts Receivable (A/R) - EUR	0.00
1201 INVENTORY:Inventory - Bulk Wine	-851,545.39
1205 INVENTORY:Inventory - Bottled Wine	-874,947.88
1210 INVENTORY:Inventory - Unused Packaging	-2,444.04
1300 Prepaid Expenses	2,500.00
Inventory Asset	0.00
2000 Accounts Payable	-14,036.54
2200 Accrued Expenses	-25,000.00
Total Adjustments to reconcile Net Income to Net Cash provided by operations:	-1,090,596.78
Net cash provided by operating activities	\$ -603,917.24
<b>INVESTING ACTIVITIES</b>	
1500 Furniture and Equipment	-137,750.63
1510 Barrels	-2,369.85
1520 Cellar Equipment	-1,236.45
1535 Tasting Room	-65,000.00
1590 Accumulated Depreciation	127,026.00
1601 VINEYARD DEVELOPMENT:Land Clearing	-50,000.00
1610 VINEYARD DEVELOPMENT:Rootstock	-25,000.00
1620 VINEYARD DEVELOPMENT:Trellis System	-109,000.00
Net cash provided by investing activities	\$ -263,330.93
<b>FINANCING ACTIVITIES</b>	
2500 Line of Credit	312,218.00
2510 Notes Payable	-97,652.33
2520 Note payable members	-100,000.00
3005 Opening Balance Equity	0.00
Net cash provided by financing activities	\$114,565.67
NET CASH INCREASE FOR PERIOD	\$ -752,682.50
Cash at beginning of period	743,130.09
CASH AT END OF PERIOD	\$ -9,552.41

# Operating cash flow

Second bottom line



Le Cou Rouge Winery (for class)

STATEMENT OF CASH FLOWS

January - December 2018

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1601 VINEYARD DEVELOPMENT:Land Clearing	-50,000.00
1610 VINEYARD	-35,000.00



# Balance sheet

Should I be in this business?

RETURN ON ASSETS= third bottom line

## Le Cou Rouge Winery (for class)

### BALANCE SHEET

As of December 31, 2018

	TOTAL		
	AS OF DEC 31, 2018	AS OF DEC 31, 2017 (PY)	CHANGE
<b>ASSETS</b>			
Current Assets			
Bank Accounts			
1000 Checking	-9,552.41	743,130.09	-752,682.50
<b>Total Bank Accounts</b>	<b>\$ -9,552.41</b>	<b>\$743,130.09</b>	<b>\$ -752,682.50</b>
Accounts Receivable			
1100 Accounts Receivable	784,177.95	1,459,055.02	-674,877.07
Accounts Receivable (A/R) - EUR	62,100.00	62,100.00	0.00
<b>Total Accounts Receivable</b>	<b>\$846,277.95</b>	<b>\$1,521,155.02</b>	<b>\$ -674,877.07</b>
Other Current Assets			
1150 Allowance for Doubtful Accounts	0.00	0.00	0.00
1200 INVENTORY			
1201 Inventory - Bulk Wine	1,906,575.54	1,055,030.15	851,545.39
1205 Inventory - Bottled Wine	5,614,524.48	4,739,576.60	874,947.88
1210 Inventory - Unused Packaging	3,886.08	1,444.04	2,444.04
<b>Total 1200 INVENTORY</b>	<b>7,524,986.10</b>	<b>5,796,050.79</b>	<b>1,728,937.31</b>
12000 *Undeposited Funds	0.00	0.00	0.00
1300 Prepaid Expenses	3,080.00	5,580.00	-2,500.00
1301 Investments	10,000.00	10,000.00	0.00
Inventory Asset	0.00	0.00	0.00
<b>Total Other Current Assets</b>	<b>\$7,538,066.10</b>	<b>\$5,811,630.79</b>	<b>\$1,726,437.31</b>
<b>Total Current Assets</b>	<b>\$8,374,793.64</b>	<b>\$6,075,915.90</b>	<b>\$2,298,877.74</b>
Fixed Assets			
15000 Furniture and Equipment	187,750.63	50,000.00	137,750.63
1510 Barrels	84,375.81	82,005.96	2,369.85
1520 Cellar Equipment	1,236.45	0.00	1,236.45
1530 Winery Equipment	250,000.00	250,000.00	0.00
1535 Tasting Room	322,312.00	257,312.00	65,000.00
1550 Land - 100 acres @ 30K/ acre	3,000,000.00	3,000,000.00	0.00
1590 Accumulated Depreciation	-190,477.00	-63,451.00	-127,026.00
1600 VINEYARD DEVELOPMENT			
1601 Land Clearing	50,000.00		50,000.00
1610 Rootstock	25,000.00		25,000.00
1620 Trellis System	109,000.00		109,000.00
<b>Total 1600 VINEYARD DEVELOPMENT</b>	<b>184,000.00</b>		<b>184,000.00</b>
<b>Total Fixed Assets</b>	<b>\$3,839,197.89</b>	<b>\$3,575,866.96</b>	<b>\$263,330.93</b>
Other Assets			
1800 Design Costs	40,000.00	40,000.00	0.00
1850 Organizational Costs	11,000.00	11,000.00	0.00
<b>Total Other Assets</b>	<b>\$51,000.00</b>	<b>\$51,000.00</b>	<b>\$0.00</b>
<b>TOTAL ASSETS</b>	<b>\$12,264,991.53</b>	<b>\$11,702,782.86</b>	<b>\$562,208.67</b>

# Balance sheet

## RETURN ON ASSETS

third bottom line

### Le Cou Rouge Winery (for class)

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<b>TOTAL ASSETS</b>	<b>\$12,264,991.53</b>	<b>\$11,702,782.86</b>	<b>\$562,208.67</b>

# Return on assets

$ROA = \text{Profit} / \text{average assets}$

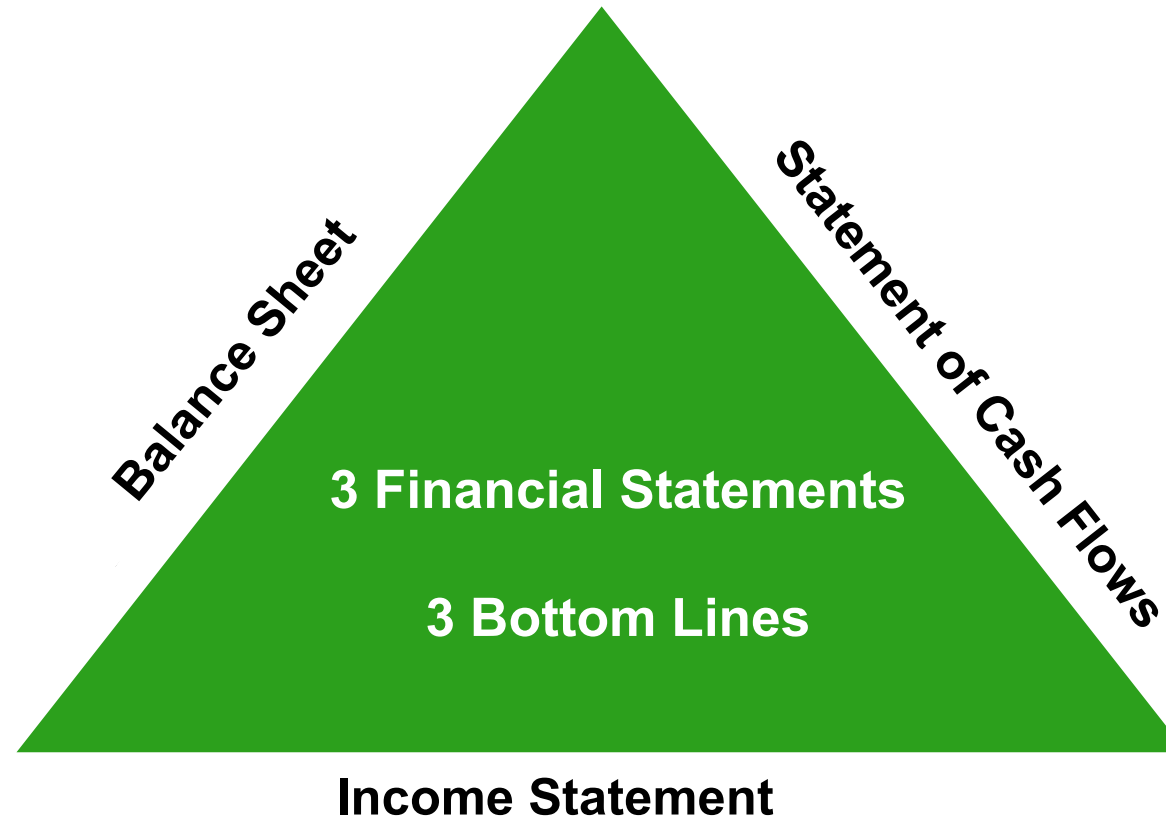
Result is a ratio that can be compared to the return on other investments.

# Compare results

	Business A	Business B	Business C
Profit	100,000	100,000	100,000
Assets	50,000	500,000	1,000,000
Return on Assets	$100/50 = 200\%$	$100/500 = 20\%$	$100/1000 = 10\%$

# Three financial statements

FATHOMHQ.com





# How to communicate this info

**OWNER :** Cash Flow Tool

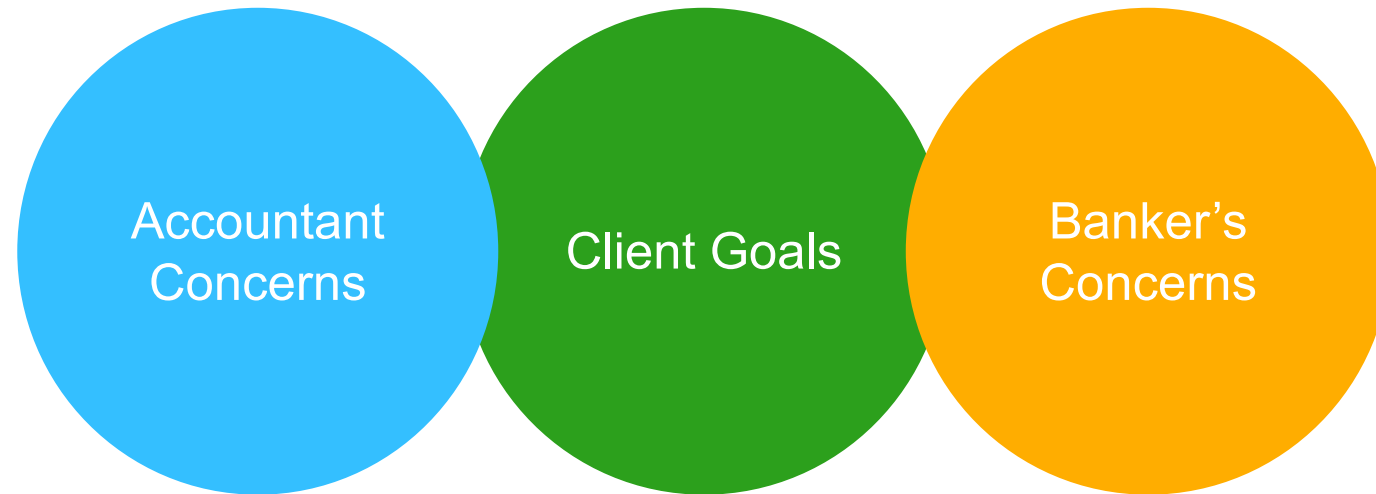
**BANKER :** Finagraph

**YOU:** Fathom

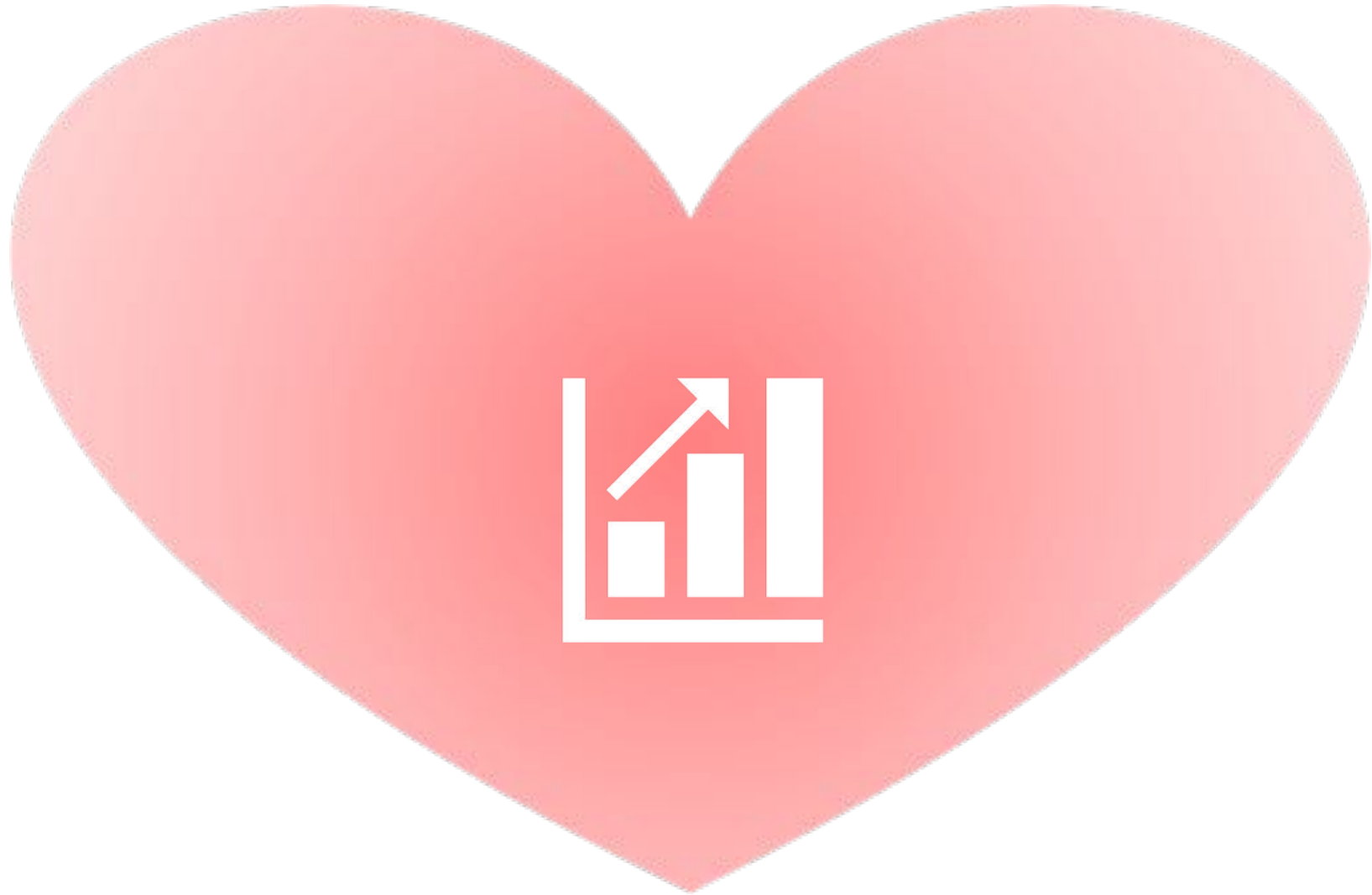
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Peerview Data

# The result



# The result

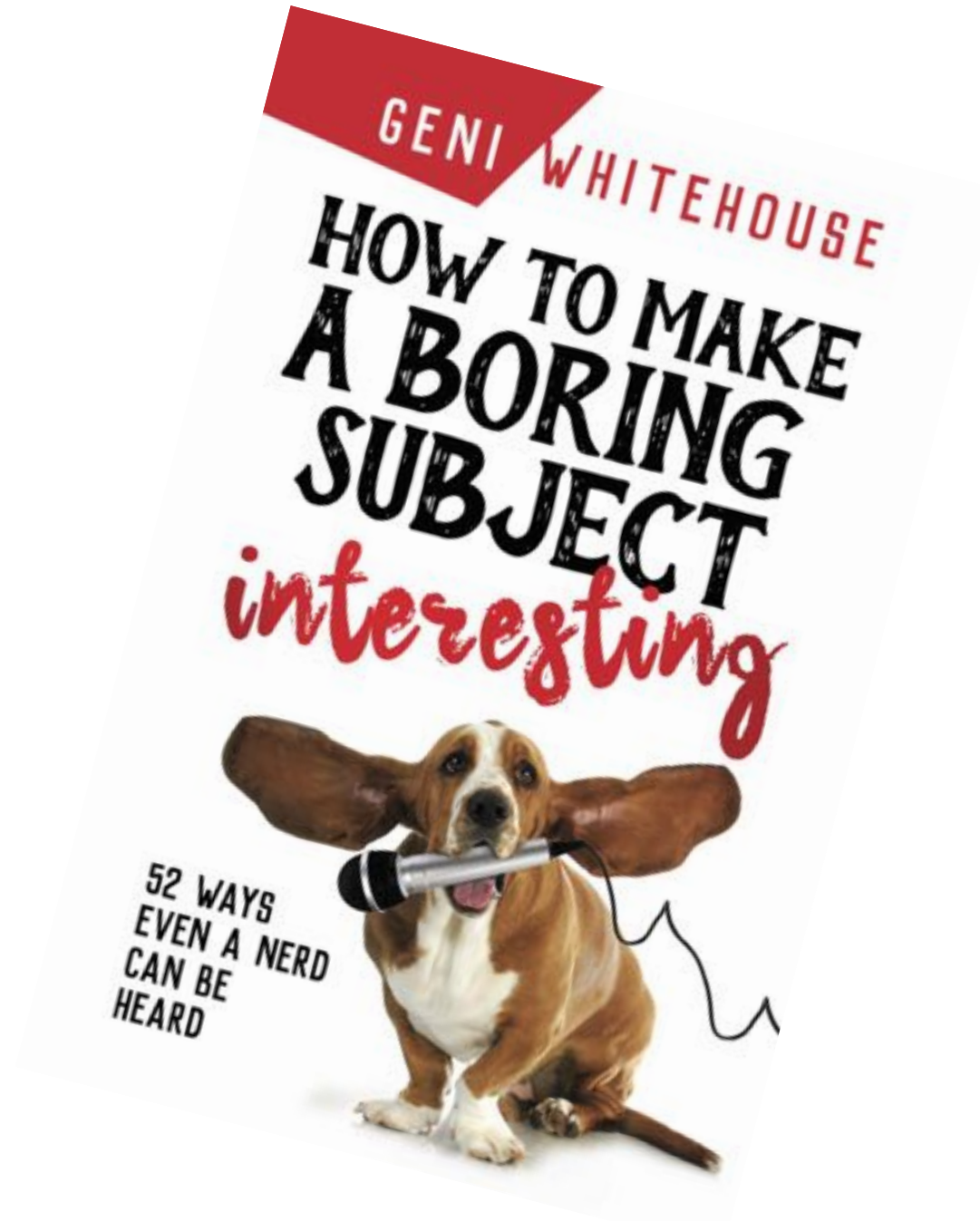




# Questions?

# Thank you!

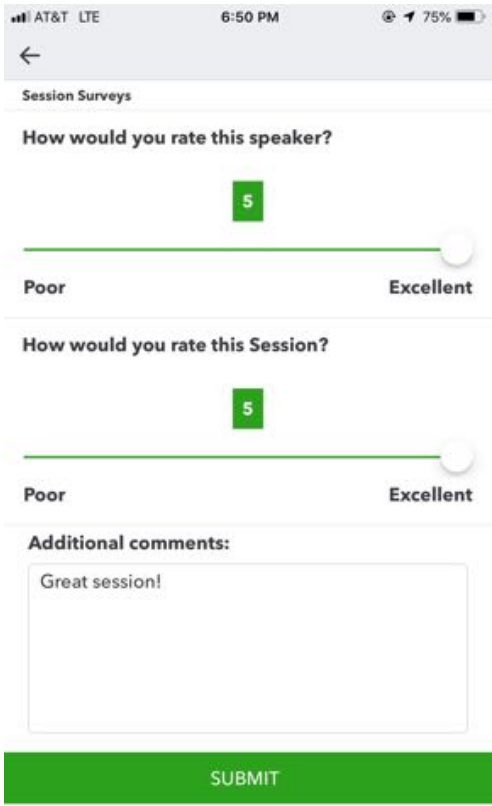
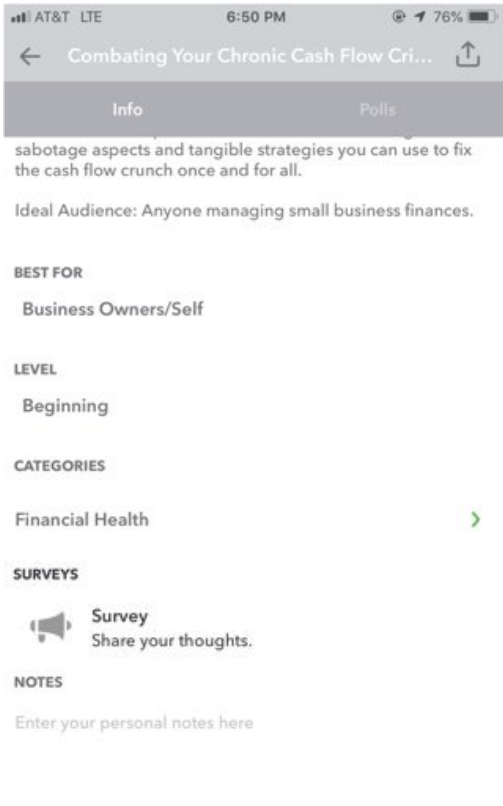
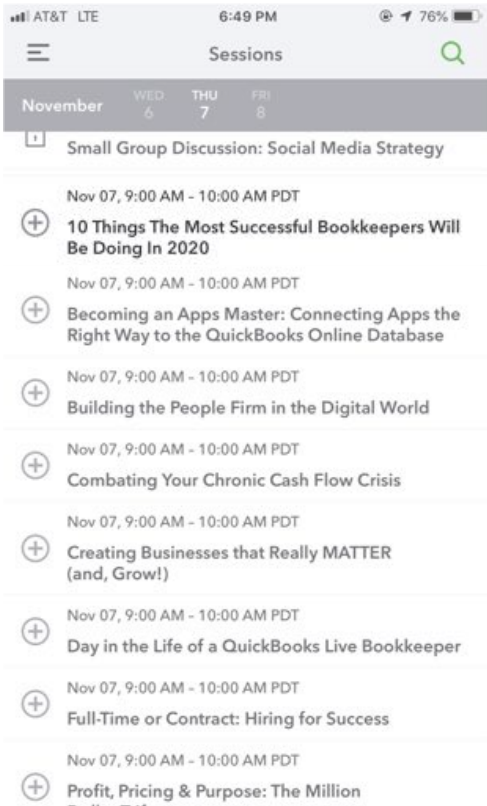
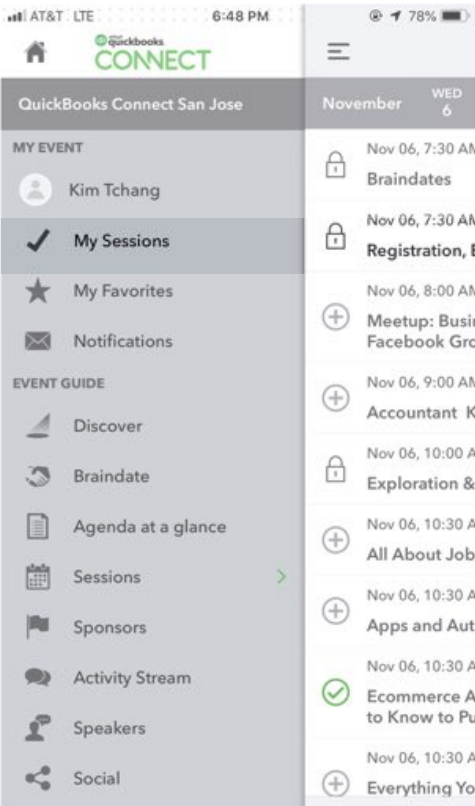
[geni@evenanerd.com](mailto:geni@evenanerd.com)



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# Material Download

1. Find the session on the agenda
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<https://quickbooksconnect.com/agenda/>

The screenshot shows the QuickBooks Connect agenda page for November 7. The header includes the QuickBooks Connect logo, navigation links (Why Attend, Agenda, Speakers, Pricing, Sponsors, Travel, FAQ), and a Register Now button. The agenda is organized by date, with November 7 selected. A search bar and filter buttons (Business Growth, Life & Business Skills, Organizational Culture, Technology Training, Advisory, Financial Health) are present. The agenda items for November 7 are:

- 7:30-7:00 am: Registration, Breakfast & Exploration
- 7:30-10:30 am: Braindates (New this year, you can use Braindates to book time with fellow attendees, expert consultants and the QuickBooks support team. Learn more. Best for: All Audiences. CPE Hours: not eligible)
- 8:00-8:30 am: Yoga
- 8:00-8:45 am: Breakout Sessions
  - Small Business Meetup: Relationship Marketing and the Power of Human Connection
  - Small Group Discussion: Social Media Strategy
  - Small Group Discussion: Showing up - Why What You Wear Matters
  - Small Group Discussion: Build Your Dream Bookkeeping firm



OWN  
THE  
FUTURE