

**FINANCIAL STATEMENT ANALYSIS FOR  
FASTER, SMARTER CREDIT DECISIONS**  
HIGH-LEVEL INSIGHTS FOR CREDIT MANAGERS

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# WHY FINANCIAL STATEMENT ANALYSIS MATTERS

- Credit Decisions = Risk Management
- Financial Statements tell the story behind payment behavior
- Faster analysis = better decisions + fewer surprises
- Goal: identify strength, stress, and trends quickly



- It's the end of the month....
- Large, potential new customer to be reviewed
- All information is received, including financial statements
- Wants a quick response and wants to ship in the morning
- The pressure is on
- Next steps.....

# THERE'S NO MAGIC FORMULA

- Key Takeaways:
  - Period of time financial statement covers
  - Legal structure
  - Revenue trends
  - Industry trends
  - Gross margin
  - SG&A
    - Advertising
    - Bad debts
    - Interest expense
    - Officer salary
    - Other income expenses
  - Net operating income (not net profit)

# KEY RATIOS ON BALANCE SHEET

- LIQUIDITY RATIOS:
  - Current Ratio (Cash, AR, Inventory – Current Liabilities)
  - Quick Ratio (Quick Assets / Current Liabilities (does this include LOC, CPLTD?))
- LEVERAGE AND COVERAGE RATIOS:
  - Debt to Equity
  - Interest Coverage (Times Interest Earned)

# KEY RATIOS ON P&L

- Revenue (understand customer revenue cycle)
- Gross margin – components and trends
- SG&A as % of revenue
  - Know your industry
  - Officer salary
- Net operating income as % of revenue
- EBITDA (why?)
  - NOI – Interest, Taxes, Depreciation, and Amortization
  - How does the business operate without burden of interest?

# BENCHMARKING

- Current ratio: 1.5 – 2.0
- Quick ratio: 2:1
- Interest coverage: 2:1
- Gross margin: industry specific
- Net operating income: industry specific

# RED FLAGS

- Declining revenue
- Thin or shrinking margins
- Excessive SG&A expenses
  - Interest expense
  - Advertising/marketing
  - Officer salary
  - Legal expenses
- Management turnover
- Negative cash flow
- Increasing debt levels
- Switching banks/audit firms

# TREND ANALYSIS: FASTER THAN YOU THINK

- Why Trends Matter More Than Single Numbers
  - Look at 2-3 years if available
  - Improving or deteriorating?
  - Sudden changes = investigation needed
    - Declining liquidity
    - Rapid increase in debt
    - Shrinking margins

# PUTTING IT ALL TOGETHER

- The 10 Minute Credit Review Checklist:
  - Company and industry consideration
  - Revenue trend
  - Profit or loss
  - Cash from operations
  - Current/quick ratio
  - Debt level
  - Overall trend direction

# LINKING FINANCIALS TO CREDIT DECISIONS

- **STRONGER FINANCIALS:**
  - Higher credit limits (weighing risk vs reward)
  - Standard or extended terms
- **WEAKER OR DETERIORATING FINANCIALS:**
  - Lower limits
  - Shorter terms
  - COD or secured credit
  - Consideration of preferential payment risk if bankruptcy happens

Friendly Sales and Service, Inc.  
Balance Sheet  
As of December 31, 2025

<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Operating Account	355,759
Accounts Receivable	425,900
Inventory	195,000
Prepaid Expenses	2,400
<b>Total for Current Assets</b>	<b>979,059</b>
<b><u>Fixed Assets</u></b>	
Furniture & Fixtures	14,500
Furniture & Fixtures A/D	-8,500
<b>Total for Furniture &amp; Fixtures</b>	<b>6,000</b>
Tools & Equipment	32,500
Tools & Equipment A/D	-26,500
<b>Total for Tools &amp; Equipment</b>	<b>6,000</b>

Prepaid Expenses	2,400
Vehicles	435,000
Vehicles A/D	-275,125
<b>Total for Vehicles</b>	<b>159,875</b>
Goodwill	195,000
Goodwill A/A	-41,500
<b>Total for Goodwill</b>	<b>153,500</b>
<b>Total for Assets</b>	<b>1,304,434</b>
<b><u>Liabilities and Equity</u></b>	
<b><u>Liabilities</u></b>	
Current Liabilities	
Accounts Payable	575,000
Credit Cards	
Capital One	135,852
Connecticut Department of Revenue Services Payable	4,500

Prepaid Expenses	2,400
Employee benefits health ins	3,595
<b>Total current Liabilities</b>	<b>718,947</b>
<b><u>Long-term Liabilities</u></b>	
Notes Payable - Officer	150,000
<b>Total Long-term Liabilities</b>	<b>150,000</b>
<b>Total for Liabilities</b>	<b>868,947</b>
<b><u>Equity</u></b>	
Opening Balance Equity	29,500
Retained Earnings	258,718
Net Income	147,269
<b>Total for Equity</b>	<b>435,487</b>
<b>Total for Liabilities and Equity</b>	<b>1,304,434</b>

# Friendly Sales and Service, Inc.

## Profit and Loss Statement

### Jan – Dec 2025

<b>Income</b>		<b>% of Revenue</b>
Sales of Products	875,100	29%
Service Calls	2,125,750	71%
<b>Total for Income</b>	<b>3,000,850</b>	<b>100%</b>
<b>Cost of Goods Sold</b>		
Bond Insurance	6,800	0%
Building Permits	24,975	1%
Car & Truck	6,475	0%
Auto Rental	1,450	0%
Car Wash	769	0%
Employee Mileage Reimbursement	2,375	0%
Fuel	45,695	2%
Repairs and Maintenance	14,750	0%
Vehicle Ins	27,595	1%
Subcontractors	125,950	4%
Direct Labor	635,750	21%
Payroll Taxes	69,985	2%
Equipment Rental	24,900	1%
Health Ins	43,465	1%
Indirect Labor	106,506	4%
Payroll Taxes	11,853	0%
Pension & Profit Sharing	18,900	1%
Shipping, Freight & Delivery	3,600	0%
Supplies & Materials	925,750	31%
Uniforms	5,675	0%
Workers Comp	26,900	1%
<b>Total for Cost of Goods Sold</b>	<b>1,999,234</b>	<b>67%</b>
<b>Gross Profit</b>	<b>1,001,616</b>	<b>33%</b>

<b>Expenses</b>		
Advertising	6,000	0%
Amortization	22,765	1%
Bank Charges & Fees	2,896	0%
Credit Card Processing Fees	18,595	1%
Charitable Contributions	5,000	0%
Computer & Software	95,650	3%
Continuing Education	26,900	1%

<b>Income</b>		<b>% of Revenue</b>
Depreciation	38,500	1%
Dues & Subscriptions	8,500	0%
Hiring Expenses	12,500	0%
Insurance - Business Liability	34,500	1%
Interest	32,759	1%
Legal & Professional	24,500	1%
Bookkeeper-CFO	21,850	1%
Marketing	12,500	0%
Meals	23,580	1%
Office Expenses	6,529	0%
Break Room Supplies	3,150	0%
Payroll Processing Fees	6,374	0%
Postage & Freight	1,595	0%
Printing	2,950	0%
Property Tax	16,950	1%
Referrals/Commissions	12,500	0%
Rent or Lease	36,500	1%
Repair & Maintenance	4,100	0%
Hiring Bonus	12,500	0%
Office wages	49,749	2%
Officer Salaries	165,000	5%
Sales - Salary	74,500	2%
Payroll Taxes	32,275	1%
Telephone	6,495	0%
Travel	8,575	0%
Airfare	3,100	0%
Lodging	2,650	0%
Electric	6,875	0%
Gas	3,450	0%
Internet	2,975	0%
Rubbish Removal	2,600	0%
Security	4,685	0%
Water & Sewer	1,275	0%
<b>Total Admin Expenses</b>	<b>854,347</b>	<b>28%</b>
<b>Net Operating Income</b>	<b>147,269</b>	<b>5%</b>

## Ratio Analysis

### RATIO ANALYSIS

<u>RATIOS P&amp;L</u>	<u>TRI CITY</u>	<u>FRIENDLY SALES</u>
GROSS MARGIN	39%	33%
SG&A % OF REV.	25%	28%
NOI % OF REV.	15%	5%
DEPRECIATION	\$ 24,500	\$ 38,500
NOI & DEPREC	\$ 227,651	\$ 185,769
NOI & DEPREC % REV	17%	6%
INTEREST EXPENSE	\$ 16,200	\$ 32,759
EBITDA	\$ 243,851	\$ 218,528
EBITDA %	18%	7%

### RATIOS BAL SHEET

CURRENT RATIO	1.52	1.36
QUICK RATIO	0.77	1.09
QUICK Ratio W/O LOC	3.09%	1.09
DEBT TO EQUITY	1.37	2.00
INTEREST COVERAGE	14	5

Tri City Enterprises LLC.  
Balance Sheet  
As of December 31, 2025

<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Operating Account	36,985
Accounts Receivable	195,700
Inventory	225,000
<b>Total Current Assets</b>	<b>457,685</b>
<b><u>Fixed Assets</u></b>	
Equipment	450,000
Acc. Deprec	-165,000
<b>Net Fixed Assets</b>	<b>285,000</b>
<b>Total Assets</b>	<b>742,685</b>

<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Bank LOC	225,195
Accounts Payable	75,500
<b>Total Current Liabilities</b>	<b>300,695</b>
<b><u>Long Term Liabilities</u></b>	
ABCD Financing - Equipment Loans	129,000
<b>Total Long Term Liabilities</b>	<b>129,000</b>
<b>Total Liabilities</b>	<b>429,695</b>
<b><u>Equity</u></b>	
Opening Balance Equity	45,500
Members Draw	-125,000
Members Equity	189,339
Net Income	203,151
<b>Total Equity</b>	<b>312,990</b>
<b>Total Liabilities &amp; Equity</b>	<b>742,685</b>

**Tri City Enterprises LLC.**  
**Profit and Loss Statement**  
**Jan – Dec 2025**

	Jan - Dec 25	% of Revenue
<b>INCOME</b>		
Retail Sales	1,250,750	91%
Wholesale Sales	125,000	9%
<b>Total Income</b>	<b>1,375,750</b>	<b>100%</b>
<b>Cost of Goods Sold</b>		
Direct Labor	251,843	18%
Direct Labor-Payroll Taxes	27,703	2%
<b>Total Direct Labor</b>	<b>279,546</b>	<b>20%</b>
Equipment Rental	2,450	0%
Materials	525,545	38%
Supplies	24,895	2%
Uniforms	1,289	0%
<b>Total Materials &amp; Supplies</b>	<b>554,179</b>	<b>40%</b>
<b>Total Cost of Goods Sold</b>	<b>833,725</b>	<b>61%</b>
<b>Gross Profit</b>	<b>542,025</b>	<b>39%</b>

<b>Admin Expenses</b>		
Advertising & Marketing	22,900	2%
Auto - Gas	9,150	1%
Dues/Supscriptions	9,100	1%
Repairs	5,150	0%
Bank Service Charges	3,200	0%
Commissions	3,200	0%
Communications- Telephone	4,175	0%
Internet	6,300	0%
Credit Card Processing Fees	32,126	2%
Depreciation	24,500	2%
HR Hiring	3,800	0%
Insurance	19,500	1%
Interest Expense	16,200	1%
Licenses & Fees	1,275	0%
Meals & Entertainment	1,268	0%
Postage	769	0%
Office Supplies	1,225	0%
Payroll - Admin	52,575	4%
Payroll Taxes	5,374	0%
Payroll Processing Fees	27,353	2%
Accounting & Bookkeeping	19,500	1%
Rent	58,750	4%
Repairs & Maint - Bldg	1,475	0%
Travel	1,255	0%
Utilities	8,754	1%
<b>Total Admin Expenses</b>	<b>338,874</b>	<b>25%</b>
<b>Net Operating Income</b>	<b>203,151</b>	<b>15%</b>

# KEY TAKEAWAYS

- Financial statements don't need to be complex
- Focus on liquidity, leverage, cash flow, and trends
- Quick analysis still reduces risk significantly

# QUESTIONS & DISCUSSION